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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION FROM TO .

COMMISSION FILE NUMBER: 333-166195

SQN Alternative Investment Fund III L.P.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**27-2173346** **(I.R.S. Employer ID No.)**
110 William Street, 26th Floor **New York, NY** **(Address of principal executive offices)**	**10038** **(Zip code)**

Issuer's telephone number: (212) 422-2166

None
(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At May 10, 2012, there were 15,245.90 units of the Registrant's limited partnership interests issued and outstanding.

SQN Alternative Investment Fund III L.P.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SQN Alternative Investment Fund III L.P.
(A Delaware Limited Partnership)
Condensed Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	$ 1,812,175	$ 641,510
Escrow deposits	247,859	2,636,731
Accounts receivable	30,157	28,497
Investment in finance leases, net	5,247,708	4,310,875
Initial direct costs, net of accumulated amortization of $51,976 and $24,596	168,452	150,190
Investments in equipment subject to operating leases, net	1,192,641	—
Residual value investment in equipment on lease	1,367,173	—
Equipment notes receivable, including accrued interest of $67,697 and $16,461	1,906,202	1,407,231
Other assets	21,927	74,783
Total Assets	$11,994,294	$9,249,817
Liabilities and Partners' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 93,012	$ 91,632
Due to SQN Securities, LLC	—	1,000
Security deposits payable	297,176	—
Limited Partners contributions received in advance	245,000	2,634,000
Total Liabilities	635,188	2,726,632
Partners' Equity (Deficit):		
Limited Partners	11,364,507	6,529,827
General Partner	(5,401)	(6,642)
Total Partners' Equity	11,359,106	6,523,185
Total Liabilities and Partners' Equity	$11,994,294	$9,249,817

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.
(A Delaware Limited Partnership)
Condensed Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2012	2011
Revenue:		
Rental income	$ 89,146	$ —
Finance income	59,746	—
Interest income	51,774	—
Total Revenue	200,666	—
Expenses:		
Management fees - Investment Manager	180,000	—
Professional fees	75,098	18,727
Depreciation and amortization	63,380	—
Fund administration expense	13,095	10,500
Other expenses	1,322	54
Foreign currency transaction gain	(256,348)	—
Total Expenses	76,547	29,281
Net Income (Loss)	$ 124,119	$ (29,281)
Net income (loss) allocable to:		
Limited Partners	$ 122,878	$ (28,988)
General Partner	1,241	(293)
	$ 124,119	$ (29,281)
Weighted average number of limited partnership interests outstanding	9,650.85	1.00
Net income (loss) attributable to Limited Partners per weighted average number of limited partnership interests outstanding	$ 12.73	$(28,988.00)

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.
(A Delaware Limited Partnership)
Condensed Statements of Changes in Partners' Equity
Year Ended December 31, 2011 and Three Months Ended March 31, 2012

	Limited Partnership Interests	Total	General Partner	Limited Partners	Subscription Receivable - Initial Limited Partner
Balance, January 1, 2011	1.00	$ 232	$ 99	$ 883	$ (750)
Limited Partners capital contributions	8,450.90	8,450,900	—	8,450,900	—
Redemption of Initial Limited Partner capital contribution	(1.00)	(250)	—	(1,000)	750
Offering and distribution expenses	—	(1,132,739)	—	(1,132,739)	—
Distributions paid	—	(120,853)	—	(120,853)	—
Net loss	—	(674,105)	(6,741)	(667,364)	—
Balance, December 31, 2011	8,450.90	6,523,185	(6,642)	6,529,827	—
Limited Partners capital contributions	4,840.00	4,840,000	—	4,840,000	—
Offering and distribution expenses	—	(128,198)	—	(128,198)	—
Net income	—	124,119	1,241	122,878	—
Balance, March 31, 2012 (Unaudited)	13,290.90	$11,359,106	$(5,401)	$11,364,507	$ —

