

**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, 2003

OR

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

Commission File Number 0-11176

**NTS-PROPERTIES III**

Georgia

(State or other jurisdiction of  
incorporation or organization)

61-1017240

(IRS Employer Identification No.)

10172 Linn Station Road, Louisville, Kentucky 40223

(Address of Principal Executive Offices)

(502) 426-4800

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [ ] No [X]

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Some of the statements included in this Quarterly Report on Form 10-Q, particularly those included in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may be considered "forward-looking statements" because the statements relate to matters which have not yet occurred. For example, phrases such as "we anticipate," "believe" or "expect" indicate that it is possible that the event anticipated, believed or expected may not occur. If these events do not occur, the result which we expected also may not occur, or may occur in a different manner which may be more or less favorable to us. We do not undertake any obligation to update these forward-looking statements.

Any forward-looking statements included in MD&A, or elsewhere in this report, reflect our general partner's best judgment based on known factors, but involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including but not limited to those described in our filings with the Securities and Exchange Commission, particularly our Annual Report on Form 10-K for the year ended December 31, 2002. Any forward-looking information provided by us pursuant to the safe harbor established by securities legislation should be evaluated in the context of these factors.

## PART I - FINANCIAL INFORMATION

### Item 1 - Financial Statements

#### NTS-PROPERTIES III BALANCE SHEETS

	As of June 30, 2003 (UNAUDITED)	As of December 31, 2002
<u>ASSETS</u>		
Cash and equivalents	\$ 331,007	\$ 388,449
Cash and equivalents - restricted	44,820	6,078
Accounts receivable, net	689,618	631,237
Land, buildings and amenities, net	9,346,506	9,730,665
Other assets	323,019	337,558
 TOTAL ASSETS	 \$ <u>10,734,970</u>	 \$ <u>11,093,987</u>
<u>LIABILITIES AND PARTNERS' EQUITY</u>		
Mortgages payable	\$ 6,688,271	\$ 7,296,088
Accounts payable	192,803	128,023
Security deposits	144,169	157,258
Other liabilities	150,364	99,215
 TOTAL LIABILITIES	 7,175,607	 7,680,584
COMMITMENTS AND CONTINGENCIES (Note 8)		
 PARTNERS' EQUITY	 <u>3,559,363</u>	 <u>3,413,403</u>
 TOTAL LIABILITIES AND PARTNERS' EQUITY	 \$ <u>10,734,970</u>	 \$ <u>11,093,987</u>

#### NTS-PROPERTIES III STATEMENT OF PARTNERS' EQUITY (UNAUDITED)

	Limited Partners	General Partner	Total
<u>PARTNERS' EQUITY/(DEFICIT)</u>			
Initial equity	\$ 15,600,000	\$ 8,039,710	\$ 23,639,710
Adjustment to historical basis	--	(5,455,030)	(5,455,030)
 EQUITY	 \$ 15,600,000	 \$ 2,584,680	 \$ 18,184,680
Net income (loss) - prior years	238,319	(2,754,526)	(2,516,207)
Net income (loss) - current year	168,425	(22,466)	145,959
Cash distributions declared to date	(11,349,844)	(206,985)	(11,556,829)
Repurchase of limited partnership interests	(698,240)	--	(698,240)
 BALANCES ON JUNE 30, 2003	 \$ <u>3,958,660</u>	 \$ <u>(399,297)</u>	 \$ <u>3,559,363</u>

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

**NTS-PROPERTIES III**  
**STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>REVENUES</b>				
Rental income	\$ 848,939	\$ 876,299	\$ 1,767,969	\$ 1,787,556
Rental income - affiliated	73,834	73,834	147,668	147,668
Interest and other income	5,549	7,533	10,200	11,725
<b>TOTAL REVENUES</b>	<b>928,322</b>	<b>957,666</b>	<b>1,925,837</b>	<b>1,946,949</b>
<b>EXPENSES</b>				
Operating expenses	218,746	231,098	430,994	423,222
Operating expenses - affiliated	86,801	84,581	157,271	167,226
Loss on disposal of assets	--	1,826	--	1,826
Interest expense	110,789	124,892	224,729	255,640
Management fees	44,569	45,627	92,911	94,297
Real estate taxes	52,041	51,570	104,082	103,140
Professional and administrative expenses	77,660	29,546	142,012	50,088
Professional and administrative expenses - affiliated	38,505	32,872	74,326	66,632
Depreciation and amortization	269,705	288,966	553,553	598,643
<b>TOTAL EXPENSES</b>	<b>898,816</b>	<b>890,978</b>	<b>1,779,878</b>	<b>1,760,714</b>
Net income	\$ <u>29,506</u>	\$ <u>66,688</u>	\$ <u>145,959</u>	\$ <u>186,235</u>
Net income allocated to the limited partners	\$ <u>40,930</u>	\$ <u>79,175</u>	\$ <u>168,425</u>	\$ <u>210,680</u>
Net income per limited partnership interest	\$ <u>3.26</u>	\$ <u>6.30</u>	\$ <u>13.40</u>	\$ <u>16.76</u>
Weighted average number of limited partnership interests	<u>12,570</u>	<u>12,570</u>	<u>12,570</u>	<u>12,570</u>

