FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-08-12**
SEC Accession No. 0000808066-04-000008

(HTML Version on secdatabase.com)

FILER

TECHNOLOGY FUNDING PARTNERS III L P

CIK:**808066**| IRS No.: **943033783** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **814-00048** | Film No.: **04970834**
SIC: **7372** Prepackaged software

Mailing Address	Business Address
C/O TECHNOLOGY FUNDING INC 1107 INVESTMENT BLVD, SUITE 180 ELDORADO HILLS CA 95762	*C/O TECHNOLOGY FUNDING INC 1107 INVESTMENT BLVD, SUITE 180 ELDORADO HILLS CA 95762 916-941-1400*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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. 814-48

TECHNOLOGY FUNDING PARTNERS III, L.P.
(Exact name of Registrant as specified in its charter)

Delaware	94-3033783
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1107 Investment Blvd., Suite 180 El Dorado Hills, California	95762
(Address of principal executive offices)	(Zip Code)

(916) 941-1400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Limited Partnership Units

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12B-2 of the Act). Yes No X

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

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Partnership. The Partnership and its representatives may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission, and reports to the Partnership's shareholders and news releases. All statements that express expectations, estimates, forecasts and projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Partnership. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "may," "should," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. The Partnership undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

I. FINANCIAL INFORMATION

Item 1. Financial Statements

BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	(unaudited) June 30, 2004 <C>	December 31, 2003 <C>
ASSETS		
Equity investments (cost of $11,433,736 and $13,836,296 for June 30, 2004, and December 31, 2003, respectively)	$10,341,946	$ 8,483,394
Cash and cash equivalents	863,301	730,944
Restricted cash	600,000	600,000
Prepaid expenses	175,978	204,932
Other assets	3,313	16,497
Due from related parties, net	10,715	233,201
Total assets	$11,995,253	$10,268,968
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable and accrued expenses	$ 24,760	$ 62,084
Other liabilities	--	61,977
Total liabilities	24,760	124,061
Commitments and contingencies (See Note 7)		

Partners' capital:		
Limited Partners (160,000 Units outstanding)	11,893,148	11,580,624
General Partners	77,345	(1,435,717)
	11,970,493	10,144,907
Total liabilities and partners' capital	$11,995,253	$10,268,968

</TABLE>
The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INVESTMENTS

<TABLE>
<CAPTION>

Industry (1) Company	Position	Investment Date	Principal Amount or Shares at June 30, 2004	June 30, 2004 Cost Basis	June 30, 2004 Fair Value	December 31, 2003 Cost Basis	December 31, 2003 Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Equity Investments							
Communications							
0.7% and 10.2% at June 30, 2004, and December 31, 2003, respectively							
iVillage Inc.	Common shares	1996-2004	13,650	110,776	86,678	990,716	860,542
WorldRes.com, Inc. (a) (b)	Common shares	1997-2001	0	0	0	2,218,124	181,317
				110,776	86,678	3,208,840	1,041,859
Environmental							
0.0% and 0.0% at June 30, 2004, and December 31, 2003, respectively							
Triangle Biomedical Sciences, Inc.(a)	Common shares	1999	4,099	79,792	0	79,792	0

STATEMENTS OF INVESTMENTS (continued)

Triangle Biomedical Sciences, Inc.(a)	Common share warrants at $28.00; expiring 2009	1999	4,099	4,099	0	4,099	0
				83,891	0	83,891	0

High-Tech/Financial

3.7% and 2.7% at June 30, 2004, and December 31, 2003, respectively

VenCore Solutions, LLC (a)(b)	LLC units	2002	625,000	625,000	250,000	625,000	250,000
VenCore Solutions, LLC (a)(b)	Bridge loan	2004	$150,000	153,792	153,792	--	--
VenCore Solutions, LLC (a)(b)	LLC unit warrants at $0.001; expiring 2007	2002	62,500	0	24,975	0	24,975
VenCore Solutions, LLC (a)(b)	LLC unit warrants at $0.001; expiring 2009	2004	45,000	0	17,982	--	--
				778,792	446,749	625,000	274,975

