RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC
Form 10-K
September 22, 2006

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, 2005 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:

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

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

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

Indicate by check mark whether the Registrant 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 o No x

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.

Yes o No x

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, 2006, was $43,467,879. As of September 1, 2006, there were 4,463,967 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.

Our Internet website address is www.rencapital.com/index2.html. 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/index.htm. 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.

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

The Fund seeks to provide returns to shareholders through cash dividends of net investment income and through distributions of realized gains. Pursuant to its annual distribution policy, the Fund currently pays to its shareholders a minimum annual distribution of $0.40 per share, payable quarterly. Through December 31, 2005, the Fund had declared a total of $13.41 per share in cash to its shareholders since inception in 1994.

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. RENN Group is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

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 preferred stock or debentures of a company the Fund holds in its portfolio (“Portfolio Company”), which securities typically are convertible into or exchangeable for common stock of the Portfolio Company. While such common stock of the Portfolio Company may be publicly traded, the common stock acquired by the Fund is often unregistered. Therefore, such securities are restricted from distribution or sale to the public except in compliance with certain holding periods and exemptions under the Securities Act of 1933, as amended (the “1933 Act”), or after registration pursuant to the 1933 Act. The Fund also purchases shares of small and micro cap issuers in the secondary markets. These shares are freely tradable and have no restrictions on resale.

From inception through December 31, 2005, the Fund had made investments in seventy (70) different Portfolio Companies having an aggregate cost of $92,701,305. The Fund had active investments in twenty-seven (27) Portfolio Companies at December 31, 2005. 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% or more of its assets in “Eligible Portfolio Investments,” defined generally as direct placements to “Eligible Portfolio Companies” and temporary investments in “cash items” pending other investments. The Fund determines whether any prospective investment is in 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 and pursuant to the provisions of the 1940 Act, a Business Development Company may invest up to 30% of its funds in investments that do not qualify as “Eligible Portfolio Investments.” In the event the Fund has less than 70% of its assets in Eligible Portfolio Investments, then the Fund will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again are 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, 2005, the Fund's investment assets were classified by amount as follows:

Classification		Value	Percentage Of Assets
Eligible Portfolio Investments (including cash and cash equivalents)	$	55,225,509	88.5%
Other Portfolio Investments		7,173,042	11.5%
	$	62,398,551	100.0%

INVESTMENT OBJECTIVE

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

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

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 will invest 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 one or more years from the date of the investment. The Fund may also make bridge loans, either secured or unsecured, intended to carry the borrower to a private placement or an initial public offering, or to a merger, acquisition, or other strategic transaction.

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Generally, the 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, 2005, 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.

Although the Fund has no intent to change its current investment objectives, they may be changed without a vote of the holders of a majority of the Fund's common stock.

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 has 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:

  - Ø it does not have any class of securities with respect to which a member of a national securities exchange, broker, or dealer may extend or maintain credit to or for a customer pursuant to rules or regulations adopted by the Board of Governors of the Federal Reserve System under Section 7 of the Securities Exchange Act of 1934;

  - Ø it is controlled by a business development company, either alone or as part of a group acting together, and such business development company in fact exercises a controlling influence over the management or policies of such Eligible Portfolio Company and, as a result of such control, has an affiliated person who is a director of such Eligible Portfolio Company;

  - Ø it has total assets of not more than $4,000,000, and capital and surplus (shareholders' equity less retained earnings) of not less than $2,000,000, except that the Securities and Exchange Commission (the "SEC") may adjust such amounts by rule, regulation, or order to reflect changes in one or more generally accepted indices or other indicators for small businesses; or

  - Ø it meets such other criteria as the SEC may, by rule, establish as consistent with the public interest, the protection of investors, and the purposes fairly intended by the policy and provisions of this title.

Therefore, the Investment Adviser believes that "Eligible Portfolio Companies" are, generally, those companies that, while being publicly held, may not have or do not have a broad based market for their securities, or the securities that they wish to offer are restricted from public trading until registered. Further, while the 1940 Act allows a BDC to "control" a Portfolio Company, it is not the general policy of the Fund to acquire a controlling position in its portfolio companies. The Fund only provides managerial assistance, and in certain circumstances seeks to limit its "control" position by contracting for the right to have a designee of the Fund be elected to the board of directors of the Portfolio Company, or be selected an advisory director. While these are the Fund's general policies, the application of these policies, of necessity, 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 exempted, including the following:

- restrictions on the Fund from changing the nature of business so as to cease to be, or to withdraw its election as, a BDC without the majority vote of the shares outstanding;
- restrictions against certain transactions between the Fund and affiliated persons;
- restrictions on issuance of senior securities, such not being prohibited by the 1940 Act but being restricted as a percentage of capital;
- 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 shareholders 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 ADVISOR 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 participation with two funds that are advised or managed by RENN Group ("Advisor 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 Advisor 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 Advisor 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 Advisor Affiliated Funds, but not the Fund, has previously made a private placement, except for follow-on investments that meet the same requirements. To the extent that the amount of a follow-on investment opportunity is not based on the amount of the Fund's and the Advisor Affiliated Funds' initial investments, the relative amount of investment by the Advisor Affiliated Funds and the Fund will be based on the ratio of the Fund's remaining funds available for investment to the aggregate of the Fund's and the Advisor Affiliated Funds' remaining funds available for investment. The Co-investment Order also provides that the Fund will have the opportunity to dispose of any securities in which the Fund and the Advisor Affiliated Funds have invested at the same price, terms and conditions. The Fund will participate in any such disposition to the extent that a majority of its independent directors believe it is in its best interest. 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, as amended (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 Board of Directors of the Fund, may be terminated without penalty on not more than 60 days notice by a vote of the holders of a majority of the outstanding shares of the Fund, and must automatically terminate in the event of assignment. The Board of Directors has determined that the Advisory Agreement shall be construed in compliance with the applicable provisions of the Advisers Act and the 1940 Act.

FUND PORTFOLIO INVESTMENTS

At December 31, 2005, the Fund had active investments in the following companies:

AdStar, Inc. (NASDAQ:ADST)
4553 Glencoe Avenue, Suite 325, Marina del Rey, CA 90292

AdStar, Inc. is a leading provider of remote advertising technology products and services to the classified advertising industry. AdStar transforms publishers' websites into full service classified ad sales channels for their print and on-line classified ad departments.

At December 31, 2005, the Fund owned 269,231 shares of common stock in the company, having a cost basis of $350,000.

Advance Nanotech, Inc. (OTCBB:AVNA)
600 Lexington Avenue, 29th Floor, New York, New York 10022

Advance Nanotech, Inc. is working on the development and commercialization of nanotechnology. The company focuses its research on nano-enabled electronics, biopharma and materials. Advanced Nanotech has established relationships with academic institutions.

In the first quarter of 2005, the Fund acquired 165,000 shares of the company's common stock and warrants to purchase 82,500 shares of the company's common stock at $3.00 per share.

At December 31, 2005, the Fund owned 165,000 shares of common stock and warrants to purchase 82,500 shares of common stock. These securities have a cost basis of $330,000.

Bovie Medical Corporation (AMEX:BVX)
734 Walt Whitman Road, Melville, NY 11747

Bovie Medical Corporation manufactures, markets and develops medical products and related technologies. The company also manufactures a variety of specialty lighting instruments for use in ophthalmology, general surgery, hip replacement surgery and for the placement of endotracheal tubes.

During the second quarter of 2005, the Fund acquired 100,000 shares of the company's common stock. During the third quarter of 2005, the Fund acquired an additional 100,000 shares of the company's common stock.

At December 31, 2005, the Fund owned 500,000 shares of common stock in the company, having a cost basis of $904,545.

Business Process Outsourcing (Private)
11150 Santa Monica Boulevard, Suite 350, Los Angeles, CA 90025

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

At December 31, 2005, the Fund owned a warrant to purchase 4,587 shares of the company's common stock at an exercise price of $4.36 per share.

CaminoSoft Corporation (OTC:CMSF)
600 North Hampshire Road, Suite 105, West Lake Village, CA 91361

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

At December 31, 2005, the Fund held a $250,000 promissory note. The Fund also owned 3,539,414 shares of common stock in the company having a basis of $5,275,000. Additionally, the Fund owned warrants to purchase 2,052,779 shares common at exercise prices ranging from $0.53 per share to $1.11 per share, with varying expiration dates, and options to purchase 120,700 shares common with strike prices ranging from $0.41 per share to $0.95 per share.

CNE Group, Inc. (AMEX:CNE)
200 West 57th Street, Suite 507, New York, NY 10019

CNE Group, Inc., through its subsidiaries, is a provider of solar-powered wireless communication solutions for the intelligent traffic systems market.

At December 31, 2005, the Fund owned warrants to purchase 125,000 shares of the company's common stock with an exercise price of $3.00 per share.

Comtech Group, Inc. (Nasdaq:COGO)
Room 1001 Tower C Skyworth Building High-Tech Industrial Park Nanshan, Shenzhen, China 518057

Comtech Group, Inc. provides design solutions to telecom equipment, mobile device and consumer electronic manufacturers in China.

During the first quarter of 2005, the Fund declared a 1-for-2 reverse stock split. Immediately after the split, the Fund held 240,000 shares of common stock. During the second quarter of 2005, the Fund purchased 60,000 shares of the company's common stock in the open market.