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

**NTS-PROPERTIES III**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended June 30,	
	2003	2002
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net income	\$ 145,959	\$ 186,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	7,834	14,342
Write - off of uncollectible accounts receivable	(8,389)	(301)
Loss on disposal of assets	--	1,826
Depreciation and amortization	609,749	655,663
Changes in assets and liabilities:		
Cash and equivalents - restricted	(38,742)	(32,748)
Accounts receivable	(57,826)	(54,039)
Other assets	(51,736)	(49,262)
Accounts payable	64,780	(30,122)
Security deposits	(13,089)	1,360
Other liabilities	51,149	103,858
Net cash provided by operating activities	<u>709,689</u>	<u>796,812</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Additions to land, buildings and amenities	<u>(159,314)</u>	<u>(120,571)</u>
Net cash used in investing activities	<u>(159,314)</u>	<u>(120,571)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on mortgages payable	<u>(607,817)</u>	<u>(548,002)</u>
Net cash used in financing activities	<u>(607,817)</u>	<u>(548,002)</u>
Net (decrease) increase in cash and equivalents	(57,442)	128,239
CASH AND EQUIVALENTS, beginning of period	<u>388,449</u>	<u>354,992</u>
CASH AND EQUIVALENTS, end of period	<u><u>\$ 331,007</u></u>	<u><u>\$ 483,231</u></u>
Interest paid on a cash basis	<u><u>\$ 224,350</u></u>	<u><u>\$ 254,993</u></u>

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

## **NTS-PROPERTIES III**

### **NOTES TO FINANCIAL STATEMENTS**

The unaudited financial statements included herein should be read in conjunction with NTS-Properties III's 2002 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 31, 2003. In the opinion of our general partner, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation have been made to the accompanying financial statements for the three months and six months ended June 30, 2003 and 2002. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. As used in this Quarterly Report on Form 10-Q the terms "we," "us" or "our," as the context requires, may refer to NTS-Properties III or its interests in its properties.

#### **Note 1 - Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in accordance with Accounting Principles Generally Accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Note 2 - Concentration of Credit Risk**

We own and operate three commercial properties - Peachtree Corporate Center, in Norcross, Georgia, a suburb of Atlanta, and NTS Center and Plainview Center, both in Jeffersontown, Kentucky, a suburb of Louisville. One tenant in NTS Center occupies 46% of the office building's net rentable area. One tenant in Plainview Center occupies 49% of the office building's net rentable area.

Our financial instruments that are exposed to concentrations of credit risk consist of cash and equivalents. We maintain our cash accounts primarily with banks located in Kentucky. Cash balances are insured by the FDIC up to \$100,000 per bank account. We may at times, in certain accounts, have deposits in excess of \$100,000.

#### **Note 3 - Cash and Equivalents**

Cash and equivalents include cash on hand and short-term, highly liquid investments with initial maturities of three months or less. We have a cash management program which provides for the overnight investment of excess cash balances. Under an agreement with a bank, excess cash is invested in a repurchase agreement for U.S. government or agency securities each night. As of June 30, 2003, approximately \$228,000 of our overnight investment was included in cash and equivalents.

# **NTS-PROPERTIES III** **NOTES TO FINANCIAL STATEMENTS**

## **Note 4 - Cash and Equivalents - Restricted**

Cash and equivalents - restricted represents funds which have been escrowed with a mortgage company for NTS Center's property taxes in accordance with the loan agreement.

