

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-08-09** | Period of Report: **1996-06-30**
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FILER

TECHNOLOGY FUNDING MEDICAL PARTNERS I L P

CIK: **893755** | IRS No.: **943166762** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **814-00124** | Film No.: **96606918**

Mailing Address
2000 ALAMEDA DE LAS
PULGAS
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission File No. 814-124

TECHNOLOGY FUNDING MEDICAL PARTNERS I, L.P.

(Exact name of Registrant as specified in its charter)

Delaware

94-3166762

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

2000 Alameda de las Pulgas, Suite 250
San Mateo, California

94403

(Address of principal executive offices)

(Zip Code)

(415) 345-2200

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days. Yes X No

No active market for the units of limited partnership interests
("Units") exists, and therefore the market value of such Units cannot be
determined.

I. FINANCIAL INFORMATION

Item 1. Financial Statements

BALANCE SHEETS

<TABLE>

<CAPTION>

| | (unaudited) June 30, 1996 | December 31, 1995 |
|--|---------------------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| ASSETS | | |
| Equity investments (cost basis of \$2,734,742 and \$2,094,559 in 1996 and 1995, respectively) | \$3,001,506 | 2,086,082 |
| Cash and cash equivalents | 3,179,002 | 3,948,745 |
| Organizational costs (net of accumulated amortization of \$22,000 and \$18,000 in 1996 and 1995, respectively) | 18,000 | 22,000 |
| Other Assets | -- | 874 |
| | ----- | ----- |
| Total | \$6,198,508 | 6,057,701 |
| | ===== | ===== |
| LIABILITIES AND PARTNERS' CAPITAL | | |
| Accounts payable and accrued expenses \$ | 11,610 | 20,115 |
| Due to related parties | 165,699 | 39,486 |
| | ----- | ----- |
| Total liabilities | 177,309 | 59,601 |
| Commitments (Notes 3 and 6) | | |
| Partners' capital: | | |
| Limited Partners (Units outstanding of 79,716 in both 1996 and 1995) | 5,761,540 | 6,011,161 |
| General Partners | (7,105) | (4,584) |
| Net unrealized fair value increase (decrease) from cost of equity investments | 266,764 | (8,477) |
| | ----- | ----- |
| Total partners' capital | 6,021,199 | 5,998,100 |
| | ----- | ----- |
| Total | \$6,198,508 | 6,057,701 |
| | ===== | ===== |

</TABLE>

See accompanying notes to financial statements.

<PAGE

STATEMENTS OF OPERATIONS (unaudited)

<TABLE>
<CAPTION>

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--|--|----------|--|-----------|
| | 1996 | 1995 | 1996 | 1995 |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Interest income | \$ 45,821 | 68,975 | 97,353 | 122,166 |
| Costs and expenses: | | | | |
| Management fees | 39,649 | 61,298 | 79,298 | 124,835 |
| Individual General Partners' compensation | 10,569 | 10,500 | 15,765 | 15,000 |
| Amortization of organizational costs | 2,000 | 2,000 | 4,000 | 4,000 |
| Operating expenses : | | | | |
| Administrative and investor services | 53,391 | 48,149 | 83,028 | 138,195 |
| Investment operations | 23,386 | 16,679 | 39,244 | 49,661 |
| Professional fees | 24,337 | 13,918 | 31,948 | 35,461 |
| Computer services | 13,987 | 5,502 | 18,254 | 15,482 |
| Expenses absorbed by General Partners | (25,901) | (19,057) | (50,162) | (52,168) |
| Expenses not subject to limitation | 128,120 | -- | 128,120 | -- |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 217,320 | 65,191 | 250,432 | 186,631 |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses | 269,538 | 138,989 | 349,495 | 330,466 |
| | ----- | ----- | ----- | ----- |
| Net realized loss | (223,717) | (70,014) | (252,142) | (208,300) |
| Change in net unrealized fair value of equity investments | 48,117 | 1,129 | 275,241 | (10,937) |
| | ----- | ----- | ----- | ----- |
| Net (loss) income | \$ (175,600) | (68,885) | 23,099 | (219,237) |
| | ===== | ===== | ===== | ===== |
| Net realized loss per Unit | \$ (3) | (1) | (3) | (3) |
| | ===== | ===== | ===== | ===== |