At December 31, 2005, the Fund held 300,000 shares of the company's common stock, with a cost basis of $1,186,019.

eOriginal, Inc. (Private)
351 West Camden Street, Suite 800, Baltimore, MD 21201

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

At December 31, 2005, the Fund owned 10,680 shares Series A Convertible Preferred Stock; 25,646 shares Series B Convertible Preferred Stock; 51,249 shares Series C Convertible Preferred Stock; 16,057 shares of the company's Series D Convertible Preferred Stock; warrants to purchase 2,258 shares of Series A Convertible Preferred Stock at an exercise price of $16.12 per share and warrants to purchase 15,530 shares of common stock of the company at exercise prices ranging from $16.12 to $31.14 per share. The aggregate cost basis is $6,872,270.

Gaming & Entertainment Group, Inc. (OTC:GMEI)
6094 South Sandhill Road, Suite 400, Las Vegas, NV 89120

Gaming & Entertainment Group, Inc. designs and develops gaming systems, software, game content and networks. The company is a supplier of gaming systems and interactive electronic bingo games to the Native American gaming markets in the United States and Canada. The company's gaming systems and game libraries are in amusement arcades, casinos, betting shops and bingo halls.

During the first quarter of 2005, the Fund received 112,500 shares of the company's common stock because the company incurred a penalty related to its offering.

At December 31, 2005, the Fund owned 612,500 common shares having a cost of $550,625 and warrants to purchase 500,000 common shares at $1.50 per share.

Gasco Energy, Inc. (AMEX:GSX)
14 Inverness Drive East, Suite H-236, Englewood, CO 80112

Gasco Energy, Inc. is an oil and gas company whose focus is exploration and development of domestic natural gas properties located in the Rocky Mountain regions of Utah and Wyoming.

During the third quarter of 2005, the Fund sold 500,001 shares of the company’s common stock. During the fourth quarter of 2005, the Fund sold 249,999 shares of the company’s common stock.

At December 31, 2005, the Fund owned 1,541,667 shares of common stock (acquired via private placements) having a cost of $1,250,000. The fund also held options to buy 18,751 shares of the company’s common stock at exercise prices ranging from $1.00 to $2.15.

Global Axcess Corporation (OTCBB:GAXC)
14 Inverness Drive East, Suite H-236, Englewood, CO 80112

Global Axcess Corporation provides turnkey ATM management solutions that include cash, project and account management services. The company currently owns and operates over 1,600 ATM’s in its national network spanning 39 states, and provides proprietary ATM branding and processing for 35 financial institutions with over 360 branded sites nationwide. Additionally, the company provides traditional transaction processing to its customers.

On April 28, 2005, the company declared a 1-for-5 reverse stock split. On May 17, 2005, Robert C. Pearson was appointed to the company’s board of directors.

At December 31, 2005, 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)
14221 Dallas Parkway, Suite 1500, Dallas, TX 75254

Hemobiotech, Inc. is a biopharmaceutical company that develops blood substitutes. The company’s product, HemoTech, is an oxygen-carrying solution that performs like red blood cells.

In the third quarter of 2005, the Fund acquired 255,045 shares of the company’s common stock through the conversion of a promissory note.

At December 31, 2005, the Fund owned 549,165 shares of common stock and warrants to purchase 588,240 shares of common stock at $1.06. These securities had a cost basis of $520,347.

i2Telecom International, Inc. (OTCBB:ITUI)
1200 Abernathy Road, Suite 1800, Atlanta, GA 30328

i2Telecom International, Inc. is a telecommunications service provider employing voice over internet protocol technology. The company has operations in Florida, Georgia and California in the United States and in Malaysia and The People's Republic of China. i2Telecom controls its own proprietary technology and outsources its production and service functions to strategic partners.

In the first quarter of 2005, the Fund bought 125 shares of the company's 7% Series D convertible preferred stock for $118,750. The company also received warrants to purchase 78,125 shares of the company's common stock.

At December 31, 2005, the Fund owned 625 shares of preferred stock convertible into 781,250 shares of common stock and warrants to purchase 390,625 shares of common stock at $0.96 per share. These securities had a cost basis of $618,750.

iLinc Communications, Inc. (AMEX:ILC)
2999 North 44th Street, Suite 650, Phoenix, AZ 85018

iLinc Communications, Inc. provides web conferencing, virtual classroom and web collaboration software. The company's software and services enable sales, training, marketing and support professionals to collaborate in real-time via the internet. iLinc distributes its products and services in several different languages in North America and worldwide.

In the fourth quarter of 2005, the Fund sold 25,000 shares of the company's common stock for a net loss of $9,000.

At December 31, 2005, the Fund owned a total of 23,266 shares of common stock having a cost basis of $13,908. In addition, the Fund owned a $500,000 12% Convertible Subordinated Note convertible into ILC common at a rate of $1.00 per share.

Information Intellect, Inc. (Private)
1351 Dividend Drive, Suite G, Marietta, GA 30067

Information Intellect, Inc. delivers enterprise asset management solutions through the integration of software applications and services. The company's solutions enable customers to manage their asset portfolios to meet their strategic objectives such as improving cash flow, cutting capital and O&M expenditures, enhancing workforce productivity, reducing equipment downtime and measuring project/asset performance.

In the fourth quarter of 2005, the Fund bought 666,666 shares of the company's Series A preferred stock for $999,999.

At December 31, 2005, the Fund owned 666,666 shares of Series A preferred stock convertible to common stock at $1.50 per share.

Integrated Security Systems, Inc. (OTC:IZZI)
8200 Springwood Drive, Suite 230, Irving, TX 75063

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

In the second quarter of 2005, the Fund bought a $175,000 promissory note and warrants to purchase 257,353 shares of common stock. The Fund also received common stock of the company as payment in kind for interest on 8% Promissory Notes owned by the Fund. The Fund received 143,108 shares of IZZI having an imputed cost of $41,885. The company incurred an extension fee related to previously issued notes and, as a result, the Fund received 19,079 shares of common stock. Finally, Russell Cleveland received his director's fee in the form of 15,019 shares of common stock. He assigned those shares to the Fund.

In the third quarter of 2005, the Fund received common stock of the company as payment in kind for interest on 8% Promissory Notes owned by the Fund. The Fund received 63,016 shares of IZZI having an imputed cost of $15,112.

In the fourth quarter of 2005, the Fund received common stock of the company as payment in kind for interest on 8% Promissory Notes owned by the Fund. The Fund received 285,118 shares of IZZI having an imputed cost of $35,066. Russell Cleveland received his director's fee in the form of 18,013 shares of IZZI common stock. He assigned those shares to the Fund. The Fund also bought a $500,000 promissory note. Finally, the Fund bought 3,120,000 shares of the company's common stock.

At December 31, 2005, the Fund owned $900,000 of promissory notes, $500,000 of convertible promissory notes, 187,500 shares of 9% preferred stock, convertible at $0.80 per share, with a cost basis of $150,000, 30,737,482 shares of common stock with a cost basis of $5,846,422, options to purchase 41,034 shares of common stock with exercise prices ranging from $0.21 to $0.49 per share, warrants to purchase 257,353 shares of common stock at $0.34 per share and warrants to purchase 250,000 shares of common stock at exercise price of $0.40 per share.

Intrusion, Inc. (Nasdaq:INTZ)
1101 East Arapaho Road, Richardson, TX 75081

Intrusion, Inc. provides enterprise security products that help businesses protect critical information assets. The company's products detect, analyze and respond to network- and host-based attacks. Intrusion's products include intrusion detection and vulnerability assessment systems and modular, scalable, security appliances.

In the first quarter of 2005, the Fund converted its preferred stock into 159,033 shares of common stock. The Fund then sold that common stock for a net gain of $240,361.

At December 31, 2005, the Fund owned warrants to purchase 55,662 shares of common stock at $3.144 per share.

Inyx, Inc. (OTCBB:IYXI)
801 Brickell, 9th Floor, Miami, FL 33131

Inyx, Inc. is a developer and manufacturer of specialized drug delivery pharmaceutical products.

At December 31, 2005, the Fund owned 300,000 shares of the company's common stock having a cost basis of $300,000, and owned 150,000 warrants to purchase common stock, with half being exercisable at $1.00 per share, and half being exercisable at $1.35 per share.

Laserscope (Nasdaq:LSCP)
3070 Orchard Drive, San Jose, CA 95134

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

During the first quarter of 2005, the Fund was issued options to buy 4,923 shares of the company's common stock.

At December 31, 2005, the Fund owned 600,000 shares of common stock having a cost basis of $750,000, and options to purchase 30,000 shares at $4.19 per share, which were received by assignment from Robert Pearson, who earned the options as a member of the company's Board of Directors.

Medical Action Industries, Inc. (Nasdaq:MDCI)
800 Prime Place, Hauppauge, NY 11788

Medical Action Industries, Inc. develops, manufactures, markets and distributes a variety of disposable surgical related products.

In the fourth quarter of 2005, the Fund sold 4,900 shares of common stock for a net gain of $45,155.

At December 31, 2005, the Fund owned a total of 20,100 shares of MDCI common stock having a cost basis of $237,209.