## **Note 5 - Basis of Property and Depreciation**

Land, buildings and amenities are stated at historical cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 6-30 years for land improvements, 5-30 years for buildings and improvements, 3-27 years for amenities and the applicable lease term for tenant improvements. The aggregate cost of our properties for federal tax purposes is approximately \$28,400,000.

Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If such review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value must be written down to fair value. Application of this standard during the period ended June 30, 2003 did not result in an impairment loss.

## **Note 6 - Mortgages Payable**

Mortgages payable consist of the following:

	June 30, 2003	December 31, 2002
Mortgage payable to an insurance company in monthly installments, bearing interest at 6.89%, maturing April 10, 2015, secured by land and buildings.	\$ 5,492,021	\$ 5,639,838
Mortgage payable to a bank in monthly installments, bearing a variable interest rate of Prime -0.25%, due March 1, 2004, secured by land and a building. The interest rate on June 30, 2003 was 3.75%.	1,196,250	1,656,250
	<u>\$ 6,688,271</u>	<u>\$ 7,296,088</u>

Based on the borrowing rates available to us for mortgages with similar terms and average maturities, the fair value of long-term debt on June 30, 2003 was approximately \$7,019,000.

Our mortgages may be prepaid but are generally subject to a yield-maintenance premium.

# **NTS-PROPERTIES III** **NOTES TO FINANCIAL STATEMENTS**

## **Note 7 - Related Party Transactions**

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, receives property management fees on a monthly basis. The fees are paid in an amount equal to 5% of the gross revenues from our properties. Also pursuant to an agreement, NTS Development Company receives a repair and maintenance fee equal to 5.9% of the costs incurred which relate to capital improvements. These repair and maintenance fees are capitalized as part of land, buildings and amenities.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the six months ended June 30, 2003 and 2002. These charges include items which have been expensed as operating expenses - affiliated or professional and administrative expenses - affiliated and items which have been capitalized as other assets or as land, buildings and amenities.

	Six Months Ended June 30,	
	2003	2002
Property management fees	\$ 92,911	\$ 94,297
Property management	98,220	87,440
Leasing	37,013	61,936
Administrative - operating	17,550	14,850
Other	4,488	3,000
Total operating expenses - affiliated	157,271	167,226
Professional and administrative expenses - affiliated	74,326	66,632
Repair and maintenance fees	6,640	5,285
Total related party transactions capitalized	6,640	5,285
Total related party transactions	\$ <u>331,148</u>	\$ <u>333,440</u>

During the six months ended June 30, 2003 and 2002, we were charged \$3,976 and \$3,244, respectively, for property maintenance fees from an affiliate of NTS Development Company.

During the six months ended June 30, 2003 and 2002, NTS Development Company leased 20,368 square feet in NTS Center at a rental rate of \$14.50 per square foot. We received \$147,668 in rental payments from NTS Development Company during the six months ended June 30, 2003 and 2002. The lease term for NTS Development Company ends on March 31, 2004.

### NTS-PROPERTIES III NOTES TO FINANCIAL STATEMENTS

#### **Note 8 - Commitments and Contingencies**

As an owner of real estate, we are subject to various environmental laws of federal, state and local governments. Our compliance with existing laws has not had a material adverse effect on our financial condition and results of operations. However, we cannot predict the impact of new or changed laws or regulations on our current properties or on properties that we may acquire in the future.

#### ***Litigation***

On December 12, 2001, three individuals filed an action in the Superior Court of the State of California for the County of Contra Costa captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090) against our general partner, the general partners of four public partnerships affiliated with us and several individuals and entities affiliated with us. The action purports to bring claims on behalf of a class of limited partners based on, among other things, tender offers made by the public partnerships and an affiliate of our general partner. The plaintiffs allege, among other things, that the prices at which limited partnership interests were purchased in these tender offers were too low. The plaintiffs are seeking monetary damages and equitable relief, including an order directing the disposition of the properties owned by the public partnerships and the distribution of the proceeds. No amounts have been accrued as a liability for this action in our financial statements. Under an indemnification agreement with our general partner, we are responsible for the costs of defending any such action.

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us, reached an agreement in principle with representatives of the class of plaintiffs to settle this action. This settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the *Bohm* litigation described below. As part of the proposed settlement, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership.