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.
(A Delaware Limited Partnership)
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 124,119	$ (29,281)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Finance income	(59,746)	—
Accrued interest income	(49,828)	—
Depreciation and amortization	63,380	—
Foreign currency transaction gain	(254,508)	—
Change in operating assets and liabilities:		
Accounts receivable	(1,660)	—
Minimum rental payments received	200,873	—
Other assets	10,087	—
Accounts payable and accrued expenses	1,380	29,227
Due to/from SQN Securities, LLC	(1,000)	—
Net cash provided by (used in) operating activities	33,097	(54)
Cash flows from investing activities:		
Purchase of finance leases	(912,845)	—
Purchase of equipment subject to operating lease	(852,824)	—
Purchase of residual value investment in equipment on lease	(1,367,173)	—
Increase in equipment notes receivable	(395,750)	—
Cash paid for initial direct costs	(45,642)	—
Net cash used in investing activities	(3,574,234)	—
Cash flows from financing activities:		
Proceeds from Limited Partners' capital contributions	4,840,000	500
Cash paid for offering and distribution expenses	(128,198)	—
Increase in escrow deposits	2,389,000	—
Limited Partners capital contributions received in advance	(2,389,000)	—
Net cash provided by financing activities	4,711,802	500
Net increase in cash and cash equivalents	1,170,665	446
Cash and cash equivalents, beginning of period	641,510	232
Cash and cash equivalents, end of period	$ 1,812,175	$ 678
Supplemental disclosure of non-cash investing activities:		
Reclassification of initial direct costs from other assets to equipment subject to operating leases	$ 42,641	$ —

See notes to condensed financial statements.

1. Nature of Operations and Organization

Nature of business and operations – The condensed financial statements of SQN Alternative Investment Fund III L.P. (the "Partnership") at March 31, 2012 and for the three months ended March 31, 2012 and 2011 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. The results reported in these condensed financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the financial statements and notes for the year ended December 31, 2011 included in the Annual Report on Form 10-K filed by the Partnership with the Securities and Exchange Commission (the "SEC") on March 29, 2012.

Organization - The Partnership was organized as a Delaware limited partnership on March 10, 2010 and is engaged in a single business segment, the ownership and investment in leased equipment, which includes: (i) purchasing equipment and leasing it to third-party end users; (ii) providing equipment and other asset financing; (iii) acquiring equipment subject to lease and (iv) acquiring ownership rights (residual value interests) in leased equipment at lease expiration. From time to time, the Partnership may also purchase equipment and sell it directly to its leasing customers. The Partnership will terminate no later than December 31, 2034.

The principal investment strategy of the Partnership is to invest in business-essential, revenue-producing (or cost-savings) equipment or other physical assets with high in-place value and long, relative to the investment term, economic life. The Partnership expects to achieve its investment strategy by making investments in equipment already subject to lease, originating equipment leases in such equipment or providing asset financing.

The General Partner of the Partnership is SQN AIF III GP, LLC (the "General Partner"), a wholly-owned subsidiary of the Partnership's Investment Manager, SQN Capital Management, LLC (the "Investment Manager"). Both the Partnership's General Partner and its Investment Manager are Delaware limited liability companies. The General Partner manages and controls the day to day activities and operations of the Partnership, pursuant to the terms of the Partnership Agreement. The General Partner paid an aggregate capital contribution of $100 for a 1% interest in the Partnership's income, losses and distributions. The Investment Manager makes all investment decisions and manages the investment portfolio of the Partnership.

On July 1, 2011, SQN Capital Corporation assigned its 100% interest in the Partnership's Investment Manager to SQN Capital Partners, LLC which it believes to be a more tax efficient structure. There has been no change of control as a result of this as the principals and majority interest holders in both entities are the same.

On June 28, 2011, the officers of Summit Asset Management Limited ("SAM") which prior to that date had equal ownership in the Investment Manager with SQN Capital Corporation (the parent company of the Investment Manager) resigned from both the General Partner and the Investment Manager. At that time, SAM redeemed its ownership interest in the Investment Manager.

Beginning on June 29, 2011, SAM has primarily provided the Partnership with origination services. They have assisted the Partnership with all the transactions completed during 2012 and 2011. The Partnership anticipates SAM will continue to provide these services going forward into the foreseeable future.