Metasolv, Inc. (Nasdaq:MSLV)
5556 Tennyson Parkway, Plano, TX 75024

Metasolv, Inc. provides order management and service fulfillment solutions to next generation communications providers. The company's telecom business solution software integrates a communications provider's business from network planning and engineering to operations and customer care. Metasolv operates offices in the United States, Latin America and England.

In the second quarter of 2005, the Fund bought 100,000 shares of common stock for $210,838.

At December 31, 2005, the Fund owned a total of 100,000 shares of MSLV common stock having a cost basis of $210,838.

PhotoMedex, Inc. (Nasdaq:PHMD)
147 Keystone Drive, Montgomeryville, PA 18936

PhotoMedex, Inc. manufactures excimer laser and fiber-optic systems used to treat dermatological conditions such as psoriasis, vitiligo, atopic dermatisitis and leukoderma. The company offers products and services on contract to dermatologists and hospitals. PhotoMedex develops skin health, haircare and wound care products based on its copper peptide technology.

At December 31, 2005, the Fund owned a total of 70,000 shares of PHMD common stock having a cost basis of $176,400.

PracticeXpert, Inc. (OTCBB:PXPT)
10833 Washington Boulevard, Culver City, CA 90232

PracticeXpert, Inc. provides healthcare technology and services to medical practitioners. The company's services revolve around its hand-held patient encounter system, Pxpert, and include medical billing, transcription, collections, clinical trial accruals, contracting and practice management.

At December 31, 2005, the Fund owned 4,166,667 shares of common stock and warrants to purchase 4,166,667 shares of the company's common stock at $0.30 per share, having a cost basis of $500,000.

Precis, Inc. (Nasdaq:PCIS)
2040 North Highway 360, Grand Prairie, TX 75050

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

During the second quarter of 2005, the Fund bought in the open market 471,983 shares of the company's common stock.

During the third quarter of 2005, the Fund bought in the open market 127,317 shares of the company's common stock.

At December 31, 2005, the Fund owned a total of 800,000 shares of the company's common stock having a cost basis of $1,998,894.

Simtek Corporation (OTC:SRAM)
4250 Buckingham Drive, Suite 100, Colorado Springs, CO 80907

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

In the second quarter of 2005, the Fund received warrants to purchase 66,666 shares of the company's common stock at $0.50 per share.

In the fourth quarter of 2005, the Fund purchased 3,125,000 shares of the company's common stock for $500,000.

At December 31, 2005, the Fund owned $1,000,000 in 7.5% convertible debentures having a conversion rate of $0.31 per share and 4,675,661 shares of common stock having a basis of $1,195,000. The Fund also owned warrants to purchase 316,666 shares, 125,000 of which are convertible at $1.50 per share, 125,000 at $1.25 per share and 66,666 at $0.50 per share. Finally, the fund held options to purchase 5,288 shares at $0.17 per share and options to purchase 9,188 shares at $1.16 per share.

US Home Systems (Nasdaq:USHS)
750 State Highway 121 Bypass, Suite 170, Lewisville, TX 75067

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

At December 31, 2005, the Fund owned 110,000 shares of the company's common stock having a cost basis of $535,587 or $4.87 per share.

Vaso Active Pharmaceuticals, Inc. (NASDAQ:VAPH)
99 Rosewood Drive, Suite 260, Danvers, MA 01923

Vaso Active Pharmaceuticals, Inc. holds the exclusive, worldwide license to commercialize, sell and distribute over-the-counter pharmaceutical products incorporating the patented trans dermal drug delivery technology of its parent company, BioChemics, Inc.

At December 31, 2005, the Fund owned 150,000 shares of the company's common stock having a cost basis of $250,000.

VALUATION OF INVESTMENTS

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

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

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

- Debt securities are valued at the greater of (i) cost or (ii) the market value of the underlying common stock into which the debt instrument is convertible. In cases where the debt instrument is in default or the company is in bankruptcy, the value will be (i) the value of the underlying common stock, (ii) the value of the collateral, if secured, or (iii) zero, if the common stock has no value and there is no collateral.

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

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

COMPETITION FOR INVESTMENTS

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

PERSONNEL

The Fund has no direct employees, but instead has contracted RENN Group pursuant to the Advisory Agreement to provide all management and operating activities. RENN Group currently has nine employees who are 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 invest pari-passu with the Fund on all relevant terms, except that amounts invested may differ.

RENN Group also serves as the Investment Adviser to BFS US Special Opportunities Trust PLC ("BFSUS") and is specifically responsible for managing the Growth Portfolio for BFSUS ("BFS Growth"). BFSUS is a public limited company registered in the United Kingdom and listed on the London Stock Exchange. BFS Growth invests in publicly traded equities, fixed-income and convertible securities of publicly traded issuers, and also invests in privately placed convertible instruments issued by companies similar to the investments of the Fund. For privately placed investments, BFS Growth invests on a pari-passu basis with the Fund as to all relevant terms of the investment, 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 10-Q for the quarter ended June 30, 2002, which is found on the Commission internet site at http://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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Common Stock Often Trades at a Discount. Our common stock often trades at a discount from net asset value.

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

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

Our Stock Price May Fluctuate Significantly. The market price of our common stock may fluctuate significantly.

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

Item 2. 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

On December 1, 2005, the Investment Adviser consented, without admitting or denying the findings, to the entry of an order by the SEC instituting public administrative and cease and desist proceedings and imposing remedial sanctions (the “Order”). A Form 8-K detailing the settlement was filed on December 6, 2005 by the Fund. This can be viewed by going to the SEC website.

In summary, the dispute concerned the definition of the wording of the incentive fee calculation in the Advisers Act. Under Section 205(b)(3) of the Advisers Act, a performance fee may be earned. The Investment Adviser, for many years, believed the word “capital” referred to the Fund’s shareholders’ equity as a whole. In 2004, the SEC informed the Investment Adviser that capital depreciation in the formula referred only to unrealized capital losses on marketable securities in the portfolio and therefore the calculations in previous years were incorrect. In the Order, the SEC states that in calculating a performance-based fee under Section 205(b)(3), an investment adviser must account for its client’s assets on a security-by-security basis and may not take into consideration unrealized capital appreciation on any individual security or the portfolio as a whole. Section 205(b)(3) does not require that fees earned in one period be subject to repayment based upon performance in a subsequent period. If the performance fee is calculated on a cumulative basis and is based on the period since inception, then unrealized capital depreciation may be calculated for each calculation period by subtracting each security’s valuation at the end of the applicable calculation period from the original cost, as adjusted, to the BDC of purchasing that security. In practice, the Investment Adviser also took into account unrealized capital appreciation, which offset unrealized capital depreciation, to calculate its performance-based fee. Thus, beginning in fiscal year 1996, the first period in which the Fund realized capital gains, the Investment Adviser’s formula for calculating that fee was not consistent with the formula permitted under Section 205(b)(3).

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As part of the settlement of the SEC proceedings, the Investment Adviser agreed to pay $2,851,362 plus prejudgment interest of $924,509 and a fine of $100,000 to the Fund. The Investment Adviser satisfied this obligation in full as of December 8, 2005. The financial statements included as part of this Annual Report reflect all financial aspects of the settlement, including the fine which was paid and recorded in the Fund's financial statements for 2005.

No action was brought against the Fund.

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

None.

Part II

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

TRADING

The Fund's common stock was previously traded on the Nasdaq National Market System ("NMS") under the trading symbol RENN. As a result of the Fund's inability to complete the audit of its financial statements and file its Form 10-K for the fiscal year ended December 31, 2003 in a timely manner (see "Item 3. Legal Proceedings"), in July 2004 the Fund's common stock was delisted from NMS and is currently trading over-the-counter in the pink sheets.

The following table sets forth, for the periods indicated, the high and low closing sale prices for the Common Stock as reported on Bloomberg.

	High	Low
Year ended December 31, 2005		
First quarter	$ 13.85	$ 11.25
Second quarter	$ 12.00	$ 10.40
Third quarter	$ 11.55	$ 10.70
Fourth quarter	$ 11.80	$ 10.32
Year ended December 31, 2004		
First quarter	$ 18.65	$ 13.02
Second quarter	$ 17.75	$ 13.15
Third quarter	$ 13.25	$ 10.00
Fourth quarter	$ 14.90	$ 11.00

NUMBER OF HOLDERS

As of December 31, 2005, there were approximately 481 record holders of the Fund's common stock. This total does not include shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

DIVIDENDS AND DIVIDEND REINVESTMENT PLAN

DIVIDENDS. The Fund seeks to provide returns to shareholders through cash dividends of net investment income and through distributions of realized gains. On November 5, 2002, the Fund announced a minimum annual distribution policy of $0.40 per share, with an initial quarterly cash distribution of $0.10 per share that was paid December 12, 2002. The intent of the policy is for the Fund to make distributions of $0.10 per share in each of the first three quarters of the year with a final distribution in the fourth quarter equal to $0.10 per share or a greater amount sufficient to satisfy the distribution requirements of the Subchapter M of the Internal Revenue Code. The policy is subject to quarterly review and approval by the Fund's Board of Directors. According to the policy, the distributions could be paid from interest or dividend income, capital gains, or a return of capital in the event there is insufficient income or capital gains to satisfy the policy.

At December 31, 2005, the Fund had declared a total of $13.41 per share in cash to its shareholders since inception in 1994. There is no assurance that the Fund will continue to make the distributions or cash payments described herein. Because the Fund may not earn the same return of capital in the future, the Fund may not continue to make distributions and cash payments as described herein.