On February 27, 2003, two individuals filed a class and derivative action in the Circuit Court of Jefferson County, Kentucky captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740) against the general partners of four public partnerships affiliated with us and several individuals and entities affiliated with us. On March 21, 2003, the complaint was amended to include our general partner and the general partner of a partnership that was affiliated with us but is no longer in existence. In the amended complaint, the plaintiffs purport to bring claims on behalf of a class of limited partners and derivatively on behalf of us and affiliated public partnerships based on alleged overpayments of fees, prohibited investments, improper failures to make distributions, purchases of

### NTS-PROPERTIES III NOTES TO FINANCIAL STATEMENTS

limited partnership interests at insufficient prices and other violations of the limited partnership agreements. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, the appointment of a receiver or liquidating trustee, the entry of an order of dissolution against the public partnerships, a declaratory judgment, and injunctive relief. No amounts have been accrued as a liability for this action in our financial statements. Our general partner believes that this action is without merit, and is vigorously defending it.

On June 30, 2003, a stipulation and order of stay was entered in the *Bohm* litigation with the agreement of counsel for both parties under which the action was stayed pending the possible resolution of the *Buchanan* litigation. The stay will remain in effect only if the parties in the *Buchanan* litigation seek preliminary approval of a settlement of that litigation by September 8, 2003 and the final settlement of the *Buchanan* litigation includes releases relating to the *Bohm* litigation. If these two conditions are satisfied, the stay will become permanent when the *Buchanan* settlement is subject to a final, non-appealable order. For the six months ended June 30, 2003, our share of the legal costs for the *Buchanan* and *Bohm* litigations was approximately \$9,200, which was included in our professional and administrative expenses.

We do not believe there is any other litigation threatened against us other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material effect on our financial position or results of operations, except as discussed herein.

#### ***Proposed Merger***

As part of the proposed settlement of the *Buchanan* and *Bohm* litigations, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership. The general partners would seek to list the limited partnership interests to be issued in the merger on a national securities exchange. The merger will be subject to, among other things, approval by holders of a majority of the limited partner interests in each partnership, final approval of the court in which the *Buchanan* litigation is pending and receipt by the general partners of an opinion regarding the fairness of the merger to the limited partners from a financial point of view. An independent appraiser has been retained to appraise all of the properties owned by the existing partnerships and affiliated entities and that would be owned after the merger by the new partnership. The appraisal will be used in establishing exchange values which will determine the number of interests that will be issued to each existing partnership in the merger. The interests in the newly-formed partnership will be subsequently distributed to the limited and general partners in each existing partnership as though each partnership had been liquidated. The general partners have also retained a third party to provide an opinion on the fairness of the merger to limited partners from a financial point of view. For the six months ended June 30, 2003, our share of the legal and professional fees for the proposed merger was approximately \$28,000.

**NTS-PROPERTIES III**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 9 - Segment Reporting**

Our reportable operating segments include only one segment - Commercial Real Estate Operations.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Financial Statements in Item 1 and the cautionary statements below.

### Critical Accounting Policies

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States. Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, we have made our best estimates and judgements of the amounts and disclosures included in the financial statements, giving due regard to materiality.

### Impairment

We review properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. These circumstances include, but are not limited to, declines in cash flows, occupancy and comparable sales per square foot at the property. We would be required to recognize an impairment when a property's estimated undiscounted cash flow is less than the carrying value of the property. To the extent an impairment has occurred, we charge to income the excess of the carrying value of the property over its estimated fair value. We may decide to sell properties that are held for use. The sales prices of these properties may differ from their carrying values.

### Results of Operations

The following table includes our selected summarized operating data for the three months and six months ended June 30, 2003 and 2002. This data should be read in conjunction with our financial statements, including the notes thereto, in Part I, Item 1 of this report.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Total revenues	\$ 928,322	\$ 957,666	\$ 1,925,837	\$ 1,946,949
Operating expenses and operating expenses - affiliated	305,547	315,679	588,265	590,448
Interest expense	110,789	124,892	224,729	255,640
Depreciation and amortization	269,705	288,966	553,553	598,643
Net income	29,506	66,688	145,959	186,235

Rental and other income generated by our properties for the three months and six months ended June 30, 2003 and 2002 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NTS Center	\$ 262,785	\$ 316,485	\$ 598,573	\$ 666,827
Plainview Center	\$ 307,946	\$ 300,767	\$ 619,736	\$ 607,083
Peachtree Corporate Center	\$ 356,517	\$ 339,493	\$ 705,365	\$ 670,851

The occupancy levels at our properties as of June 30, 2003 and 2002 were as follows:

	2003	2002
NTS Center	72%	85%
Plainview Center	69%	68%
Peachtree Corporate Center	88%	83%