STATEMENTS OF INVESTMENTS (continued)

Information Technology

3.1% and 2.2% at June 30, 2004, and December 31, 2003, respectively

KeyEye Communications, Inc. (a)(b)	Preferred shares	2002-2004	5,366,165	1,050,000	375,632	550,000	220,000
				1,050,000	375,632	550,000	220,000

Medical/Biotechnology

76.4% and 65.4% at June 30, 2004, and December 31, 2003, respectively

Acusphere, Inc. (a)	Common shares	2003	167,871	1,840,251	1,074,370	1,840,250	1,105,426
Atherotech, Inc.	Preferred share warrant at exercise price $2.83; expiring 2010	2003	42,418	0	48,000	0	48,000
Atherotech, Inc.	Preferred share warrant at exercise price $2.83 expiring 2010	2004	31,813	0	36,000	--	--

STATEMENTS OF INVESTMENTS (continued)

Atherotech, Inc. Preferred

	share warrant at exercise price $2.83 expiring 2013	2004	42,418	0	48,000	--	--
CareCentric Solutions, Inc.	Common shares	1999	47,836	382,875	3,588	382,875	3,630
CellzDirect, Inc. (a)(b)	Preferred shares	2002-2003	1,397,896	540,000	216,000	540,000	216,000
CollaGenex Pharmaceuticals, Inc.	Common shares	2001	6,819	54,444	64,099	54,444	75,895
Endocare, Inc. (b)	Common shares	1996-2004	502,029	1,457,963	629,796	1,416,252	990,542
Applied NeuroSolutions, Inc. (a)	Common shares	1993	15,528	125,000	3,261	125,000	4,659
LifeCell Corporation	Common shares	1992-2002	551,060	1,866,336	6,188,403	1,866,336	3,416,571
Natus Medical, Inc.	Common shares	2002	16,225	84,484	103,516	84,484	67,983
Sanarus Medical, Inc. (a) (b)	Preferred shares	2000-2001	1,461,159	1,779,483	735,713	1,779,483	735,713
Sanarus Medical, Inc. (a) (b)	Bridge loan warrants at exercise price TBD; expiring 2006	2001	195	195	78	195	78
				8,131,031	9,150,824	8,089,319	6,664,497

STATEMENTS OF INVESTMENTS (continued)

Venture Capital Limited Partnership Investments

2.4% and 2.8% at June 30, 2004, and December 31, 2003, respectively

Batterson, Johnson and Wang Limited Partnership (a)	Ltd. Partnership interests	various	$500,000	0	0	0	0
Columbine Venture Fund II, L.P. (a)	Ltd. Partnership interests	various	$750,000	415,224	176,475	415,224	176,475
Delphi Ventures, L.P. (a)	Ltd. Partnership interests	various	$1,000,000	652,842	0	652,842	0
Medical Science Partners, L.P. (a)	Ltd. Partnership interests	various	$500,000	187,222	93,611	187,222	93,611
O,W&W Pacrim Investments Limited (a)	Ltd. Partnership interests	various	200	505	250	505	250
Trinity Ventures IV, L.P. (a)	Ltd. Partnership interests	various	$125,008	23,453	11,727	23,453	11,727
				1,279,246	282,063	1,279,246	282,063

Total investment - 86.4% and 83.2% at June 30, 2004, and December 31, 2003, respectively	$11,433,736	$10,341,946	$13,836,296	$8,483,394

STATEMENTS OF INVESTMENTS (continued)

Legends and footnotes:

-- No investment held at end of period.
0 Investment active with a cost basis or fair value of zero.