DIVIDEND REINVESTMENT PLAN. Pursuant to the Dividend Reinvestment Plan (the "Reinvestment Plan") any shareholders 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 (each, a "Participant") unless and except for each such shareholder who individually elects to receive such on a current basis in lieu of reinvestment. In the case of shareholders such as banks, brokers or nominees that hold shares for others who are beneficial owners ("Nominee Shareholders"), 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 Shareholders as registered for shareholders that have not elected to receive dividends and distributions in cash.

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

When the Fund declares a dividend or distribution payable in cash, the non-participants will receive cash, and the Participants will receive Common Stock to be issued by the Fund or purchased in the open market. If the market value per share on the valuation date equals or exceeds the net asset value per share on that date, or if such open market purchases cause the price to increase to the net asset value, the Fund will issue new shares at the net asset value. If the net asset value exceeds the market price, the Plan Agent will, as agent for the Participants, buy Fund shares in the open market or in private transactions as soon as practicable after such date. If before the Plan Agent has completed the purchases the market price exceeds the net asset value, the Plan Agent may suspend purchasing in the market and the Fund will issue new shares at net asset value to fulfill the purchase requirements. The Fund has no current intention to register more shares in connection with the Reinvestment Plan; instead, the Fund will buy the shares in the open market.

Participants also have the option, commencing on January 1 of each year, of making additional annual cash payments to the Reinvestment Plan in any amount of $1,000 or more up to $10,000. Larger amounts may be accepted with the prior approval of the Fund. The Plan Agent, American Stock Transfer & Trust Co., will typically use all funds received from Participants to purchase Fund shares in the open market, so long as Fund shares are trading at a discount. Any voluntary funds must be received no later than 10 days prior to such date and any prior deposit may be withdrawn if written request for withdrawal is received by the Fund no later than 10 days prior to such date.

The Plan Agent will maintain all shareholder accounts in the Reinvestment Plan and furnish written confirmation of all transactions in an account. Shares in the Reinvestment Plan will be held in the name of the participant and each shareholder's proxy will include any Reinvestment Plan holdings.

There is no charge to the participants for reinvesting dividends and distributions or for voluntary cash payments. There are no brokerage charges with respect to shares issued directly by the Fund for participants in the Reinvestment Plan. However, each participant pays a pro rata share of brokerage charges for shares purchased in the market.

The Fund reserves the right to terminate the Reinvestment Plan. Further, the Reinvestment Plan may be amended by the Fund upon 30 days notice to participants. A participant may withdraw from the Reinvestment Plan upon written request to the Plan Agent, in which event, no further Fund share purchases will be made for such withdrawing participant and all shares and funds held for such participant will be forwarded to the participant or to their order upon their request. All communications regarding the Reinvestment Plan should be directed to the Plan Agent.

Item 6. Selected Financial Data.

The following selected financial data for the period January 1, 2005 through December 31, 2005 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. The selected financial data for the periods ended December 31, 2002 and 2001 is unaudited.

Selected Financial Data

	2005	2004	2003	2002	2001
Gross income (loss), including net realized gain (loss)	6,569,365	14,514,741	11,670,287	(2,856,608)	2,863,162
Net unrealized appreciation (depreciation) on investments	(19,537,884)	9,397,996	20,137,393	(8,380,055)	11,570,203
Net income (loss)	(16,023,666)	18,971,481	28,741,964	(12,837,439)	12,379,821
Net income (loss) per share	(3.60)	4.36	6.60	(2.94)	2.84
Total assets	62,548,375	117,387,109	101,866,011	55,592,067	82,092,106
Net assets	54,188,943	74,582,499	69,405,964	46,103,648	59,446,006
Net assets per share	12.14	17.14	15.95	10.59	13.63

Selected Per Share Data

	2005	2004	2003	2002	2001
Investment income	0.14	0.15	0.46	0.13	0.19
Operation expenses	(0.66)	(1.12)	(0.70)	(0.36)	(0.45)
Interest expense	(0.02)	(0.02)	(0.01)	(0.01)	(0.03)
Net investment loss	(0.54)	(0.98)	(0.25)	(0.24)	(0.29)
Tax return of capital	0.00	0.00	0.00	(0.10)	0.00
Distributions from net capital gains	(1.33)	(3.17)	(1.25)	0.00	(0.54)
Net realized gain (loss) on investments	1.33	3.18	2.22	(0.79)	0.47
Net increase (decrease) in unrealized appreciation of investments	(4.38)	2.16	4.64	(1.91)	2.66
Increase (decrease) in net asset value	(4.92)	1.19	5.36	(3.04)	2.30
Capital stock transactions	0.35	0.00	0.00	(0.02)	0.00
Effect of share change	(0.43)	0.00	0.00	0.02	0.00
Net Asset Value:					
Beginning of year	17.14	15.95	10.59	13.63	11.33
End of year	12.14	17.14	15.95	10.59	13.63

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.

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 also generates income through capital gains. Further, the Fund in some cases receives due diligence, commitment, and closing fees, as well as other similar types of revenue. Director's compensation received by 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, 2005, the Fund invested $2,043,338 in four (4) new portfolio investments and invested an additional $2,995,128 in follow-on investments in eight (8) portfolio companies. Distributions declared to investors in 2005 amounted to $5,931,273 or $1.33 per share, which was capital gain. During 2005, gains were realized from the sale of securities of Cybex International, Dave & Busters, Inc., Gasco Energy, Inc., Interpool, Inc., Intrusion, Inc., Poore Brothers, Inc., and from bankruptcy distributions from Dexterity Surgical, Inc. offset by realized losses taken on investments in Cybex International, Digital Learning Institute, iLink Communications, Inc., Stonepath Group, Inc., Tarantella, Inc., Thermoview Industries, Inc., and Advanced Refractive Technologies, Inc. (formally VisiJet, Inc). Net loss for 2005 was $(16,023,666) and net cash used in operating activities was $(16,604,357). The Fund issued 112,249 new shares pursuant to the dividend reinvestment plan in receipt of $1,561,383 in capital. Remaining dividend reinvestment shares were purchased in the open market. At December 31, 2005, the Fund had $8,396,052 in cash and cash equivalents, offset with $8,359,432 in liabilities. RENN Group 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, non-registered for public trading, and are subject to legal and contractual investment restrictions. Accordingly, the Portfolio Investments are generally considered non-liquid. This lack of liquidity primarily affects the ability to make new investments and distributions to shareholders.

From time to time, funds 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.

RESULTS OF OPERATIONS

2005 Compared to 2004

During the year ended December 31, 2005, the Fund made additional portfolio investments aggregating $5,038,466 compared to $9,786,957 in 2004. The Fund realized proceeds from the sale of investments in the amount of $13,632,705 compared to $19,289,611 in 2004. The Fund's 2005 net loss of $(16,023,666) is due to a combination of a net investment loss of $(2,417,103), net unrealized depreciation on investments of $(19,537,884), and net realized gain on investments of $5,931,321.

Interest income decreased 46.15% for the year in comparison to 2004. In 2005, the Fund realized a loss on interest receivable for Digital Learning and Advanced Refractive Technologies (formerly VisiJet), and there were fewer debt investments than in 2004. Dividend income during 2005 was $193,402 compared to $184,522 for 2004. Commitment and other fee income increased to $255,146 in 2005 from $126,326 in 2004 primarily as a result of the SEC Settlement Order with affiliate.

General and administrative expenses, including interest expense and legal fees, but excluding incentive and management fees, decreased 26.22%, from $983,616 in 2004 to $725,753 for 2005. Incentive fees decreased 51.29%, $1,216,467 in 2005 compared to $2,497,422 in 2004 because there were greater net realized capital gains achieved on investments during 2004. Management fees decreased to $1,112,927 in 2005 from $1,460,218 in 2004, a decrease of 23.78% due to lower portfolio values.

Net income of $18,971,481 in 2004 decreased to a net loss of $(16,023,666) in 2005. In 2005, the Fund had a net realized gain on investments of $5,931,321, compared to $13,852,016 in 2004. The Fund experienced a decrease in net unrealized appreciation on investments from $9,397,996 in 2004, compared to a net unrealized depreciation on investments in 2005 of $(19,537,884).

2004 Compared to 2003

During the year ended December 31, 2004, the Fund made additional portfolio investments aggregating $9,786,957 compared to $9,062,799 in 2003. The Fund realized proceeds from the sale of investments in the amount of $19,289,611 compared to $17,794,507 in 2003. The Fund's realized net income of $18,971,481 is due to a combination of a net investment loss of $(4,278,531), net unrealized appreciation on investments of $9,397,996, and net realized gain on investments of $13,852,016.

Interest income decreased 51.84% for the year in comparison to 2003. In 2003 the Fund received payment in kind of interest upon the reorganization of eOriginal, Inc. and interest accrued due to the SEC settlement offer. Dividend income decreased 84.94% to $184,522 in 2004 from $1,225,139 in 2003 due primarily to the 2003 dividends paid upon the reorganization of investments in eOriginal, Inc. and Integrated Security Systems, Inc. Commitment and other fee income increased to $126,326 in 2004 from $33,579 in 2003 primarily as a result of an increase in early conversion fees and due diligence fee income.