The average occupancy levels at our properties for the three months and six months ended June 30, 2003 and 2002 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NTS Center	72%	85%	79%	88%
Plainview Center	69%	68%	70%	70%
Peachtree Corporate Center	86%	83%	85%	82%

We are making efforts to increase the occupancy levels at our properties. The leasing and renewal negotiations for NTS Center and Plainview Center are handled by leasing agents that are employees of NTS Development Company, in Louisville, Kentucky. At Peachtree Corporate Center, in Norcross, Georgia, we have an off-site leasing agent, who makes calls to potential tenants, negotiates lease renewals with current tenants and manages local advertising with the assistance of NTS Development Company's marketing staff located in Louisville, Kentucky.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the three months and six months ending June 30, 2002 and June 30, 2003.

### ***Interest Expense***

Interest expense decreased approximately \$14,000, or 11%, and \$31,000, or 12%, for the three months and six months ended June 30, 2003, respectively, as compared to the same periods in 2002, as a result of additional principal payments made in 2003 which reduced the outstanding balance on our mortgage payable secured by Plainview Center.

### ***Professional and Administrative Expenses***

Professional and administrative expenses increased approximately \$48,000, or 163%, and \$92,000, or 184%, for the three months and six months ended June 30, 2003, respectively, as compared to the same periods in 2002, primarily as a result of costs incurred for legal and professional fees related to our proposed merger and litigation filed by limited partners. See the following discussion under the caption "Proposed Merger," and Part II, Item 1 of this Form 10-Q.

### ***Professional and Administrative Expenses - Affiliated***

Professional and administrative expenses - affiliated increased approximately \$6,000, or 17%, and \$8,000, or 12%, for the three months and six months ended June 30, 2003, as compared to the same periods in 2002, as a result of increased personnel costs. Professional and administrative expenses - affiliated are expenses incurred for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, finance and other services necessary to manage and operate our business.

### ***Depreciation and Amortization***

Depreciation and amortization decreased approximately \$19,000, or 7%, and \$45,000, or 8%, for the three months and six months ended June 30, 2003, respectively, as compared to the same periods in 2002, as a result of assets becoming fully depreciated. The decrease in depreciation and amortization expense is partially offset by assets being placed in service, in the form of tenant improvements and building improvements at NTS Center, Plainview Center and Peachtree Corporate Center and land improvements at NTS Center. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 6-30 years for land improvements, 5-30 years for buildings and improvements, 3-27 years for amenities and the applicable lease term for tenant improvements.

### **Liquidity and Capital Resources**

The following table sets forth the cash provided by or used in operating activities, investing activities and financing activities for the six months ended June 30, 2003 and 2002.

Cash flows provided by (used in):

	Six Months Ended June 30,	
	2003	2002
Operating activities	\$ 709,689	\$ 796,812
Investing activities	(159,314)	(120,571)
Financing activities	(607,817)	(548,002)
Net (decrease) increase in cash and equivalents	\$ (57,442)	\$ 128,239

## ***Cash Flows***

Net cash provided by operating activities decreased approximately \$87,000 for the six months ended June 30, 2003, as compared to the same period in 2002. The decrease was primarily driven by reduced earnings from operations before non cash items which were partially offset by the change in accounts payable.

Net cash used in investing activities increased approximately \$39,000 for the six months ended June 30, 2003, as compared to the same period in 2002. The increase is a result of increased capital expenditures primarily related to tenant finish activity.

Net cash used in financing activities increased approximately \$60,000 for the six months ended June 30, 2003, as compared to the same period in 2002. The increase is the result of additional principal payments in 2003.

We indefinitely suspended distributions starting December 31, 1996. Cash reserves which consist of unrestricted cash as shown on our balance sheets were \$331,007 and \$388,449 on June 30, 2003 and December 31, 2002, respectively.

Due to the fact that no distributions were made during the six months ended June 30, 2003 or 2002, the table which presents that portion of the distributions that represents a return of capital in accordance with Accounting Principles Generally Accepted in the United States has been omitted.

## ***Future Liquidity***

We believe the current occupancy levels are adequate to continue the operations of our properties without additional financing, excluding the capital improvements and leasing costs described below. Our future liquidity depends significantly on our properties' occupancy remaining at a level which provides for debt payments and adequate working capital, currently and in the future. If occupancy were to fall below that level and remain at or below that level for a significant period of time, our ability to make payments due under our debt agreements and to continue paying daily operational costs would be greatly impaired.