</TABLE>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS (unaudited)

<TABLE>

<CAPTION>

For the Six Months Ended June 30,

| | 1996 | 1995 |
|--|-------------|-----------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Interest received | \$ 94,205 | 122,166 |
| Cash paid to vendors | (67,811) | (72,866) |
| Cash paid to related parties | (159,102) | (272,986) |
| | ----- | ----- |
| Net cash used by operating activities | (132,708) | (223,686) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of equity investments | (637,035) | (319,631) |
| | ----- | ----- |
| Net cash used by investing activities | (637,035) | (319,631) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from sale of limited partnership interests | -- | 1,865,844 |
| General Partners' capital contribution | -- | 1,868 |
| Distribution of offering period income | -- | (123,710) |
| Payments for syndication fees | -- | (234,333) |
| | ----- | ----- |
| Net cash provided by financing activities | -- | 1,509,669 |
| | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (769,743) | 966,352 |
| Cash and cash equivalents at beginning of year | 3,948,745 | 3,571,768 |
| | ----- | ----- |
| Cash and cash equivalents at June 30 | \$3,179,002 | 4,538,120 |
| | ===== | ===== |
| Reconciliation of net income (loss) to net cash used by operating activities: | | |
| Net income (loss) | \$ 23,099 | (219,237) |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: | | |
| Amortization of organizational costs | 4,000 | 4,000 |

| | | |
|--|--------------|-----------|
| Change in net unrealized fair value of equity investments | (275,241) | 10,937 |
| Changes in: | | |
| Accounts payable and accrued expenses | (8,505) | (10,128) |
| Due to/from related parties | 126,213 | (9,258) |
| Other changes, net | (2,274) | -- |
| | ----- | ----- |
| Net cash used by operating activities | \$ (132,708) | (223,686) |
| | ===== | ===== |

</TABLE>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (unaudited)

1. General

In the opinion of the Managing General Partners, the Balance Sheets as of June 30, 1996, and December 31, 1995, and the related Statements of Operations for the three and six months ended June 30, 1996 and 1995, and Statements of Cash Flows for the six months ended June 30, 1996 and 1995, reflect all adjustments which are necessary for a fair presentation of the financial position, results of operations and cash flows for such periods. These statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 1995. The following notes to financial statements for activity through June 30, 1996, supplement those included in the Annual Report on Form 10-K. Certain 1995 balances have been reclassified to conform with the 1996 financial statement presentation. Allocation of income and loss to Limited and General Partners is based on cumulative income and loss. Adjustments, if any, are reflected in the current quarter balances.

2. Net Realized Loss Per Limited Partner Unit

Net realized loss per Unit is calculated by dividing total net realized loss allocated to the Limited Partners by the weighted average number of Limited Partner Units outstanding of 79,716 and 70,619 for the six months ended June 30, 1996 and 1995, respectively.

3. Related Party Transactions

Related party costs are included in costs and expenses shown on the Statements of Operations and Partners' Capital. Related party costs for the six months ended June 30, 1996 and 1995, were as follows:

<TABLE>
<CAPTION>

1996

1995

| | ---- | ---- |
|---|-----------|----------|
| <S> | <C> | <C> |
| Management fees | \$ 79,298 | 124,835 |
| Syndication fees | -- | 234,333 |
| Individual General Partners' compensation | 15,765 | 15,000 |
| Amortization of organizational costs | 4,000 | 4,000 |
| Reimbursable operating expenses | 112,294 | 176,061 |
| Expenses absorbed by General Partners | (50,162) | (52,168) |
| Expenses not subject to limitation | 128,120 | -- |

</TABLE>

Certain reimbursable expenses have been accrued based upon interim estimates prepared by the Managing General Partners and are adjusted to actual costs periodically.