(a) Equity security acquired in a private placement transaction; resale may be subject to certain selling restrictions.
(b) Portfolio company is an affiliate of the Partnership; resale may be subject to certain selling restrictions.
(1) Represents the total fair value of a particular industry segment as a percentage of partners' capital at 06/30/04 and 12/31/03.
(2) The Partnership has no income-producing equity investments except for a VenCore Solutions, LLC convertible unsecured note receivable. The interest rate on this note during the quarter ended June 30, 2004, was 10%.

</TABLE>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS (unaudited)

<TABLE>
<CAPTION>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Investment income:				
Notes receivable interest	$ 3,793	$ 15,617	$ 3,793	$ 21,872
Short-term investment interest	1,400	4,393	3,067	9,929
Total investment income	5,193	20,010	6,860	31,801

Investment expenses:				
Management fees	29,193	19,062	54,865	39,672
Individual General Partners' compensation	15,000	15,000	30,625	30,000
Administrative and investor services	150,932	276,860	460,896	829,215
Investment operations	47,020	55,581	240,075	218,836
Professional fees	17,487	30,955	32,039	115,143
Computer services	33,063	23,556	54,269	46,245
Total investment expenses	292,695	421,014	872,769	1,279,111
Net investment loss	(287,502)	(401,004)	(865,909)	(1,247,310)

STATEMENTS OF OPERATIONS (unaudited) (continued)

Net realized gain from sales of equity investments	--	--	585,332	--
Realized loss from write-off of equity investments	(2,218,124)	--	(2,218,124)	(200,000)
Realized gains from venture capital limited partnership investments	--	4,000	3,175	75,092
Net realized (loss) income	(2,218,124)	4,000	(1,629,617)	(124,908)
Decrease (increase) in unrealized depreciation:				
Equity investments	2,933,080	1,908,391	4,321,112	1,933,927
Notes receivable	--	75	--	(299)
Net decrease in unrealized depreciation	2,933,080	1,908,466	4,321,112	1,933,628
Other income	--	--	--	193,830
Net increase in partners' capital resulting from operations	$ 427,454	$ 1,511,462	$1,825,586	$ 755,240
Net increase in partners' capital resulting from operations per Unit	$ 1.93	$ 4.70	$ 1.95	$ .02

</TABLE>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (unaudited)

<TABLE>
<CAPTION>

	For the Six Months Ended June 30,	
	2004	2003
<S>	<C>	<C>

Net increase in partners' capital resulting from operations	$1,825,586	$ 755,240
Adjustments to reconcile net increase in partners' capital resulting from operations to net cash used by operating activities:		
Realized gain from sales of equity investments	(585,332)	--
Realized gains from venture capital limited partnership investments	(3,175)	(75,092)
Realized loss from write-off of equity investments	2,218,124	200,000
Net decrease in unrealized depreciation of equity investments	(4,321,112)	(1,933,927)
Net change in operating assets and liabilities:		
Unrealized depreciation of notes receivable	--	299
Prepaid expenses	28,954	28,956
Other receivables	--	448,463
Accrued interest on notes receivable	(3,792)	(21,307)
Accounts payable and accrued expenses	(37,324)	(7,320)
Other liabilities	(1,977)	--
Due from related parties, net	222,486	53,500
Other changes, net	13,184	5,551
Net cash used by operating activities	(644,378)	(545,637)

STATEMENTS OF CASH FLOWS (unaudited) (continued)

Cash flows from investing activities:		
Proceeds from sales of equity investments	1,576,047	--
Purchase of investments	(802,487)	(714,886)
Distribution from venture capital limited partnership investments	3,175	75,092
Net cash provided (used) by investing activities	776,735	(639,794)
Net increase (decrease) in cash and cash equivalents	132,357	(1,185,431)
Cash and cash equivalents at beginning of year	730,944	2,318,947
Cash and cash equivalents at June 30	$ 863,301	$1,133,516
Supplemental disclosure of non-cash activity:		
Amortization of deferred gain on warrants (See Note 7)	$ 60,000	$ --

</TABLE>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (unaudited)
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1. Interim Financial Statements

The accompanying unaudited financial statements included herein have been prepared in accordance with the requirements of Form 10-Q and, therefore, do not include all information and footnotes which would be presented were such financial statements prepared in accordance with generally accepted accounting principles in the United States of America. These statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2003. In the opinion of the Managing General Partners, the accompanying interim financial statements reflect all adjustments necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods presented. 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. The results of operations for such interim periods are not necessarily indicative of results of operations to be expected for the full year.