General and administrative expenses, including interest expense and legal fees, but excluding incentive and management fees, increased 68.23% to $983,616 in 2004 from $584,690 in 2003. Incentive fees increased 171.10%, $2,497,422 in 2004 compared to $921,231 in 2003 because there were greater net realized capital gains achieved on investments during 2004. Management fees increased to $1,460,218 in 2004 from $1,071,708 in 2003, an increase of 36.25% due to higher portfolio values.

Net income decreased to $18,971,481 in 2004 from $28,741,964 in 2003. In 2004, the Fund had a net realized gain on investments of $13,852,016, compared to $9,680,859 in 2003. Likewise, the Fund experienced a decrease in net unrealized appreciation on investments to $9,397,996 in 2004, compared to the net unrealized appreciation on investments in 2003 of $20,137,393.

CONTRACTUAL OBLIGATIONS

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

Because the Fund does not enter into other long-term debt obligations, capital lease obligations, operating lease obligations, or purchase obligations 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 financial market risks, including changes in market interest rates as well as changes in marketable equity security prices. The Fund does not use derivative financial instruments to mitigate any of these risks. The return on the Fund’s investments is generally not affected by foreign currency fluctuations.

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

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

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

Item 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.

On January 19, 2006, the Audit Committee of the Fund dismissed Ernst & Young LLP ("E&Y") as the Fund's independent registered public accounting firm because E&Y advised the Audit Committee that E&Y would not be able to begin the audit engagement until May 2006.

The audit reports of E&Y on the financial statements of the Fund for the fiscal years ended December 31, 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. E&Y did not complete the audit of the Fund's financial statements for fiscal years ended after December 31, 2002.

As disclosed in a Current Report on Form 8-K filed by the Fund on June 18, 2004, E&Y declined to issue a report on the Fund's financial statements for the year ended December 31, 2003 unless E&Y received an opinion of legal counsel to the effect that the possibility of a material adverse effect to the Fund as a result of a comment received from the SEC staff that the Advisory Agreement might be invalid would be "remote" as defined in an accounting pronouncement that the Fund and E&Y agreed was not applicable. The Fund and E&Y were unable to agree on proposed legal opinion language.

As further disclosed in a Current Report on Form 8-K filed by the Fund on December 6, 2005, the Investment Adviser entered into a settlement agreement with the SEC with respect to the calculation of advisory fees under the Advisory Agreement. As a result of the settlement agreement, the disagreement noted above has been rendered moot. The Fund has authorized E&Y to respond fully to the inquiries of the successor accountant named below concerning this subject.

Other than as described in the two preceding paragraphs, during the fiscal years ended December 31, 2005 and 2004 and the period from January 1, 2006 through January 19, 2006, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to such disagreements in its reports on the financial statements for such periods.

On January 19, 2006, the Audit Committee of Board of Directors of the Fund approved the engagement of KBA Group LLP ("KBA") to serve as the Fund's independent registered public accounting firm. We engaged KBA on January 19, 2006 to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2005. The Audit Committee has also engaged KBA to complete the audits for the fiscal years ended December 31, 2004 and 2003.

Item 9A. Controls and Procedures.

The Fund has in place systems relating to disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the 1934 Act). Our principal executive officer and principal financial officer evaluated the effectiveness of these disclosure controls and procedures as of the end of our fiscal year ended December 31, 2005 in connection with the preparation of this report. They concluded that the controls and procedures were effective and adequate at that time. There were no significant changes in the Fund's internal control over financial reporting during the fourth quarter of fiscal 2005 that have materially affected, or are reasonably likely to materially affect the Fund's 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. Each class serves for a three-year term. The term of office of the Class One director was to have expired at the annual meeting of shareholders to have been held in 2004, the term of office of the Class Two directors was to have expired at the annual meeting of shareholders to have been held in 2005, and the term of office of the Class Three directors was to expire at the annual meeting of shareholders to be held in 2006.

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 shareholder 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 shareholders of the Fund to change the majority of directors, thus having the effect of maintaining the continuity of management.

Class One Director - Term was to have expired at the 2004 Annual Meeting

Peter Collins, age 61, has been a financial and management consultant to closely-held businesses for the past 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 an M.Sc. in Business Administration from The City University, London. He has served as a Class One Director since 1994.

Class Two Directors - Term was to have expired at the 2005 Annual Meeting

Edward O. Boshell, Jr., age 71, is the retired Chairman of the Board and CEO of Columbia General Corporation and is a private investor.

Charles C. Pierce, Jr., age 71, is the retired Vice-Chairman of Dain Rauscher, Inc., and is a private investor.

Class Three Directors - Term Expires at 2006 Annual Meeting

Russell Cleveland, age 67, is the 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 shareholder 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 BFS US Special Opportunities Trust PLC (“BFS US”), investment trusts listed on the London Stock Exchange. Mr. Cleveland also serves on the Boards of Directors of RUSGIT, BFS US, Tutogen Medical, Inc., Cover-All Technologies, Inc., Integrated Security Systems, Inc., and Digital Recorders, Inc.

Ernest C. Hill, age 65, 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 included service as Assistant Professor of Finance, Southern Methodist University and Associate Director of the Southwestern Graduate School of Banking.

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**	**Other Director-ships Held by Director**
Peter Collins Age 61	Director	Class One Director since 1994. Term was to have expired in 2004.	Consultant	1	None
Edward O. Boshell, Jr. Age 71	Director	Class Two Director since 1998. Term was to have expired in 2005.	Retired Chairman of the Board and CEO of Columbia General and private investor	1	None
Charles C. Pierce, Jr. Age 71	Director	Class Two Director since 2002. Term was to have expired in 2005.	Retired Vice-Chairman of Dain Rauscher and private investor	1	None
Ernest C. Hill Age 65	Director	Class Three Director since 1994. Term expires 2006.	Consultant	1	None
Interested Director:					
Russell Cleveland[2] Age 67	President, Chief Executive Officer, and Director	Class Three Director since 1994. Term expires 2006	President & Chief Executive Officer of RENN Group	3	RUSGIT, BFSUS, Tutogen Medical, Inc., CaminoSoft Corp., Cover-All Technologies, Inc., Integrated Security Systems, Inc., Precis, Inc. and Digital

Recorders, Inc.

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(1) The address of all such persons is c/o RENN Capital Group, Inc., 8080 North Central Expressway, Suite 210, LB-59, Dallas, Texas 75206.
(2) Mr. Cleveland is also President and CEO of RENN Capital Group, Inc. See "Information About the Fund's Officers and the Investment Advisor"

Name of Director	Dollar Range* of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in Funds in Fund Complex*
Edward O. Boshell, Jr.	over $100,000	over $100,000
Charles C. Pierce, Jr.	$10,001 to $50,000	$10,001 to $50,000
Ernest C. Hill	$0	$0
Peter Collins	$10,001 to $50,000	$10,001 to $50,000
Russell Cleveland	over $100,000	over $100,000

* As of December 31, 2005

Committees and Meetings

The Board of Directors held fifteen (15) meetings or executed consent actions in lieu of meetings during 2005, and each director attended or executed at least seventy-five per cent (75%) of these meetings and consent actions.

The Audit Committee

During 2005, the Audit Committee consisted of Ernest C. Hill, Chair, Peter Collins, Charles C. Pierce, Jr. and Edward O. Boshell, Jr., and held six (6) meetings in 2005. Edward O. Boshell, Jr. has been designated by the Board of Directors as the Audit Committee financial expert. The Audit Committee is comprised entirely of independent directors. The Audit Committee 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 attest services for the Fund;
- Review the scope of their audit services and the annual results of their audits;
- Monitor the independence and performance of the Fund's independent auditors;
- Oversee generally the accounting and financial reporting processes of the Fund and the audits of its financial statements, generally;
- 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 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 Charles C. Pierce, Jr., Chair, Edward O. Boshell, 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 67, has served as 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 shareholder 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, BFS US Special Opportunities Trust PLC, CaminoSoft Corp., Integrated Security Systems, Inc., Tutogen Medical, Inc., Digital Recorders, Inc., and Cover-All Technologies, Inc.

Barbe Butschek, age 51, has served as 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 in various capacities since 1977.

Robert C. Pearson, age 70, 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 Digital Learning Management Corp., *e*Original, Inc., CaminoSoft Corp., Laserscope, Simtek Corporation, and Advanced Power Technologies, Inc.

Scott E. Douglass**,** age 47, 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.

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, 2005, 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.

Directors who are not employees of either the Fund or RENN Group receive a monthly fee of $1,500, 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, 2005, 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 of Director	Aggregate 2005 Compensation from Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits upon Retirement	Total 2005 Compensation from Fund and Fund Complex
Russell Cleveland [(1)]	$ 0	$ 0	$ 0	$ 0
Peter Collins	$ 21,000	$ 0	$ 0	$ 21,000
Ernest C. Hill	$ 21,000	$ 0	$ 0	$ 21,000
Edward O. Boshell, Jr.	$ 21,000	$ 0	$ 0	$ 21,000
Charles C. Pierce, Jr.	$ 20,250	$ 0	$ 0	$ 20,250

(1) Mr. Cleveland is President and Chief Executive Officer of RENN Group. See “Information about the Fund’s Principal Officers and Investment Adviser - RENN Group.”