A major tenant at NTS Center with a near lease term expiration is seeking alternatives to renewing its expiring lease with us. This tenant is currently occupying 53,435 square feet at an annual rate of \$13.59 per square foot. The failure of this tenant to renew its lease at NTS Center would result in a loss of annual rental revenue and operating expense recoveries of approximately \$726,000, or 19% of last year's total revenues. This would significantly impair our liquidity, and could result in significant costs to refurbish the vacated space and locate new tenants. At this time, we are not certain whether the tenant intends to renew its lease as allowed by the lease agreement, or vacate its space. We do not have an estimate for the costs to locate a replacement tenant or refinish the space occupied by this tenant.

In June 2003, a significant tenant at Peachtree Corporate Center whose lease expired June 30, 2003, notified us of its intention to vacate its space in September 2003. This tenant is currently occupying 19,374 square feet at an annual rate of \$9.25 per square foot. This will result in an annual loss of approximately \$179,000, or 5% of last year's total revenues. There may be significant demands on future liquidity as a result of this vacancy. Approximately \$203,000, will be needed to refinish the vacated space and locate new tenants.

In the next 12 months, we expect the demand on future liquidity to increase as a result of future leasing activity driven primarily by the decreased occupancy at Plainview Center. There has been and will likely continue to be a protracted period for Plainview Center to become fully leased again. Approximately \$577,000, will be needed for leasing costs, especially those needed to refinish space for new tenants. It is anticipated that operating cash flows will be adequate to fund these leasing costs. As of June 30, 2003, we had not made any commitments for tenant finish improvements at Plainview Center.

As of June 30, 2003, we anticipate making certain building improvements in 2003 totaling approximately \$27,000, which will be funded from cash from operations. These improvements include HVAC replacements at NTS Center, estimated to cost \$12,000, and at Peachtree Corporate Center, estimated to cost \$15,000.

The demands on liquidity as discussed above will be managed by our general partner using cash provided by operations, cash reserves, existing financing or additional financing secured by our properties. Typically, these capital improvements and leasing costs require use of existing financing or additional financing. There can be no guarantee that such funds will be available at which time our general partner will manage the demand on liquidity according to our best interest.

We have no other material commitments for renovations or capital improvements as of June 30, 2003.

### **Proposed Merger**

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us, reached an agreement in principle with representatives of the class of plaintiffs to settle the action captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090). The action was originally filed in the Superior Court of the State of California for the County of Contra Costa against the general partners and several affiliated individuals and entities in December 2001. The settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the class action and derivative litigation filed in the Circuit Court of Jefferson County, Kentucky and captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740).

As part of the proposed settlement, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership. The general partners would seek to list the limited partnership interests to be issued in the merger on a national securities exchange. The merger will be subject to, among other things, approval by holders of a majority of the limited partner interests in each partnership, final approval of the court in which the *Buchanan* litigation is pending and receipt by the general partners of an opinion regarding the fairness of the merger to the limited partners from a financial point of view. An independent appraiser has been retained to appraise all of the properties owned by the existing partnerships and affiliated entities and that would be owned after the merger by the new partnership. The appraisal will be used in establishing exchange values which will determine the number of interests that will be issued to each existing partnership in the merger. The interests in the newly-formed partnership will be subsequently distributed to the limited and general partners in each existing partnership as though each partnership had been liquidated. The general partners have also retained a third party to provide an opinion on the fairness of the merger to limited partners from a financial point of view. For the six months ended June 30, 2003, our share of the legal and professional fees for the proposed merger was approximately \$28,000.

### **Website Information**

Our website address is [www.ntsdevelopment.com](http://www.ntsdevelopment.com). 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) of the Securities Exchange Act are available and may be accessed free of charge through the “About NTS” section of our website as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. Our website and the information contained therein or connected thereto are not incorporated into this Quarterly Report on Form 10-Q.

### **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk exposure with regard to financial instruments stems from changes in interest rates. Our debt bears interest at a fixed rate with the exception of the \$3,500,000 mortgage payable obtained on May 9, 2000, which had a balance of \$1,196,250 as of June 30, 2003. On June 30, 2003, a hypothetical 100 basis point increase in interest rates would result in an approximate \$297,000 decrease in the fair value of the debt and would increase interest expense on the variable rate mortgage by approximately \$12,000 annually.