The Partnership will make, at the sole discretion of the Investment Manager, semi-annual cash distributions to each Limited Partner computed at 3% (pro-rated to the date of admission for each Limited Partner) of each Limited Partner's capital contribution, beginning six months after the Partnership's initial closing which occurred on May 2, 2011. The Partnership's income, losses and distributions are allocated 99% to the Limited Partners and 1% to the General Partner until the Limited Partners have received total distributions equal to each Limited Partners' capital contribution plus an 8%, compounded annually, cumulative return on each Limited Partners' capital contribution. After such time, income, losses and distributions will be allocated 80% to the Limited Partners and 20% to the General Partner.

The Partnership is currently in the Offering Period, which expires the earlier of raising $50,000,000 in Limited Partner capital contributions (50,000 units in limited partnership interests ("Units") at $1,000 per Unit) or March 17, 2013. During the Operating Period the Partnership invests most of the net offering proceeds in items of equipment that are subject to leases, equipment financing transactions, and residual ownership rights in leased equipment. The Operating Period begins when the Partnership starts investing the offering proceeds, which occurred on June 29, 2011, and will last for three years, unless it is extended, at the sole discretion of the Partnership's General Partner for a maximum of two one-year extensions. After the net offering proceeds are invested, additional investments will be made with the cash proceeds generated from the Partnership's initial investments, to the extent that cash is not needed for expenses, reserves, or distributions to Limited Partners. The investment in additional equipment in this manner is called "reinvestment." After the Operating Period, the Partnership will sell its assets in the ordinary course of business, a time frame called the "Liquidation Period." The Liquidation Period is expected to last four years, unless it is extended, at the sole discretion of the Partnership's General Partner for a maximum of two one-year extensions.

From May 2, 2011, the first business day after April 30, 2011, through December 31, 2011, the Partnership admitted 137 Limited Partners with total capital contributions of $8,450,900. For the three months ended March 31, 2012, the Partnership admitted an additional 71 Limited Partners with total capital contributions of $4,840,000.

A Limited Partner may not redeem their Units in the Partnership without the prior written consent of the General Partner. The General Partner has the sole discretion to approve or deny any redemption requested by a Limited Partner.

2. Summary of Significant Accounting Policies

Revenue recognition - The Partnership records revenue based upon the lease classification determined at the inception of the transaction and based upon the terms of lease.

The Partnership leases equipment to third parties and each such lease may be classified as either a finance lease or an operating lease. Initial direct costs are capitalized and amortized over the term of the related lease for a finance lease. For an operating lease, the initial direct costs are included as a component of the cost of the equipment and depreciated.

For finance leases, the Partnership records, at lease inception, the total minimum lease payments receivable from the lessee, the estimated unguaranteed residual value of the equipment upon lease termination, the initial direct costs, if any, related to the lease and the related unearned income. Unearned income represents the difference between the sum of the minimum lease payments receivable plus the estimated unguaranteed residual value, minus the cost of the leased equipment. Unearned income is recognized as finance income over the term of the lease using the effective interest rate method.

For operating leases, rental income is recognized on a straight line basis over the lease term. Billed and uncollected operating lease receivables are included in accounts receivable. Accounts receivable is stated at its estimated net realizable value. Deferred rental income is the difference between the timing of the cash payments and the income recognized on a straight line basis.

The Investment Manager has an investment committee that approves each new equipment lease, financing transaction, and lease acquisition. As part of its process it determines the unguaranteed residual value, if any, to be used once the acquisition has been approved. The factors considered in determining the unguaranteed residual value include, but are not limited to, the creditworthiness of the potential lessee, the type of equipment being considered, how the equipment is integrated into the potential lessees business, the length of the lease and the industry in which the potential lessee operates. Unguaranteed residual values are reviewed for impairment in accordance with the Partnership's policy relating to impairment review.

Foreign currency transactions - The Partnership has designated the United States of America dollar as the functional currency for the Partnership's investments in international locations. Accordingly, certain assets and liabilities are translated at either the actual month end exchange rates or the historical exchange rates, revenues and expenses are translated at the average rate of exchange for the period, and all transaction gains or losses are reflected in the period's results of operations.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the General Partner and Investment Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates primarily include the determination of allowances for doubtful accounts, depreciation and amortization, impairment losses, estimated useful lives, and residual values. Actual results could differ from those estimates.

Recent Accounting Pronouncements

There have been no developments to recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on the Partnership's financial statements, from those disclosed in the Partnership's 2011 Annual Report on Form 10-K.