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.

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

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, 2005 (i) for all persons who are beneficial owners of 5% or more 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 Directly or Indirectly	Percent of Class
Russell Cleveland, President, Chief Executive Officer, and Director[(1)]	334,650[(2)]	7.5%
Edward O. Boshell, Jr., Director	29,923[(3)]	0.7%
Peter Collins, Director	2,480[(4)]	0.1%
Charles C. Pierce, Jr., Director	2,165	0.0%
Ernest C. Hill, Director	0	0.0%
All directors and officers of the Fund as a group (8 persons)	381,080	8.5%

(1) "Interested person" as defined by the 1940 Act.

(2) Consists of 30,140 shares owned by the Cleveland Family Limited Partnership and 304,510 shares owned by Renn Investment Limited Partnership.

(3) Shares owned indirectly through Columbia General Investments, L.P.

(4) Includes 130 shares owned by Hilary Collins, Mr. Collins' spouse.

Item 13. Certain Relationships and Related Transactions.

RENN Group provides investment advisory services to the Fund pursuant to the Advisory Agreement between the Fund and RENN Group. The Advisory Agreement is reviewed and approved annually by the Fund's Board of Directors, including its independent directors. Pursuant to the Advisory Agreement, RENN Group received 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 received 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 on the portfolio investments of the Fund. The incentive fee is calculated and paid on an annual basis. See Item 3, Legal Proceedings, for a discussion of proceedings with the SEC regarding the calculation of the incentive fee.

In 2005, the Fund incurred to RENN Group $1,112,927 as its management fee of which $936,189 was paid and $1,216,467 as its incentive fee of which $0 was paid. The Fund also received director's fees from portfolio companies with respect to Mr. Cleveland's and Mr. Pearson's services as a director. 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. The Board of Directors has determined that the Advisers Agreement be construed in compliance with applicable provisions of the Advisers Act and the 1940 Act.

Item 14. Principal Accountant Fees and Services.

As disclosed in Item 9, Ernst & Young LLP was dismissed as the Fund's auditor and did not complete the audit for the fiscal year ended December 31, 2003. KBA Group LLP was subsequently engaged in January 2006 to complete the audit, and therefore received no fees for professional services for the fiscal years ended December 31, 2005 and 2004.

The following table presents fees paid by the Fund for professional services rendered by Ernst & Young LLP for the fiscal years ended December 31, 2004 and 2005.

Fee Category	**Fiscal 2005 Fees**	**Fiscal 2004 Fees**
Audit Fee	$ 0	$ 56,000
Audit-Related Fees	0	0
Tax Fees	10,380	2,000
All Other Fees	3,633	0
Total Fees	$ 14,013	$ 58,000

Audit Fees were for professional services rendered for the audit of the Fund's financial statements and review of the interim financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements. In March 2006, the Fund received a refund of $56,000 of the audit fees previously paid in 2004.

No Audit-Related Fees were paid by the Fund to Ernst & Young LLP for the fiscal years ended December 31, 2005 or 2004.

Tax Fees were for the preparation of income and excise tax returns.

All Other Fees were for services other than the services reported above. In fiscal year 2005, these services included accounting consultations relating to the proposed SEC Settlement Order.

The Audit Committee concluded that the provision of the non-audit services described above did not impair the independence of Ernst & Young LLP. The Audit Committee has adopted a pre-approval policy that provides for the prior consideration by the Audit Committee of any audit or non-audit services that may be provided by its independent auditor to the Fund.

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	Investment Advisory Agreement[5]
10.4	Amendment No. 1 to Investment Advisory Agreement[6]
10.5	Custodial Agreement with The Frost National Bank[7]
14	Code of Ethics[8]
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 N-2 as filed with the Securities and Exchange Commission February 25, 1994 (Registration No. 33-75758).
[6] Incorporated by reference from Form 10-K for the year ended December 31, 1999 as filed with the Securities and Exchange Commission (File No. 001-11701).
[7] 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).
[8] Incorporated by reference from Form 10-Q for the quarter ended June 30, 2002 as filed with the Securities and Exchange Commission (File No. 811-08376).

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: September 22, 2006

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

By: /s/ Russell Cleveland

Russell Cleveland, Chairman and President

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

Signature	Capacity in Which Signed	Date
/s/ Russell Cleveland Russell Cleveland	Chairman, President and Director	September 22, 2006
/s/ Barbe Butschek Barbe Butschek	Secretary and Treasurer	September 22, 2006
/s/ Ernest C. Hill Ernest C. Hill	Director	September 22, 2006
/s/ Peter Collins Peter Collins	Director	September 22, 2006
/s/ Edward O. Boshell, Jr. Edward O. Boshell, Jr.	Director	September 22, 2006
/s/ Charles C. Pierce, Jr. Charles C. Pierce, Jr.	Director	September 22, 2006

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, 2005 and 2004 and the related statements of operations, changes in net assets and cash flows for the years ended December 31, 2005, 2004 and 2003 and financial highlights for the years ended December 31, 2005 and 2004. 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, an audit 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 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, 2005 and 2004 and the results of its operations and its cash flows for the years ended December 31, 2005, 2004 and 2003 and the financial highlights for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ KBA GROUP LLP
KBA Group LLP
Dallas, TX

July 17, 2006

Renaissance Capital Growth & Income Fund III, Inc.
Statements of Assets and Liabilities
December 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	$ 8,396,052	$ 37,278,871
Investments at fair value, cost of $35,433,480 and $38,096,398 in 2005 and 2004, respectively	54,002,499	76,203,302
Accounts receivable-settlement with affiliate	-	3,775,872
Interest and dividend receivables, net of reserves	48,226	95,689
Prepaid and other assets	101,598	33,375
	$ 62,548,375	$ 117,387,109
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to broker	$ 2,075,975	$ 27,001,414
Accounts payable	86,782	51,477
Accounts payable - dividends	4,145,686	12,054,258
Accounts payable - affiliate	2,050,989	3,697,461
	8,359,432	42,804,610
Commitments and contingencies		
Net assets:		
Common stock, $1 par value; authorized 20,000,000 shares; 4,673,867 and 4,561,618 issued; 4,463,967 and 4,351,718 shares outstanding	4,673,867	4,561,618
Additional paid-in-capital	32,681,024	33,641,903
Treasury stock at cost, 209,900 shares	(1,734,967)	(1,734,967)
Distributable earnings	-	7,042
Net unrealized appreciation of investments	18,569,019	38,106,903
Net assets, equivalent to $12.14 and $17.14 per share at December 31, 2005 and 2004, respectively	54,188,943	74,582,499
	$ 62,548,375	$ 117,387,109

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments
December 31, 2005 and 2004

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

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

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

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

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

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

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

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

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

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

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments
December 31, 2005 and 2004

			2004		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Convertible Debentures and Promissory Notes					
CaminoSoft Corp. -					
Promissory note (4)	7.00	07/19/06	$ 250,000	$ 250,000	0.33%
Digital Learning, Inc. -					
Convertible debenture (2)	7.00	02/27/11	1,000,000	1,342,282	1.76
Hemobiotech, Inc. -					
Promissory note (2)	10.00	10/15/08	250,000	250,000	0.33
iLinc Communications, Inc. -					
Convertible promissory note (2)	12.00	03/29/12	500,000	500,000	0.66
Integrated Security Systems, Inc. -					
Promissory note (4)	8.00	09/30/05	525,000	525,000	0.69
Promissory note (4)	7.00	09/30/05	200,000	200,000	0.26
Simtek Corporation -					
Convertible debenture (2)	7.50	06/28/09	1,000,000	1,923,077	2.52
			$ 3,725,000	$ 4,990,359	6.55%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

	2004				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
Interpool, Inc. -					
Convertible debenture (2)	9.25	12/27/22	$ 375,000	$ 375,000	0.49%
			$ 375,000	$ 375,000	0.49%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

	2004			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
CaminoSoft Corp. -				
Common stock	2,458,333	$ 4,875,000	$ 1,696,250	2.23%
Common stock (2)	1,081,081	400,000	745,946	0.98
eOriginal, Inc. -				
Series A, preferred stock (1)(3)	10,680	4,692,207	332,575	0.44
Series B, preferred stock (1)(3)	25,646	620,329	798,616	1.05
Series C, preferred stock (1)(3)	51,249	1,059,734	1,595,894	2.09
Series D, preferred stock (1)(3)	16,057	500,000	500,015	0.66
Gaming & Entertainment Group -				
Common stock (2)	500,000	500,000	210,000	0.28
Gasco Energy, Inc. -				
Common stock (2)	1,541,667	1,250,000	6,567,501	8.62
Global Axcess Corporation -				
Common stock (2)	4,766,667	1,261,667	1,716,000	2.25
Hemobiotech, Inc. -				
Common stock (2)	294,120	250,000	250,000	0.33
Integrated Security Systems, Inc. -				
Common stock (2)	27,074,179	5,568,056	13,537,090	17.76
Series D, preferred stock (2)	187,500	150,000	112,500	0.15