2. Provision for Income Taxes

No provision for income taxes has been made by the Partnership, as the Partnership is not directly subject to taxation. The partners are to report their respective shares of Partnership income or loss on their individual tax returns.

The accompanying financial statements are prepared using accounting principles generally accepted in the United States of America, which may not equate to tax accounting. The cost of investments on a tax basis at June 30, 2004, and December 31, 2003, was $12,116,999 and $15,277,365, respectively. At June 30, 2004, and December 31, 2003, gross unrealized depreciation on investments based on cost for federal income tax purposes was as follows:

<TABLE>
<CAPTION>

	June 30,	December 31,

	2004	2003
Unrealized appreciation	$ 4,561,931	$ 1,909,100
Unrealized depreciation	(6,340,772)	(8,703 066)
Net unrealized depreciation	$(1,778,841)	$(6,793,966)

New Accounting Pronouncements

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor to recognize a liability at the inception of the guarantee for the fair value of obligations it has assumed under that guarantee and also requires more detailed disclosure in its financial statements with respect to such guarantees. FIN 45 is effective for guarantees issued or modified after December 31, 2002, and requires additional disclosure for existing guarantees. The adoption of FIN 45 did not have a material effect on the Partnership's results of operation or financial position. The Partnership has provided additional disclosure with respect to a guarantee by the Partnership in Note 11 to the Financial Statements.

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-4 (SOP 03-4), "Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide 'Audits of Investment Companies' (the Guide) and AICPA Statement of Position 95-2 (SOP 95-2), 'Financial Reporting by Nonpublic Investment Partnerships.'" SOP 03-4 provides guidance on the application of certain provisions in the Accounting Guide and SOP 95-2 that are directed to the reporting by nonregistered investment partnerships of financial highlights and the schedule of investments. It amends certain provisions of the Guide and SOP 95-2 by adapting those provisions to nonregistered investment partnerships based on their differences in organizational structures from registered investment companies. SOP 03-4 is effective for annual financial statements issued for fiscal years ending after December 15, 2003. The adoption of SOP 03-4 did not have a material effect on the Partnership.

3. Related Party Transactions

Related party costs are included in investment expenses shown on the Statements of Operations. Related party expenses for the six months ended June 30, 2004 and 2003, were as follows:

	2004	2003
Management fees	$ 54,865	$ 39,672
Individual General Partners' compensation	30,625	30,000
Reimbursable operating expenses	701,529	1,061,450

The Partnership reimburses the Managing General Partners for certain operating expenses incurred in connection with the business of the Partnership. Reimbursable operating expenses paid by the Managing General Partners include expenses (other than organizational and offering expenses and general partner overhead) such as administrative and investor services, investment operations, and computer services. Certain reimbursable expenses have been accrued based upon interim estimates prepared by the Managing General Partners and are adjusted to actual costs periodically. There was $6,709 due from related parties at June 30, 2004, and $91,915 due to related parties at June 30, 2003. In addition, $11,920 was due from other partnerships at June 30, 2004.

Management fees due to the Managing General Partners and included in due from related parties, net were $9,731 and $16,085 at June 30, 2004, and December 31, 2003.

Officers of the Managing General Partners occasionally receive stock options as compensation for serving on the Boards of Directors of portfolio companies. It is the Managing General Partners' policy that all such compensation be transferred to the investing partnerships. If the options are non-transferable, they are not recorded as an asset of the Partnership. Any profit from the exercise of such options will be transferred if and when the options are exercised and the underlying stock is sold by the officers. Any such profit is allocated amongst the Partnership and affiliated partnerships based upon their proportionate investments in the portfolio company. At June 30, 2004, the Partnership and affiliated partnerships had an indirect interest in non-transferable Endocare, Inc., non-transferable Sanarus Medical, Inc. and White Electronic Designs Corporation options with a fair value of $13,126.