3. Related Party Transactions

The General Partner is responsible for the day-to-day operations and management of the Partnership and the Investment Manager makes all investment decisions and manages the investment portfolio of the Partnership. The Partnership pays the General Partner an allowance for organizational and offering costs not to exceed $1,000,000, in the aggregate, to reimburse the General Partner for expenses incurred in the preparation for qualification under federal and state securities laws. During February 2012, the Partnership reached its allowance for paying organizational and offering costs. All future expenditures for organizational and offering costs will be assumed by the Partnership's Investment Manager. The General Partner also has a 1% interest in the profits, losses and distributions of the Partnership. The General Partner also has a promotional interest in the Partnership equal to 20% of all distributed cash available for distribution, after the Partnership has provided an 8% cumulative return, compounded annually, to the Limited Partners on their capital contributions.

The Partnership pays the Investment Manager for organizational and offering expenses incurred on behalf of the Partnership and a management fee equal to or the greater of; (i) a fixed monthly management fee of $60,000 or (ii) 1.975% per annum of the aggregate offering proceeds. The monthly management fee reimburses the Investment Manager for normal overhead expenses, which include, but are not limited to, employee compensation, rent, professional services, office equipment, and supplies. For the three months ended March 31, 2012, the Partnership paid the Investment Manager $180,000 for management fees which are included in the condensed statements of operations. The Partnership did not pay or incur any such management fees for the three months ended March 31, 2011. For the three months ended March 31, 2012, the Investment Manager paid or accrued organizational and offering costs on behalf of the Partnership totaling $17,945.

SQN Securities, LLC ("Securities") is a Delaware limited liability company and is a majority-owned subsidiary of the Partnership's Investment Manager. Securities is the sole selling agent of the Partnership's Units, is a broker-dealer registered with the SEC and is a member of both the Financial Industry Regulatory Authority and the Security Investor Protection Corporation. The Partnership pays Securities a distribution expense equal to 2% of the aggregate offering proceeds, excluding proceeds from the General Partner or any affiliated entities. At December 31, 2011, the Partnership owed Securities $1,000 for unpaid distribution expense. For the three months ended March 31, 2012, Securities was paid $96,800 which is included in offering and distribution expenses in the condensed statements of changes in partners' equity. The Partnership did not pay or incur any such distribution expense for the three months ended March 31, 2011. For the three months ended March 31, 2012, Securities paid organizational and offering expenses on behalf of the Partnership totaling $4,980.

4. Investment in finance leases

Anaerobic Digestion Plant

On February 16, 2012, the Partnership entered into a finance lease transaction for an 80% ownership interest in an anaerobic digestion plant located in the United Kingdom for £576,000 ($912,845 applying exchange rates at February 29, 2012). An anaerobic digestion plant is a series of processes in which microorganism's breakdown biodegradable materials and produces a biogas which can be used to generate electricity. The lease term is 48 months. Under the terms of the agreement the Partnership will receive monthly payments of £15,740 ($24,945 applying exchange rates at February 29, 2012) through September 20, 2015 and then through January 20, 2016, there will be a rent holiday, where no payments are due. At the expiration of the lease term, the lessee has an option to: (i) make a one-time payment of £64,074 ($101,544 applying exchange rates at February 29, 2012) or (ii) make 4 additional monthly payments of £15,740 ($24,945 applying exchange rates at February 29, 2012) and then a final payment of £3,046 ($4,827 applying exchange rates at February 29, 2012). The Partnership will also share in the semi-annual cash payments made under a United Kingdom government program for the production of alternative energy. The Partnership will account for this as contingent rental payments. Once the final payment is received title to the equipment will pass to the lessee. On February 28, 2012, the Partnership paid initial direct costs of £28,800 ($45,642 applying exchange rates at February 29, 2012) relating to the acquisition of this leased equipment.

The option is contingent upon Orchard House Foods, the end user of the electricity generated by the anaerobic digestion plant, extending its service agreement for 6 months or longer. The service agreements term runs concurrently with the lease term and is between the Orchard House Foods and Bio Wayste Holdings Ltd., an independent service provider and the Partnership's lessee, who operates and maintains the anaerobic digestion plant in good working order.