Pursuant to the Partnership Agreement, the Partnership shall reimburse the Managing General Partners for operational costs incurred by the Managing General Partners in conjunction with the business of the Partnership. The Partnership may not pay or reimburse the Managing General Partners for operational costs that aggregate more than 3% of total Limited Partner capital contributions. For the six months ended June 30, 1996 and 1995, the Managing General Partners absorbed \$50,162 and \$52,168, respectively, in operating expenses. During 1996, it was determined that operational costs paid directly by the Partnership, which had been previously absorbed by the General Partners, are not subject to this limitation; consequently, \$128,120 is included in due to related parties. Amounts due to related parties were \$152,483 and \$26,270 at June 30, 1996, and December 31, 1995, respectively.

Amounts due to related parties for management fees were \$13,216 at both June 30, 1996, and December 31, 1995. Pursuant to the Partnership Agreement, a full first year fee is paid to the Managing General Partners as each additional Limited Partner is admitted to the Partnership, regardless of the date the Limited Partner is admitted. In May of 1995, the Partnership closed the offering with 19,076 additional Units sold during early 1995.

During the six months ended June 30, 1995, the Partnership paid Technology Funding Securities Corporation ("TFSC"), the dealer-manager, commissions and fees of \$133,618 of which \$118,711 was reallocated to participating broker-dealers. In addition, the Partnership also paid \$7,424 for the six months ended June 30, 1995, to TFSC for due diligence expenses which TFSC paid to unaffiliated broker-dealers. No such commissions and fees were paid for the same period in 1996.

4. Equity Investments

A complete listing of the Partnership's equity investments at December 31, 1995, is in the 1995 Annual Report. Activity from January 1 through June 30, 1996, consisted of

<TABLE>
<CAPTION>

| | | | | June 30, 1996 | |
|---|---|-----------------|----------------------------|---------------|------------|
| Industry/Company | Position | Investment Date | Principal Amount or Shares | Cost Basis | Fair Value |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Balance at January 1, 1996 | | | | \$2,094,559 | 2,086,082 |
| Significant changes: | | | | | |
| Biotechnology | | | | | |
| ----- | | | | | |
| Acusphere, Inc. | Series B Preferred shares | 05/95 | 125,000 | 0 | 67,500 |
| Acusphere, Inc. | Series C Preferred shares | 05/96 | 163,552 | 350,001 | 350,001 |
| CV Therapeutics, Inc. | Series G Preferred shares | 03/96 | 19,034 | 16,368 | 37,687 |
| CV Therapeutics, Inc. | Common share warrant at \$.25; expiring 03/99 | 03/96 | 28,551 | 21,700 | 49,964 |
| RedCell, Inc. | Convertible note (1) | 02/96 | \$89,966 | 92,605 | 92,605 |
| Diagnostic Equipment | | | | | |
| ----- | | | | | |
| R2 Technology, Inc. | Series A-1 Preferred shares | 05/94 | 100,000 | 0 | 84,000 |
| R2 Technology, Inc. | Convertible note (1) | 11/95 | \$33,332 | (33,759) | (33,759) |
| R2 Technology, Inc. | Series B-1 Preferred shares | 03/96 | 17,134 | 34,268 | 34,268 |
| Pharmaceuticals | | | | | |
| ----- | | | | | |
| Periodontix, Inc. | Series A Preferred shares | 12/93 | 100,000 | 0 | 100,000 |
| Periodontix, Inc. | Series B Preferred shares | 02/96 | 67,000 | 134,000 | 134,000 |
| Total significant changes during the six months ended June 30, 1996 | | | | 615,183 | 916,266 |
| Other changes, net | | | | 25,000 | (842) |
| | | | | ----- | ----- |

Total equity investments at June 30, 1996

\$2,734,742

3,001,506

=====

=====

(1) Convertible notes include accrued interest. Interest rate on note issued in 1996 was 8%.