Retention bonuses were offered to and accepted by key employees of the Managing General Partners in late 2002. The bonuses, incremented by annual salary increases, will be paid to those individuals who are still full-time employees of the Managing General Partners in April 2007. The expense for the bonus is recognized ratably over the beneficial period, October 2002 to April 2007. As of June 30, 2004, the Partnership has recognized expense of $86,863. Upon the resignation of personnel no adjustment to the retention bonus amount previously paid by the Partnership to the Managing General Partners shall occur until a replacement person is hired.

4. Equity Investments

All investments are valued at fair value as determined in good faith by the Managing General Partners.

Marketable Equity Securities

At June 30, 2004, and December 31, 2003, marketable equity securities had aggregate costs of $4,207,166 and $3,378,855, and aggregate fair values of $7,520,658 and $4,424,621, respectively. The net unrealized gain at June 30, 2004, and December 31, 2003, included gross gains of $4,350,754 and $1,799,905, respectively.

Restricted Securities

At June 30, 2004, and December 31, 2003, restricted securities had aggregate costs of $7,226,570 and $10,505,442, respectively, and aggregate fair values of $2,821,288 and $4,106,774, respectively, representing 62.4

percent and 31.3 percent, respectively, of the net assets of the Partnership.

Significant purchases, sales and write-offs of equity investments during the six months ended June 30, 2004, are as follows:

Endocare, Inc.

In May 2004, the Partnership exercised a common stock warrant to purchase 9,100 shares at a cost of $41,711.

iVillage Inc.

The Partnership sold its entire investment in the company for proceeds of $1,576,047 and recorded a realized gain of $585,332. Subsequently in May 2004, the Partnership repurchased 13,650 shares at a cost of $110,776.

KeyEye Communications, Inc.

In May 2004, the Partnership purchased 2,223,309 Preferred shares at a cost of $500,000.

VenCore Solutions, LLC

In March 2004, the Partnership issued a $150,000 convertible unsecured note receivable with an interest rate of 10%. The note is due in October 2004. In conjunction with the convertible unsecured note receivable, a Series A warrant was also issued.

WorldRes.com, Inc.

In June 2004, the Partnership wrote off its entire investment in WorldRes.com for a realized loss of $2,218,124. In 2003, WorldRes.com and three large European hotel chains created a joint venture, WorldRes Europe, to market European hotels online. WorldRes.com and WorldRes Europe are in the process of selling the consumer Web site, PlacestoStay.com, and most of the company's operations will now be based in Europe. Proceeds from the transaction are expected to be used to restructure the company and pay its vendors and existing noteholders. The Partnership expects no return on its investment.

Venture Capital Limited Partnership Investments

The Partnership received a cash distribution of $3,175, which was recorded as a realized gain. The Partnership did not record a decrease in fair value primarily as a result of the above distribution.

Other Equity Investments

Other significant changes reflected in the Statements of Investments relate to market value fluctuations for publicly traded portfolio companies or changes in the fair value of private companies as determined in accordance with the policy described in Note 1 to the financial statements included in the Partnership's December 31, 2003, Form 10-K.

5. Subsequent Events

In July 2004, the Partnership sold 90,513 shares in LifeCell Corporation, for total gross proceeds of $861,207, with an expected realized gain of $554,656. As of August 11, 2004, the closing market price for LifeCell was $8.60 per share, as compared with $11.23 at June 30, 2004. In August 2004, the Partnership sold 39,191 shares of Acusphere Inc., for total gross proceeds of $237,243, with an expected realized gain of $40,661.

6. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2004, and December 31, 2003, consisted of:

	2004	2003
Demand accounts	$ 837,668	$ 707,404
Money market accounts	625,633	623,540
	$1,463,301	$1,330,944
Restricted cash	$ 600,000	600,000
Unrestricted cash	863,301	730,944
Total	$1,463,301	$1,330,944

7. Commitments and Contingencies

From time to time the Partnership becomes 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 investment fundings, equipment financing commitments, or accounts receivable lines of credit that are outstanding but not currently fully utilized by a borrowing company. As they do not represent current outstanding balances, these unfunded commitments are not recognized in the financial statements. At June 30, 2004, there were unfunded commitments of $251,250.

From time to time, the Partnership is subject to routine litigation incidental to the business of the Partnership. Although there can be no assurances as to the ultimate disposition of these matters and the proceeding disclosed above, it is the opinion of the Managing General Partners, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Partnership.

In September 2003, the Partnership guaranteed a line of credit (agreement) for Atherotech, Inc. with a bank. Atherotech, Inc. is a portfolio company of an affiliated partnership under which the Partnership has common control. The terms of the guarantee require the Partnership to secure its obligation to the bank with a segregated money market account in the amount of $600,000 (pledged collateral), which is included in restricted cash on the accompanying balance sheet. In exchange for the guarantee, Atherotech, Inc. has issued the Partnership a warrant, with the right to purchase stock at a future date, which will expire September 8, 2010. The terms of the warrant state that (a) if the guarantee is in place for less than six months from the date of the guarantee, the warrant is exercisable for 42,418 of Preferred Series E shares; (b) if the guarantee is in place for six to nine months from the date of the guarantee, the warrant is exercisable for an additional 31,813 of Preferred Series E shares; (c) if the guarantee is in place for more than nine months from the date of the guarantee, the warrant is exercisable for an additional 42,418 of Preferred Series E shares; and (d) if at any time prior to the termination date any demand for payment is made upon the guarantee, the warrant is exercisable for a total of 116,649 Preferred Series E shares. Once earned, the warrants are immediately 100% vested. The maximum potential amounts for future payments (undiscounted) that the Partnership would be required to make under the guarantee is the amount of the pledged collateral plus accrued interest. The guarantee is to remain in effect as long as Atherotech's agreement with the bank remains outstanding. In the event of Atherotech's default on the agreement, the bank would take the pledged collateral and accrued interest as security for the performance of Atherotech's obligation. The Partnership recorded this transaction as a deferred gain for the fair value of the warrants earned to be recognized over the estimated life of the guarantee. In August 2004, Atherotech, Inc. retired the line of credit, and the bank released the Partnership's guarantee. The deferred gain has been fully recognized.

8. Financial Highlights

<TABLE>
<CAPTION>

	For The Six Months Ended June 30,	
	2004	2003
<S>	<C>	<C>
(all amounts on a per Unit basis)		
Net asset value, beginning of period	$72.87	$39.69
Loss from investment operations:		
Net investment loss	(0.64)	(0.04)
Net realized and unrealized gain (loss) on investments	2.59	0.06
Total from investment operations	1.95	0.02
Net asset value, end of period	$74.82	$39.71
Total return	2.68%	0.06%
Ratios to average net assets:		
Net investment loss	(0.86)%	(0.10)%
Expenses	7.39%	20.14%

</TABLE>

Pursuant to the Partnership Agreement, net profit shall be allocated first to those Partners with deficit capital account balances until such deficits have been eliminated. The net asset values shown above assume the Partnership is in liquidation. Upon liquidation, the General Partners would contribute capital equal to the amount of the Limited Partners deficit. As of June 30, 2004, the General Partners capital balance was positive. As of December 31, 2003, the General Partners have a negative capital balance of $3,289,760. Upon liquidation, the General Partners would not be required to contribute cash to the Partnership, as the net asset value is greater than the General Partners' negative capital balance. Net asset value has been calculated in accordance with this provision of the Partnership Agreement.