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

	2004			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Inyx, Inc. -				
Common stock (2)	300,000	300,000	417,000	0.55
Laserscope -				
Common stock	600,000	750,000	21,546,000	28.27
Poore Brothers, Inc. -				
Common stock (2)	1,507,791	1,544,294	5,262,191	6.91
PracticeXpert, Inc. -				
Common stock (2)	4,166,666	500,000	562,500	0.74
Simtek Corp. -				
Common stock (2)	550,661	500,000	330,397	0.43
Common stock	1,000,000	195,000	600,000	0.79
Tarantella, Inc. -				
Common stock (2)	714,286	1,000,000	1,200,000	1.57
ThermoView Industries, Inc. -				
Common stock	234,951	563,060	122,175	0.16
Miscellaneous Securities		-	1,051,436	1.38
		$ 26,479,347	$ 59,154,086	77.63%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

	2004			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AdStar, Inc. -				
Common stock (2)	269,231	$ 350,000	$ 293,462	0.39%
Bovie Medical Corporation -				
Common stock (2)	300,000	525,000	762,000	1.00
Comtech Group, Inc. -				
Common stock (2)	480,000	840,000	1,435,200	1.88
Cybex International -				
Common stock (2)	145,000	478,500	593,050	0.78
Dave & Busters, Inc. -				
Common stock	100,000	653,259	2,020,000	2.65
iLinc Communications, Inc. (formerly EDT Learning, Inc.) -				
Common stock	48,266	27,033	22,685	0.03
Gasco Energy, Inc. -				
Common stock	750,000	639,105	3,195,000	4.19
i2 Telecom -				
Convertible Preferred (2)	500	500,000	500,000	0.66
Intrusion, Inc. -				
Common stock (2)	159,033	500,000	500,000	0.66
Medical Action Industries, Inc. -				
Common stock	20,100	237,209	395,970	0.52
PhotoMedex, Inc. -				
Common stock	70,000	176,400	189,000	0.25

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Schedules of Investments (continued)
December 31, 2005 and 2004

	2004			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Precis, Inc. -				
Common stock	200,700	1,372,417	533,862	0.70
Stonepath Group, Inc. -				
Common stock	131,240	246,000	157,488	0.21
Tarantella, Inc. -				
Common stock	202,762	186,541	340,640	0.45
US Home Systems, Inc. -				
Common stock	110,000	535,587	676,500	0.89
Vaso Active Pharmaceuticals, Inc. -				
Common stock	150,000	250,000	69,000	0.09
		7,517,051	11,683,857	15.33
		$ 38,096,398	$ 76,203,302	100.00%
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		$ 19,542,517	$ 39,385,196	51.69%
Unrestricted Securities		$ 10,706,611	$ 31,564,570	41.42%
Other Securities (5)		$ 7,847,270	$ 5,253,536	6.89%

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

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Statements of Operations
Years ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Income:			
Interest (1)	$ 189,496	$ 351,877	$ 730,710
Dividends	193,402	184,522	1,225,139
Commitment and other fees	255,146	126,326	33,579
	638,044	662,725	1,989,428
Expenses:			
General and administrative (2)	336,601	346,552	338,418
Incentive fee to affiliate	1,216,467	2,497,422	1,409,318
Interest expense	93,847	70,931	64,852
Legal expense	295,305	566,133	181,420
Management fee to affiliate	1,112,927	1,460,218	1,071,708
	3,055,147	4,941,256	3,065,716
Net investment loss	(2,417,103)	(4,278,531)	(1,076,288)
Realized and unrealized gain (loss) on investments:			
Net change in unrealized appreciation (depreciation) on investments	(19,537,884)	9,397,996	20,137,393
Net realized gain on investments	5,931,321	13,852,016	9,680,859
Net gain (loss) on investments	(13,606,563)	23,250,012	29,818,252
Net income (loss)	$ (16,023,666)	$ 18,971,481	$ 28,741,964
Net income (loss) per share	$ (3.60)	$ 4.36	$ 6.60
Weighted average shares outstanding	4,454,613	4,351,718	4,351,718

(1) Includes $0, $0 and $183,254 from affiliate related settlement.
(2) Includes $386,809, $176,856 and $125,400 expenses to affiliate.

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.
Statements of Changes in Net Assets
Years ended December 31, 2005, 2004, and 2003

	2005	2004	2003
From operations:			
Net investment loss	$ (2,417,103)	$ (4,278,531)	$ (1,076,288)
Net realized gain on investments	5,931,321	13,852,016	9,680,859
Increase (decrease) in unrealized appreciation on investments	(19,537,884)	9,397,996	20,137,393
Net increase (decrease) in net assets resulting from operations	(16,023,666)	18,971,481	28,741,964
From distributions to stockholders:			
Common dividends declared from realized gains	(5,931,273)	(13,794,946)	(5,439,648)
From capital transactions:			
Sale of common stock	1,561,383	-	-
Total increase (decrease) in net assets	(20,393,556)	5,176,535	23,302,316
Net assets:			
Beginning of year	74,582,499	69,405,964	46,103,648
End of year	$ 54,188,943	$ 74,582,499	$ 69,405,964

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.
Statements of Cash Flows
Years ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ (16,023,666)	$ 18,971,481	$ 28,741,964
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Net change in unrealized (appreciation) depreciation on investments	19,537,884	(9,397,996)	(20,137,393)
Net realized gain on investments	(5,931,321)	(13,852,016)	(9,680,859)
(Increase) decrease in interest and dividend receivables	47,463	137,512	(204,792)
(Increase) decrease receivable-settlement	3,775,872	-	(710,140)
(Increase) decrease in prepaid and other assets	(68,223)	111,932	(105,239)
Increase (decrease) in accounts payable	35,306	(5,796)	45,167
Increase (decrease) in accounts payable - affiliate	(1,646,472)	1,994,063	1,228,248
Increase (decrease) in due to broker	(24,925,439)	998	17,999,253
Purchase of investments	(5,038,466)	(9,786,957)	(9,062,799)
Proceeds from sale of investments	13,632,705	19,289,611	17,794,507
Repayment of debentures	-	-	120,457
Net cash provided by (used in) operating activities	(16,604,357)	7,462,832	26,028,374
Cash flows from financing activities:			
Sale of common stock	1,561,383	-	-
Cash distributions	(13,839,845)	(5,439,648)	(1,740,688)
Net cash used in financing activities	(12,278,462)	(5,439,648)	(1,740,688)
Net increase (decrease) in cash and cash equivalents	(28,882,819)	2,023,184	24,287,686
Cash and cash equivalents at beginning of the year	37,278,871	35,255,687	10,968,001
Cash and cash equivalents at end of the year	$ 8,396,052	$ 37,278,871	$ 35,255,687
Cash paid during the year for interest	$ 93,847	$ 70,931	$ 64,852
Cash paid during the year for income/excise taxes	$ 6,824	$ 6,041	$ 2,019

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.
Notes to Financial Statements
December 2005, 2004 and 2003

(1) Organization and Business Purpose

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

(2) Summary of Significant Accounting Policies

(a) Valuation of Investments

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

(b) Other

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

(c) Cash and Cash Equivalents

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

(d) Federal Income Taxes

The Fund has elected the special income tax treatment available to "regulated investment companies" ("RIC") under Subchapter M of the Internal Revenue Code ("IRC") in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its shareholders. The Fund's policy is to comply with the requirements of the IRC that are applicable to regulated investment companies. Such requirements include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund's taxable investment income to its shareholders. It is the intent of management to comply with all IRC requirements as they pertain to a RIC and to distribute all of the Fund's taxable investment income and long-term capital gains within the defined period under the IRC to

(2) Summary of Significant Accounting Policies, continued

qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund's net assets as well as the amount of income available for distribution to shareholders.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding of 4,454,613 during 2005, 4,351,718 during 2004 and 2003.

(f) Use of Estimates

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

(3) Due to Broker

The Fund conducts business with various brokers for its investment activities. The clearing and depository operations for the investment activities are performed pursuant to agreements with these brokers. Due to broker represents a margin loan payable to one of these brokers, which is secured by investments in securities maintained with the lending broker as collateral for the margin loan. Cash and cash equivalents related to the margin loan payable are held by the lending broker. 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.

(4) Management and Incentive Fees and Reimbursement

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

(4) Management and Incentive Fees and Reimbursement, continued

- The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's Net Assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred $1,112,927, $1,460,218, and $1,071,708 for 2005, 2004, and 2003, 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 period being calculated less cumulative incentive fees previously accrued. Unrealized capital depreciation equals net unrealized capital losses on each class of security without netting net unrealized gains on other classes of securities. The incentive fee is calculated, accrued, and paid on an annual basis as of year end. The Fund incurred, $1,216,467, $2,497,422 and $1,409,318 during the years ended 2005, 2004, and 2003, 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 $386,809, $176,856, and $125,400, for 2005, 2004, and 2003, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

As of December 31, 2005 and 2004, the Fund had an account payable to the Investment Advisor of $2,050,989 and $3,697,461, respectively, for the amount due for the fees and expense reimbursements above.

- As explained in Note 10, the Investment Advisor resolved a dispute with the staff of the Securities and Exchange Commission involving the appropriate interpretation of section 205(b)(3) of the Advisors Act. As part of the settlement, the Investment Advisor agreed to pay $2,851,362 as a reduction of incentive fees for the period from inception through December 31, 2003. The actual incentive fee that would have been calculated under the agreed methodology for incentive fee from inception through December 31, 2003, was $3,388,269. The difference of $536,907 was reflected as additional incentive fee expense of $488,087 and $48,819 in 2003 and 2001, respectively. Because of the cumulative nature of the agreed methodology, the $536,907 served to reduce incentive fees during 2005. In accordance with Section 205(b)(3), the fees are not subject to repayment in a subsequent period and therefore were recorded as additional expense during 2003 and 2001 due to the uncertainty of incurring future incentive fees to be offset.

