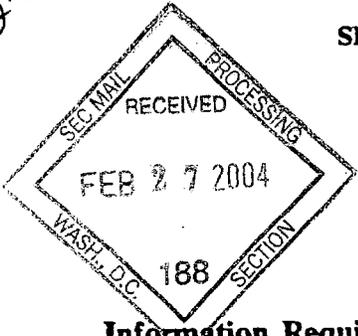


VA 3-12-04



SECURITIES MISSION 04004786 Washington, D.C. 20549

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ANNUAL AUDITED REPORT FORM X-17A-5 PART III

FACING PAGE Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2003 AND ENDING 12/31/2003 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

JEFFERIES PARTNERS OPPORTUNITY FUND III LLC

OFFICIAL USE ONLY FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

THE METRO CENTER, ONE STATION PLACE, THREE NORTH (No. and Street)

STAMFORD CONNECTICUT 06902-6800 (City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

ROBERT J. WELCH (203) 708-5800 (Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

355 SOUTH GRAND AVENUE, SUITE 2000 LOS ANGELES CALIFORNIA 90071-1568 (Address) (City) (State) Zip Code

CHECK ONE:

- XX Certified Public Accountant
Public Accountant
Accountant not resident in United States or any of its possessions.

PROCESSED MAR 17 2004

FOR OFFICIAL USE ONLY THOMSON FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, ROBERT J. WELCH, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of JEFFERIES PARTNERS OPPORTUNITY FUND III, as of DECEMBER 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

[Handwritten Signature]

Signature
CHIEF FINANCIAL OFFICER

Title

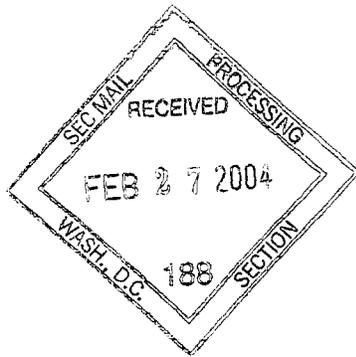
[Handwritten Signature]

Notary Public
JANE R. SEVERO
NOTARY PUBLIC
MY COMMISSION EXPIRES JAN. 31, 2009

This report** contains (check all applicable boxes):

- (a) Facing page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC
(SEC Identification No. 8-53144)

Financial Statements and Supplementary Information

December 31, 2003

(With Independent Auditors' Report Thereon
and Supplemental Report on Internal Control)

Filed in accordance with Subparagraph (e)(3) of
Rule 17a-5 as a public document



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

INDEPENDENT AUDITORS' REPORT

The Member
Jefferies Partners Opportunity Fund III, LLC:

We have audited the accompanying statement of financial condition of Jefferies Partners Opportunity Fund III, LLC (the "Fund") as of December 31, 2003, and the related statements of earnings, changes in member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferies Partners Opportunity Fund III, LLC as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

January 26, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Statement of Financial Condition

December 31, 2003

Assets

Cash	\$	<u>407,641</u>
Total assets	\$	<u><u>407,641</u></u>

Liabilities and Member's Equity

Due to affiliate	\$	<u>5,128</u>
Total liabilities		5,128
Member's equity:		
Member's capital		400,000
Retained earnings		<u>2,513</u>
Total member's equity		<u>402,513</u>
Total liabilities and member's equity	\$	<u><u>407,641</u></u>

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Statement of Earnings

For the year ended December 31, 2003

Revenues:		
Interest		\$ <u>4,148</u>
Total revenues		<u>4,148</u>
Expenses:		
Other		<u>4,063</u>
Total expenses		<u>4,063</u>
Net earnings		\$ <u><u>85</u></u>

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Statement of Changes in Member's Equity

For the year ended December 31, 2003

	<u>Member's capital</u>	<u>Retained Earnings</u>	<u>Total member's equity</u>
Balance, December 31, 2002	\$ 400,000	2,428	402,428
Net earnings	<u>—</u>	<u>85</u>	<u>85</u>
Balance, December 31, 2003	<u>\$ 400,000</u>	<u>2,513</u>	<u>402,513</u>

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Statement of Cash Flows

For the year ended December 31, 2003

Cash flows from operating activities:	
Net earnings	\$ <u>85</u>
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in due to affiliate	<u>4,063</u>
Net cash provided by operating activities	<u>4,148</u>
Net increase in cash and cash equivalents	4,148
Cash and cash equivalents at beginning of year	<u>403,493</u>
Cash and cash equivalents at end of year	\$ <u><u>407,641</u></u>