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

Financial Condition, Liquidity and Capital Resources

The Partnership operates as a business development company under the Investment Company Act of 1940 and makes venture capital investments in new and developing companies. The Partnership's financial condition is dependent upon the success of the portfolio companies. There is no ready market for many of the Partnership's investments. It is possible that some of its venture capital investments may be a complete loss or may be unprofitable and that others will appear likely to become successful, but may never realize their potential. The valuation of the Partnership's investments in securities for which there are no available market quotes is subject to the estimate of the Managing General Partners in accordance with the valuation guidance described in Note 1 to the financial statements included in the Partnership's Form 10-K for the year ended December 31, 2003. In the absence of readily obtainable market values, the estimated fair value of the Partnership's investments may differ significantly from the values that would have been used had a ready market existed.

During the six months ended June 30, 2004, net cash provided by operating activities totaled $644,378. The Partnership paid management fees of $29,049 to the Managing General Partners and reimbursed related parties for investment expenses of $483,819. In addition, $30,625 was paid to the Individual General Partners as compensation for their services. Interest income of $3,068 was received. Other investment expenses of $103,953 were paid.

During the six months ended June 30, 2004, the Partnership funded no equity investments, but issued a $150,000 note receivable. At June 30, 2004, the Partnership had unfunded commitments of $251,250.

Cash, cash equivalents and restricted cash at June 30, 2004, were $1,463,301. Cash reserves, interest income on short-term investments, and future proceeds from equity investment sales are expected to be adequate to fund Partnership operations and future investments through the next twelve months.

Results of Operations

Current quarter compared to corresponding quarter in the preceding year

Net increase in partners' capital resulting from operations was $427,454 for the quarter ended June 30, 2004, as compared to a net increase in partners' capital resulting from operations of $1,511,462 for the quarter ended June 30, 2003.

Net unrealized depreciation on equity investments was $1,091,790 and $5,357,902 at June 30, 2004, and December 31, 2003, respectively. During the quarter ended June 30, 2004, the net decrease in unrealized depreciation of equity investments of $2,933,080 was primarily due to the publicly traded price of LifeCell Corporation. During the quarter ended June 30, 2003, the net decrease in unrealized depreciation of equity investments of $1,908,391 was attributable to increases in the publicly traded market prices of companies in the medical and communication industries, partially offset by a decrease in the fair value of a privately held portfolio company in the medical industry.

There was no net realized gain from sales of equity investments for the quarter ended June 30, 2004. There was also no gain in the same quarter in 2003.

Investment expenses were $292,695 for the quarter ended June 30, 2004, compared to $421,014 for the same period in 2003. The decrease was primarily due to decreased professional fees and investment monitoring and administrative services, partially offset by increased management fees.

During the quarter ended June 30, 2004, the Partnership recorded no net realized gains from venture capital limited partnership investments. During the same period in 2003, there were gains of $4,000. The gains represented distributions from profits of venture capital limited partnership investments.

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 increase in partners' capital resulting from operations was $1,825,586 for the six months ended June 30, 2004, compared to a net increase in partners' capital resulting from operations of $755,240 for the six months ended June 30, 2003.

Net unrealized depreciation on equity investments was $1,091,790 and $5,352,902 at June 30, 2004 and December 31, 2003, respectively. During the six months ended June 30, 2004, the net decrease in unrealized depreciation of equity investments of $4,321,112 was primarily the result of increases in the publicly traded market price of companies in the medical and communication industries, partially offset by a decrease in the fair value of a private portfolio company in the medical industry. During the six months ended June 30, 2003, the net decrease in unrealized depreciation of equity investments of $1,933,927 was primarily the result of increases in the publicly traded market price of companies in the medical and communication industries, partially offset by a decrease in the fair value of a private portfolio company in the medical industry.

Other income of $193,830 was recognized during the six months ended June 30, 2003. This other income was the result of a settlement between

Kanematsu Corporation, a creditor of one of the Partnership's portfolio companies, and the Partnership. No suck income was recognized in 2004.