The remaining 20% ownership interest is held by SQN Alternative Investment Fund II, LLC, which is another equipment leasing fund managed by the Investment Manager.

Public Address System

On August 19, 2011, the Partnership entered into a lease transaction for a public address system for a Scottish Premier League football team located in Scotland with a lease term of 48 months.

On February 13, 2012, the lessee went into Administration in Scotland. Administration in the United Kingdom is a process similar to reorganization under the Bankruptcy Code in the United States of America. The Administrator continues to conduct business as usual which it cannot legally do without the use of the Partnership's equipment. The Investment Manager confirmed with the Administrator that they intend to continue paying for the use of the equipment as prescribed for in the lease. The lessee had previously paid for the use of the leased equipment through February 15, 2012. Beginning February 16, 2012, the Administrator has agreed to pay for the continuing use of the leased equipment, monthly in arrears, which is in keeping with Administration procedures. On March 30, 2012, the Partnership received a payment from the Administrator totaling £28,644 ($45,794 applying exchange rates at March 31, 2012) which paid rent on this leased equipment through March 31, 2012. On April 16, 2012, the Partnership received a payment from the Administrator totaling £19,599 ($31,866 applying exchange rates at April 30, 2012) which paid the rent on this leased equipment through April 30, 2012.

Bottle Recycling and Extrusion Production Line

On June 29, 2011, the Partnership entered into a Participation Agreement (the "Agreement") for an ownership interest in a Hire Purchase Agreement (the "HP Agreement"). The HP Agreement is between an independent United Kingdom leasing entity and the lessee of a bottle recycling and extrusion line located in the United Kingdom.

Under the terms of the HP Agreement there is both an initial rental period and a fixed rental period. The initial rental period has been extended until the earlier of either; (i) twelve months from date of the HP Agreement or (ii) the Plant Valuation date, as defined in the HP Agreement. The Investment Manager believes that the fixed rental period will begin on July 1, 2012.

Investment in finance leases consisted of the following:

	March 31, 2012 (Unaudited)	December 31, 2011
Minimum rents receivable	$ 6,673,061	$ 5,575,250
Estimated unguaranteed residual value	419,770	392,385
Unearned income	(1,845,123)	(1,656,760)
	$ 5,247,708	$ 4,310,875

At March 31, 2012, the aggregate amounts of future minimum lease payments receivable are as follows:

	Lease Payment Currencies		
	US Dollars	British Pounds (1)	Total
Years Ending March 31,			
2013	$ —	$ 1,690,678	$1,690,678
2014	—	1,745,780	1,745,780
2015	—	1,272,854	1,272,854
2016	—	980,876	980,876
2017	—	785,352	785,352
Thereafter	—	197,521	197,521
	$ —	$ 6,673,061	$6,673,061

(1) Converted to US Dollars at the March 31, 2012 exchange rate.

5. Investment in Equipment Subject to Operating Leases

On March 29, 2012, the Partnership entered into an operating lease transaction for 10,000 reusable plastic bulk storage bins used in the agricultural and food processing industries for $1,150,000 with a lease term of 60 months. The equipment is located in the United States of America. Under the terms of the agreement the Partnership will receive monthly payments of $20,547. The lessee paid a security deposit of $297,176 which will be refunded at the termination of the lease period only if the lessee has made all its payments. On December 31, 2011, the Partnership paid initial direct costs associated with the acquisition of this leased equipment totaling $42,641 which has been included in the cost of the leased equipment.

Investments in equipment subject to operating leases consisted of the following:

	March 31, 2012 (Unaudited)	December 31, 2011
Plastic bulk storage bins	$ 1,192,641	$ —
Accumulated depreciation	—	—
	$ 1,192,641	$ —

At March 31, 2012, the aggregate amounts of future minimum lease payments receivable are as follows:

	Total
Years Ending March 31,	
2013	$ 246,564
2014	246,564
2015	246,564
2016	246,564
2017	246,564
Thereafter	—
	$1,232,820

6. Residual Value Investment in Equipment on Lease

On March 30, 2012, the Partnership entered into a Participation Agreement to purchase from an entity controlled by SAM (the "Selling Entity"), an 18.08% residual value interest in a pool of intermediate bulk agricultural containers located in the United States of America for $1,367,173. The remaining ownership interests in the residual value of the intermediate bulk agricultural containers is owned 80.92% by SQN Alternative Investment Fund I, LLC, another entity managed by the Partnership's Investment Manager and 1.00% by the Selling Entity. SAM has guaranteed the obligations of the Selling Entity under this agreement. The initial lease term expires June 29, 2013.