### **Item 4 - Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer of NTS Capital Corporation, the general partner of our general partner, have concluded, based on their evaluation as of June 30, 2003, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

## **PART II - OTHER INFORMATION**

### **Item 1 - Legal Proceedings**

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us reached an agreement in principle with representatives of the class of plaintiffs to settle the action captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090). The action was originally filed in the Superior Court of the State of California for the County of Contra Costa against the general partners and several affiliated individuals and entities in December 2001. The settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the class action and derivative litigation filed in the Circuit Court of Jefferson County, Kentucky and captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740). As part of the proposed settlement, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership, as described in more detail in Part I, Item 2 under the caption "Proposed Merger."

On June 30, 2003, a stipulation and order of stay was entered in the *Bohm* litigation with the agreement of counsel for both parties under which the action was stayed pending the possible resolution of the *Buchanan* litigation. The stay will remain in effect only if the parties in the *Buchanan* litigation seek preliminary approval of a settlement of that litigation by September 8, 2003 and the final settlement of the *Buchanan* litigation includes releases relating to the *Bohm* litigation. If these two conditions are satisfied, the stay will become permanent when the *Buchanan* settlement is subject to a final, non-appealable order.

### **Item 2 - Changes in Securities and Use of Proceeds**

None.

### **Item 3 - Defaults Upon Senior Securities**

None.

### **Item 4 - Submission of Matters to a Vote of Security Holders**

None.

### **Item 5 - Other Information**

None.

## Item 6 - Exhibits and Reports on Form 8-K

### (a) Exhibits

- (3) Amended and Restated Agreement and Certificate of Limited Partnership of NTS-Properties III. \*
- (31.1) Certification of Chief Executive Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*\*
- (31.2) Certification of Chief Financial Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*\*
- (32.1) Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- (32.2) Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*

### (b) Reports on Form 8-K

We filed a Form 8-K on June 20, 2003, to report an agreement in principle with regard to the settlement of the litigation, as discussed in Part II, Item I.

\* *Incorporated by reference to documents filed with the Securities and Exchange Commission in connection with the filing of the Registration Statements on Form S-11 on June 25, 1982 (effective October 13, 1982) under Commission File No. 2-78152.*

\*\* *Attached as an exhibit to this Quarterly Report on Form 10-Q.*

## **SIGNATURES**

Pursuant to the requirements 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.

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### **NTS-PROPERTIES III**

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BY: NTS-Properties Associates,  
General Partner,  
BY: NTS Capital Corporation,  
General Partner

/s/ Brian F. Lavin

Brian F. Lavin  
President of NTS Capital Corporation

/s/ Gregory A. Wells

Gregory A. Wells  
Chief Financial Officer of NTS Capital Corporation

Date: August 14, 2003

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
3	Amended and Restated Agreement and Certificate of Limited Partnership of NTS-Properties III. *
31.1	Certification of Chief Executive Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
31.2	Certification of Chief Financial Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **

\* *Incorporated by reference to documents filed with the Securities and Exchange Commission in connection with the filing of the Registration Statements on Form S-11 on June 25, 1982 (effective October 13, 1982) under Commission File No. 2-78152.*

\*\* *Attached as an exhibit to this Quarterly Report on Form 10-Q.*

**CERTIFICATION**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brian F. Lavin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NTS-Properties III;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ Brian F. Lavin

President of NTS Capital Corporation, General Partner of NTS-Properties Associates, General Partner of NTS-Properties III

**CERTIFICATION**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory A. Wells, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NTS-Properties III;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ Gregory A. Wells

Chief Financial Officer of NTS Capital Corporation, General Partner of NTS-Properties Associates, General Partner of NTS-Properties III

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Brian F. Lavin, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2003, by NTS-Properties III (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of NTS-Properties III.

A signed original of this written statement required by Section 906 has been provided to NTS-Properties III and will be retained by NTS-Properties III and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Brian F. Lavin  
President of NTS Capital Corporation,  
General Partner of NTS-Properties Associates,  
General Partner of NTS-Properties III

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Gregory A. Wells, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2003, by NTS-Properties III (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of NTS-Properties III.

A signed original of this written statement required by Section 906 has been provided to NTS-Properties III and will be retained by NTS-Properties III and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Gregory A. Wells  
Chief Financial Officer of NTS Capital Corporation,  
General Partner of NTS-Properties Associates,  
General Partner of NTS-Properties III