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Notes to Financial Statements

December 31, 2003

(1) Summary of Significant Accounting Policies

Jefferies Partners Opportunity Fund III, LLC (the "Fund") is a Delaware limited liability company. Jefferies & Company, Inc. ("Jefferies") provided the initial capital funding on January 19, 2001. The investment objective of the Fund is to generate returns for its members by making, holding, and disposing of a diverse portfolio of primarily below investment grade debt and equity investments. The Fund was established to offer members the opportunity to participate in the trading, investment, and brokerage activities of the High Yield Department of Jefferies. The Fund will employ a trading and investment strategy substantially similar to that historically employed by Jefferies' High Yield Department. The Fund intends to acquire, actively manage, and trade a diverse portfolio of primarily non-investment grade investments consisting of the following three asset groups: High Yield Debt, Special Situation Investments, and, to a lesser extent, Bank Loans. The Fund has appointed Jefferies to serve as manager to the Fund (the "Manager"). The Fund will participate in the trading and investment activities of the High Yield Department on an equivalent basis with Jefferies. To permit such participation, the Fund has been registered as a broker dealer under the Securities Exchange Act of 1934 and with the National Association of Securities Dealers.

The Fund, in connection with its activities as a broker-dealer, does not hold funds or securities for customers. Accordingly, the computation for determination of reserve requirements pursuant to Rule 15c3-3 has been omitted.

Securities Transactions

Transactions in securities are recorded on a trade-date basis.

Securities owned are valued at market, and unrealized gains or losses are reflected in revenues from principal transactions.

Fair Value of Financial Instruments

The Fund's financial instruments, which consist of cash, are carried at fair value.

Federal and State Income Taxes

Under current federal and applicable state limited liability company laws and regulations, limited liability companies are treated as partnerships for tax reporting purposes and accordingly are not subject to income taxes. Therefore, no provision for income taxes has been made in the Fund's financial statements. For tax purposes, income or losses are included in the tax return of the member.

Use of Estimates

Management of the Fund has made estimates and assumptions relating to the reporting of assets and liabilities. Actual results could differ from those estimates.

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Notes to Financial Statements

December 31, 2003

(2) Related Party Transactions

Cash is held on deposit at Jefferies.

Due to affiliate is payable to Jefferies primarily as reimbursement for general and administrative expenses.

Included in capital is an investment in the Fund by Jefferies of \$400,000.

(3) Net Capital Requirement

The Fund is subject to the Securities and Exchange Commission ("SEC") Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined.

At December 31, 2003, the Fund had net capital of \$402,513, which was \$152,513 in excess of required net capital.

Schedule 1

JEFFERIES PARTNERS OPPORTUNITY FUND III, LLC

Computation of Net Capital under Rule 15c3-1(a)(1)(ii)
of the Securities and Exchange Commission
Using the Alternative Net Capital Requirement

December 31, 2003

Net capital:		
Total member's equity	\$	402,513
Total adjustments to net capital		<u> —</u>
Net capital		402,513
Less net capital requirement		<u>250,000</u>
Net capital in excess of requirement	\$	<u><u>152,513</u></u>

Note: The computation of net capital under Rule 15c3-1(a)(1)(ii) as of December 31, 2003, as computed by Jefferies Partners Opportunity Fund III, LLC in its Form X-17a-5, Part II, filed with NASD Regulation, Inc. on January 26, 2004, does not differ from the above computation, which is based upon the audited financial statements.

See accompanying independent auditors' report.



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

REPORT ON INTERNAL CONTROL

The Member
Jefferies Partners Opportunity Fund III, LLC:

In planning and performing our audit of the financial statements and supplemental schedule of Jefferies Partners Opportunity Fund III, LLC (the Fund) for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Fund including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate debits and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Fund does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Fund in any of the following: 1) making quarterly securities examinations, counts, verifications, and comparisons; 2) recordation of differences required by rule 17a-13; and 3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Fund is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Fund has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Fund's practices and procedures were adequate at December 31, 2003, to meet the SEC's objectives.

This report is intended solely for the information and use of the member, management, the SEC, NASD Regulation, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 26, 2004