Net realized gain from sales of equity investments was $585,332 and $0 for the six months ended June 30, 2004 and 2003, respectively. The gain in 2004 resulted from the sale of iVillage Inc.

During the six months ended June 30, 2003, the Partnership wrote off its investment of $200,000 in Pherin Pharmaceuticals, Inc. During the same period in 2004, the Partnership wrote off its entire investment of $2,218,124 in WorldRes.com, Inc.

Investment expenses were $872,769 for the six months ended June 30, 2004, compared to $1,279,111 for the same period in 2003. The decrease was primarily due to decreased professional fees and investor and administrative services, partially offset by increased management fees.

During the six months ended June 30, 2004, the Partnership recorded net realized gains from venture capital limited partnership investments of $3,175. During the same period in 2003, there were gains of $75,092. The gains represented distributions from venture capital limited partnership investments.
Given the inherent risk associated with the business of the Partnership, the future performance of the portfolio company investments may significantly impact future operations.

Item 4. Controls and Procedures

The undersigned is responsible for establishing and maintaining disclosure controls and procedures for Technology Funding Partners III, L.P. Such officer has concluded (based upon his evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that Technology Funding Partners III, L.P.'s disclosure controls and procedures are effective to ensure that information required to be disclosed by Technology Funding Partners III, L.P. in this report is accumulated and communicated to Technology Funding Partners III, L.P.'s management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The certifying officer also has indicated that there were no significant changes in Technology Funding Partners III, L.P.'s internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation other than changes needed to maintain adequate separation of duties and responsibilities of personnel in the ordinary course of business, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

I. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) A report on Form 8-K was filed by the Partnership during the quarter ended June 30, 2004. Pursuant to the Securities and Exchange Commission's Release No. 34-43069, "Commission Guidance on Mini-Tender Offers and Limited Partnership Tender Offers," effective July 31, 2000, the Partnership is obligated to respond to such offers with a recommendation to the Limited Partners. On July 2, 2004, the Partnership filed the letter sent to Limited Partners regarding a mini-tender offer for Limited Partnership units under Item 5, Other Events.

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 PARTNERS III, L.P.

By: TECHNOLOGY FUNDING INC.
TECHNOLOGY FUNDING LTD.
Managing General Partners

Date: August 12, 2004 By: /s/Charles R. Kokesh

Charles R. Kokesh
President, Chief Executive Officer, Chief Financial Officer and Chairman of Technology Funding Inc. and Managing General Partner of Technology Funding Ltd.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Charles R. Kokesh, President, Chief Executive Officer, Chief Financial Officer and Chairman of Technology Funding Inc. and Managing General Partner of Technology Funding Ltd., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Technology Funding Partners III, L.P.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me by others within the entity, particularly during the period in which this annual report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2004 By: /s/Charles R. Kokesh

Charles R. Kokesh
President, Chief Executive
Officer, Chief Financial
Officer and Chairman of
Technology Funding Inc. and
Managing General Partner of
Technology Funding Ltd.

Technology Funding Partners III, L.P.
(a Delaware limited partnership)

EXHIBIT 32.1

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

In connection with the Technology Funding Partners III, L.P. (the Partnership) Quarterly Report on Form 10-Q for the quarter ending June 30, 2004, as filed with the Securities and Exchange Commission (the Report), I Charles R. Kokesh, President, Chief Executive Officer, Chief Financial Officer and Chairman of Technology Funding Inc. and Managing General Partner of Technology Funding Ltd., certify, pursuant to 18 U.S.C. Section 1350, as added Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and

2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership as of and for the period covered by the Report.

Date: August 12, 2004 By: /s/ Charles R. Kokesh

Charles R. Kokesh
President, Chief Executive
Officer, Chief Financial
Officer and Chairman of
Technology Funding Inc. and
Managing General Partner of
Technology Funding Ltd.

Technology Funding Partners III, L.P.
(a Delaware limited partnership)