</TABLE>

Marketable Equity Securities

As of June 30, 1996, marketable equity securities had an aggregate cost of \$132,313 and an aggregate fair value of \$92,596. The unrealized loss at June 30, 1996, did not include gross gains. As of December 31, 1995, there were no marketable equity securities.

Acusphere, Inc.

In May of 1996, the Partnership made an additional investment in the company by purchasing 163,552 Series C Preferred shares for a total cost of \$350,001. The pricing of this round indicated a fair value increase of \$67,500 for the Partnership's existing investment.

CV Therapeutics, Inc.

In March of 1996, the Partnership made an additional investment in the company by purchasing 19,034 Series G Preferred shares and a warrant for 28,551 common shares for a total cost of \$38,068. The fair values above reflect the valuation of this financing, which resulted in an increase in the change in fair value of \$49,583.

Periodontix, Inc.

In February of 1996, the Partnership made an additional investment in the company by purchasing 67,000 Series B Preferred shares for \$134,000. The pricing of this round indicated an increase in the change in fair value of \$100,000 for the Partnership's existing investment.

R2 Technology, Inc.

In March of 1996, the Partnership purchased 17,134 Series B-1 Preferred shares by converting the November 1995 \$33,332 note (including accrued interest of \$936). The pricing of this conversion financing round in which third parties participated indicated an increase in the change in fair value of \$84,000 for the Partnership's existing investment.

RedCell, Inc.

In February of 1996, the Partnership issued \$89,966 in convertible notes to the company.

5. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 1996, and December 31, 1995,
consisted of:

<TABLE>

<CAPTION>

| | 1996 ---- | 1995 ---- |
|-----------------------|--------------|--------------|
| <S> | <C> | <C> |
| Demand accounts | \$ 3,413 | 606 |
| Money-market accounts | 3,175,589 | 3,948,139 |
| | ----- | ----- |
| Total | \$3,179,002 | 3,948,745 |
| | ===== | ===== |

</TABLE>

6. Commitments

The Partnership is a party to financial instruments with off-balance-sheet risk in the normal course of its business. Generally, these instruments are commitments for future equity fundings, venture capital limited partnership investments, equipment financing commitments, or accounts receivable lines of credit that are outstanding but not currently fully utilized. As they do not represent current outstanding balances, these unfunded commitments are properly not recognized in the financial statements. At June 30, 1996, the Partnership had unfunded commitments as follows:

<TABLE>

<S>

Type

| | <C> |
|--|-----------|
| Equity investments | \$162,250 |
| Term notes | 100,000 |
| Venture capital limited partnership investments | 25,000 |
| | ----- |
| | \$287,250 |
| | ===== |

</TABLE>

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

Liquidity and Capital Resources

During the six months ended June 30, 1996, net cash used by operating activities totaled \$132,708. The Partnership paid management fees of \$79,298 to the Managing General Partners and reimbursed related parties for operating expenses of \$64,039. In addition, \$15,765 was paid to the Individual General Partners as compensation for their services. Other operating expenses of \$67,811 were paid. The Partnership received

\$94,205 in interest income.

During the six months ended June 30, 1996, the Partnership purchased \$637,035 in equity investments mostly in portfolio companies in the biotechnology and pharmaceuticals industries.

Cash and cash equivalents at June 30, 1996, were \$3,179,002. At June 30, 1996, the Partnership was committed to fund additional investments totaling \$287,250. Interest income earned on short-term investments and operating cash reserves are expected to be adequate to fund Partnership operations through the next twelve months.

Results of Operations

Current quarter compared to corresponding quarter in the preceding year

Net loss was \$175,600 for the three months ended June 30, 1996, compared to \$68,885 for the same period in 1995. The increase in net loss was primarily due to a \$152,129 increase in total operating expenses, which was partially offset by a \$46,988 increase in the change in net unrealized fair value of equity investments.