7. Equipment Notes Receivable

On February 2, 2012, the Partnership made an additional payment under a Senior Loan Note Instrument (the "Instrument") with Romney Hydropower Company Limited for £250,000 ($395,750 applying exchange rates at February 15, 2012).

On October 31, 2011, the Partnership entered into the Instrument with a special purpose entity controlled by SAM. This special purpose entity was set-up to provide financing for a hydro-electricity generating plant located on the Romney Weir in Windsor, England. The total amount available under the Instrument is £1,700,000, accrues interest at 12.0% per year and is guaranteed by the borrower's parent company. Interest accrues on the Instrument until the project commencement date, as defined in the agreement, at which time all accrued interest is due and payable. Thereafter, repayment consisting of principal and interest commences three months after the project commencement date and quarterly thereafter. Quarterly principal and interest payments are calculated as follows: £46 per £1,000 of original outstanding principal for the first eight years and the £22 per £1,000 of original outstanding principal for the next three years.

8. Fair Value Measurements

The Partnership follows the fair value guidance in ASC Topic 820, *Fair Value Measurements and Disclosures ("ASC 820")* for items that are required to be measured at fair value. ASC 820's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. ASC 820 classifies these inputs into the following hierarchy:

Level 1 Inputs – Quoted prices for identical instruments in active markets.

Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs – Instruments with primarily unobservable value drivers.

Fair value information with respect to the Partnership's leased assets and liabilities are not separately provided for since ASC 820 does not require fair value disclosures of leasing arrangements.

The Partnership's carrying value of cash and cash equivalents, escrow deposits, accounts receivable, other assets, accounts payable and accrued liabilities, due to SQN Securities, LLC and Limited Partners contributions received in advance, approximate fair value due to their short term until maturity.

The Partnership's carrying values and approximate fair values of Level 3 inputs were as follows:

	March 31, 2012 (Unaudited)		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Equipment notes receivable, including accrued interest	$ 1,906,202	$1,906,202	$ 1,407,231	$1,407,231

The carrying amount of the Partnership's equipment note receivable, including accrued interest approximates, fair value at March 31, 2012, based on the following factors: (i) interest rates have remained stable, (ii) the basic technology, the Archimedes Screw, is thousands of year old and has been successfully used in other hydro-electric generating plants in Europe, (iii) there is minimal credit risk associated with the lessee and (iv) the short period of time between funding this equipment note receivable and March 31, 2012.

9. Business Concentrations

For the three months ended March 31, 2012, the Partnership had three lessee's which accounted for 59.9%, 18.4% and 16.3%, respectively, of income derived from leasing activities. At March 31, 2012, three of the Partnership's investments in finance leases accounted for 37.8%, 11.3% and 10.1% of the Partnership's total leased equipment. At March 31, 2012, the Partnership's investment in equipment subject to operating leases and residual value investment in equipment on lease accounted for 15.3% and 17.5%, respectively, of the Partnerships total leased equipment. At March 31, 2012, the Partnership's equipment note receivable was from one debtor.

For the three months ended March 31, 2012, 100% of the equipment leasing transactions and financing transactions the Partnership entered into were originated by SAM. The Partnership paid a total of $3,574,234 to acquire these equipment leases and financing transactions.

10. Geographic Information

Geographic information for revenue and long-lived assets for the three months ended March 31, 2012 and at March 31, 2012, was as follows:

	United States	Europe	Total
Revenue:			
Rental income	$ —	$ 89,146	$ 89,146
Finance income	$ —	$ 59,746	$ 59,746
Long-lived assets:			
Investment in finance leases, net	$ —	$5,247,708	$5,247,708
Investments in equipment subject to operating leases, net	$1,192,641	$ —	$1,192,641
Residual value investment in equipment on lease	$1,367,173	$ —	$1,367,173
Equipment notes receivable, including accrued interest	$ —	$1,906,202	$1,906,202

Geographic information for long-lived assets at December 31, 2011, was as follows:

Long-lived assets:			
Investment in finance leases, net	$ —	$4,310,875	$4,310,875
Equipment notes receivable, including accrued interest	$ —	$1,407,231	$1,407,231

11. Indemnifications

The Partnership enters into contracts that contain a variety of indemnifications. The Partnership's maximum exposure under these arrangements is not known.