The Fund reported a receivable of $3,775,872 as of December 31, 2004 to reflect the settlement which included interest income receivable of $924,510, of which $183,254 was reflected as income during 2003. The receivable was collected in 2005.

(5) Eligible Portfolio Companies and Investments

(a) Eligible Portfolio Companies

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Section 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Section 55(a)(1) through (5). Under the provisions of the 1940 Act atleast 70% of the Fund's assets, as defined under the 1940 Act, must be invested in Eligible Portfolio Companies. In the event the Fund has less than 70% of its assets invested in Eligible Portfolio Investments, then it will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again exceeds the 70% threshold. The Fund was in compliance with these provisions at December 31, 2005 and 2004.

(b) Investments

Investments are carried in the statements of assets and 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 into the common stock of the issuer at a set conversion price at the discretion of the Fund. The common stock underlying these securities is generally unregistered and thinly to moderately traded but is not otherwise restricted. The Fund may register and sell such securities at any time with the Fund paying the costs of registration. Interest on the convertible securities 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.

(6) Valuation of Investments

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

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

(6) Valuation of Investments, continued

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

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

- Debt securities are valued at the greater of (i) cost or (ii) the market value of the underlying common stock into which the debt instrument is convertible. In cases where the debt instrument is in default or the company is in bankruptcy, the value will be (i) the value of the underlying common stock, (ii) the value of the collateral, if secured, or (iii) zero, if the common stock has no value and there is no collateral.

- If there is no independent and objective pricing authority (i.e. a public market) for investments in privately held entities, the latest sale of equity securities to independent third parties by the entity governs the value of that enterprise. This valuation method causes the Fund’s initial investment in the private entity to be valued at cost. Thereafter, new issuances or offers of equity or equity-linked securities by the portfolio company to new investors will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer. Where a private entity does not have an independent value established over an extended period of time, then the Investment Adviser will determine fair value on the basis of appraisal procedures established in good faith and approved by the Board.

As of December 31, 2005 and 2004, the net unrealized appreciation associated with investments held by the Fund was $18,569,019 and $38,106,903, respectively. As of December 31, 2005, the Fund had gross unrealized gains of $28,008,507 and gross unrealized losses of $(9,439,488). As of December 31, 2004, the Fund had gross unrealized gains of $47,453,782 and gross unrealized losses of $(9,346,879).

(7) Restricted Securities

As indicated on the schedule of investments as of December 31, 2005 and 2004, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (Note 6).

(8) Purchase of Additional Shares

During 2005, the Fund issued 112,249 new shares pursuant to the dividend reinvestment plan in receipt of $1,561,383. Remaining dividend reinvestment shares were purchased in the open market. The Fund issued no shares in 2004 under the dividend reinvestment plan.

(9) Distributions to Shareholders

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

2005 - Capital gain	$	5,931,273
2004 - Capital gain	$	13,794,946
2003 - Capital gain	$	5,439,648

As of December 2004, the Fund was committed to disburse to stockholders $7,042 as a distribution of net capital gains realized during 2004. These dividends were declared and paid in February 2005. The tax cost of securities is identical to the book cost.

(10) Settlement with the Investment Advisor

During 2004, the staff of the Securities and Exchange Commission (“SEC”) informed the Fund’s counsel of potential significant regulatory issues in connection with the Staff’s review of a registration statement for a proposed rights offering. On December 1, 2005, the Investment Adviser consented, without admitting or denying the findings, to the entry of an order by the SEC instituting public administrative and cease and desist proceedings and imposing remedial sanctions (the “Order”).

In summary, the dispute concerned the definition of the wording of the incentive fee calculation in with the Investment Adviser’s Act of 1940 (the “Advisers Act”). Under Section 205(b)(3) of the Advisers Act, a performance fee may be earned. The Investment Adviser, for many years, believed the word “capital” referred to the Fund’s shareholders equity as a whole. In 2004, the SEC informed the Investment Adviser that capital depreciation in the formula referred only to unrealized capital losses on marketable securities in the portfolio and therefore the calculations in previous years were incorrect.

(10) Settlement with the Investment Advisor, continued

In the Order, the SEC states that in calculating a performance-based fee under Section 205(b)(3), an Investment Adviser must account for its client's assets on a security-by-security basis and may not take into consideration unrealized capital appreciation on any individual security or the portfolio as a whole. Section 205(b)(3) does not require that fees earned in one period be subject to repayment based upon performance in a subsequent period. If the performance fee is calculated on a cumulative basis and is based on the period since inception, the unrealized capital depreciation may be calculated for each calculation period by subtracting each security's valuation at the end of the applicable calculation period from the original cost, as adjusted, of purchasing that security. In practice, the Investment Adviser also took into account unrealized capital appreciation, which offset unrealized capital depreciation, to calculate its performance-based fee. Thus, beginning in fiscal year 1996, the first period in which the Fund realized capital gains, the Investment Adviser's formula for calculating that fee was not consistent with the agreed formula permitted under Section 205(b)(3).

As part of the settlement of the SEC proceedings, the Investment Adviser agreed to pay $2,851,362 for adjustments in the incentive fee from the inception through December 31, 2003, plus prejudgment interest of $924,509 and a penalty of $100,000 to the Fund.

The Investment Adviser satisfied this obligation in full as of December 8, 2005.

The effect of the SEC settlement, was reflected retroactively. As such the effect of the adjustments in incentive fees were reported in prior years as though the agreed methodology had been in place since inception. Interest received by the fund upon settlement was allocated to the years in which it was earned. The penalty received upon settlement was reflected in the year settlement was reached (2005).

(11) Commitments and Contingencies

As disclosed in Note 4, the Fund is obligated to pay to the Investment Advisor an incentive fee equal to 20% of the funds cumulative realized capital gains in excess of cumulative capital losses of the Fund after allowance for any capital depreciation on the portfolio investments of the Fund. As incentive fees on capital gains are not due to the Investment Advisor until the capital gains are realized, any obligations for incentive fees based on unrealized capital gains are not reflected in the accompanying financial statements as there is no assurance that the unrealized gains as of the end of any period will ultimately become realized. Had an incentive fee been accrued as a liability based on all unrealized capital gains, net assets of the Fund would have been reduced by $5,509,555 and $9,447,335 as of December 31, 2005 and 2004, respectively.

(12) Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the year ended December 31, 2005 and 2004 are as follows:

	2005	2004
Net asset value, beginning of year	$ 17.14	$ 15.95
Effect of share change	(.43)	-
Net investment loss	(.54)	(.98)
Net realized and unrealized gain (loss) on investments	(3.05)	5.34
Total return from investment operations	(3.59)	4.36
Distributions:		
From net realized gains on investments	(1.33)	(3.17)
Contributions:		
From sale of common stock	.35	-
Net asset value, end of year	$ 12.14	$ 17.14
Per share market value, end of year	$ 11.00	$ 12.95
Portfolio turnover rate	8.30%	14.58%
Annual return (a)	(15.06)%	3.29%
Ratio to average net assets (b):		
Net investment loss	(3.81)%	(5.52)%
Expenses, excluding incentive fees	2.90%	3.15%
Expenses, including incentive fees	4.82%	6.37%

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

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

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(13) **Selected Quarterly Data (Unaudited)**

	2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net investment income (loss)	(336,818)	(230,638)	(484,802)	(1,364,845)
Net unrealized appreciation (depreciation)	(17,259,989)	908,112	583,607	(3,769,614)
Net realized gain (loss) on investments	4,093,083	96,312	1,304,189	437,737
Net income (loss)	(13,503,724)	773,786	1,402,994	(4,696,722)
Net income (loss) per share	(3.03)	0.17	0.31	(1.05)
Total shares outstanding	4,463,967	4,463,967	4,463,967	4,463,967

	2004			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net investment income (loss)	(527,546)	(570,707)	(373,977)	(2,806,301)
Net unrealized appreciation (depreciation)	10,292,651	(11,580,931)	(6,313,300)	16,999,576
Net realized gain (loss) on investments	14,163,079	(1,462,277)	258,022	893,192
Net income (loss)	23,928,184	(13,613,915)	(6,429,255)	15,086,467
Net income (loss) per share	5.50	(3.13)	(1.48)	3.47
Total shares outstanding	4,351,718	4,351,718	4,351,718	4,351,718

INDEX OF 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	Investment Advisory Agreement[5]
10.4	Amendment No. 1 to Investment Advisory Agreement[6]
10.5	Custodial Agreement with The Frost National Bank[7]
14	Code of Ethics[8]
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

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

[2] Incorporatedby 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 N-2 as filed with the Securities and Exchange Commission February 25, 1994 (Registration No. 33-75758).

[6] Incorporated by reference from Form 10-K for the year ended December 31, 1999 as filed with the Securities and Exchange Commission (File No. 001-11701).

[7]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).

[8] Incorporated by reference from Form 10-Q for the quarter ended June 30, 2002 as filed with the Securities and Exchange Commission (File No. 001-11701).