Total operating expenses were \$217,320 for the quarter ended June 30, 1996, compared to \$65,191 for the same period in 1995. As explained in Note 3 to the financial statements, the Managing General Partners absorbed \$25,901 and \$19,057 during the quarters ended June 30, 1996 and 1995, respectively, and will be reimbursed \$128,120 of prior year expenses not subject to the limitation. Had this amount not been recorded as an expense in 1996 and had the limitation not been in effect, total operating expenses would have been \$115,101 and \$84,248 in the second quarters of 1996 and 1995, respectively. The increase was primarily due to higher professional fees and computer services expenses.

The Partnership recorded increases in fair values of equity investments of \$48,117 and \$1,129 during the three months ended June 30, 1996 and 1995, respectively. The 1996 increase was primarily due to an increase in a portfolio company in the biotechnology industry.

The Partnership incurred management fees of \$39,649 and \$61,298 during the quarters ended June 30, 1996 and 1995, respectively. The management fee, as defined in the Partnership Agreement, is equal to two percent of total Limited Partners' capital contributions for the first year of Partnership operations through the sixth year. Pursuant to the Partnership Agreement, a full first year fee is paid to the Managing General Partners as each additional Limited Partner is admitted to the Partnership, regardless of the date the Limited Partner is admitted. In 1995, management fees were higher due to the sale of new Units.

Given the inherent risk associated with the business of the Partnership, the future performance of the portfolio company investments may significantly impact future operations.

Current Six Months Compared to Corresponding Six Months in the

Preceding Year

Net income was \$23,099 for the six months ended June 30, 1996, compared to a net loss of \$219,237 during the same period in 1995. The change was primarily due to a \$286,178 increase in the change in net unrealized fair value of equity investments, which was partially offset by a \$63,801 increase in total operating expenses.

The Partnership recorded an increase in fair value of equity investments of \$275,241 for the six months ended June 30, 1996, compared to a decrease of \$10,937 for the same period in 1995. The 1996 increase was primarily due to increases in portfolio companies in the pharmaceuticals, biotechnology, and diagnostic equipment industries.

Total operating expenses were \$250,432 and \$186,631 for the six months ended June 30, 1996 and 1995, respectively. As discussed in the above section, the Managing General Partners absorbed \$50,162 and \$52,168, respectively, and will be reimbursed \$128,120 as discussed above. Had this amount not been recorded as an expense in 1996 and had the limitation not been in effect, total operating expenses would have been \$172,474 and \$238,799 during the six months ended June 30, 1996 and 1995, respectively. The 1995 amount was high primarily due the recognition of \$55,975 of the \$89,086 contingent liability at December 31, 1994, based on additional Units sold in 1995.

The Partnership recorded management fees of \$79,298 and \$124,835 during the six months ended June 30, 1996 and 1995, respectively. As discussed above, management fees were higher in 1995 due to the sale of new Units.

The Partnerships recorded interest income of \$97,353 and \$122,166 for the six months ended June 30, 1996 and 1995, respectively. The decrease was mainly due to lower cash and cash equivalents balances as a result of new and follow-on investments.

II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) No reports on Form 8-K were filed by the Partnership during the quarter ended June 30, 1996.
- (b) Financial Data Schedule for the six months ended and as of June 30, 1996 (Exhibit 27).

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.

TECHNOLOGY FUNDING MEDICAL PARTNERS I, L.P.

By: TECHNOLOGY FUNDING INC.
Managing General Partner

Date: August 9, 1996

By: /s/Debbie A. Wong

Debbie A. Wong
Controller

<TABLE> <S> <C>

<ARTICLE>6

<LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FORM 10-Q AS OF JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

<MULTIPLIER>1

| | |
|-----------------------------|-------------|
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| | |
|----------------------------|-----------|
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A zero value is used since the change in net unrealized fair value is not allocated to General Partners and Limited Partners as it is not taxable. Only taxable gains or losses are allocated in accordance with the Partnership Agreement.

</FN>

</TABLE>