In the normal course of business, the Partnership enters into contracts of various types, including lease contracts, contracts for the sale or purchase of lease assets, and management contracts. It is prevalent industry practice for most contracts of any significant value to include provisions that each of the contracting parties, in addition to assuming liability for breaches of the representations, warranties, and covenants that are part of the underlying contractual obligations, to also assume an obligation to indemnify and hold the other contractual party harmless for such breaches, and for harm caused by such party's gross negligence and willful misconduct, including, in certain instances, certain costs and expenses arising from the contract. Generally, to the extent these contracts are performed in the ordinary course of business under the reasonable business judgment of the General Partner and Investment Manager, no liability will arise as a result of these provisions. The General Partner and Investment Manager knows of no facts or circumstances that would make the Partnership's contractual commitments outside standard mutual covenants applicable to commercial transactions between businesses. Accordingly, the Partnership believes that these indemnification obligations are made in the ordinary course of business as part of standard commercial and industry practice, and that any potential liability under the Partnership's similar commitments is remote. Should any such indemnification obligation become payable, the Partnership would separately record and/or disclose such liability in accordance with accounting principles generally accepted in the United States of America.

12. Subsequent Events

From April 1, 2012 through May 10, 2012, the Partnership admitted an additional 19 Limited Partners with capital contributions totaling $1,955,000. For the period from April 1, 2012 through May 10, 2012, the Partnership incurred and paid to Securities $39,100 in distribution expenses related to the capital contributions raised during this time period.

Item 2. General Partner’s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our current financial position and results of operations. This discussion should be read together with our Annual Report on Form 10-K, dated March 29, 2012. This discussion should also be read in conjunction with the disclosures below regarding “Forward-Looking Statements” and the “Risk Factors” set forth in Item 1A of Part II of this Quarterly Report on Form 10-Q.

As used in this Quarterly Report on Form 10-Q, references to “we,” “us,” “our” or similar terms include SQN Alternative Investment Fund III L.P.

Forward-Looking Statements

Certain statements within this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). These statements are being made pursuant to the PSLRA, with the intention of obtaining the benefits of the “safe harbor” provisions of the PSLRA, and, other than as required by law, we assume no obligation to update or supplement such statements. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. You can identify these statements by the use of words such as “may,” “will,” “could,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “continue,” “further,” “seek,” “plan,” or “project” and variations of these words or comparable words or phrases of similar meaning. These forward-looking statements reflect our current beliefs and expectations with respect to future events and are based on assumptions and are subject to risks and uncertainties and other factors outside our control that may cause actual results to differ materially from those projected. We undertake no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Overview

We are a Delaware limited partnership formed on March 10, 2010. We operate a fund in which the capital invested by partners is pooled together. This pool of capital is then used to invest in business-essential, revenue-producing (or cost-saving) equipment and other physical assets with substantial economic lives and, in many cases, associated revenue streams. The pooled capital contributions are also used to pay fees and expenses associated with our organization and to fund a capital reserve.

Our principal investment strategy is to invest in business-essential, revenue-producing (or cost-savings) equipment with high in-place value and long, relative to the investment term, economic life. We expect to achieve our investment strategy by making investments in equipment already subject to lease or originating equipment leases in such equipment, which will include: (i) purchasing equipment and leasing it to third-party end users; (ii) providing equipment and other asset financing; (iii) acquiring equipment subject to lease and (iv) acquiring ownership rights (residual value interests) in leased equipment at lease expiration. From time to time, we may also purchase equipment and sell it directly to our leasing customers.

Many of our investments are anticipated to be structured as full payout or operating equipment leases. In addition, we invest by way of participation agreements and residual sharing agreements where we acquire an interest in a pool of equipment or other assets or rights to those equipment or other assets, at a future date. We also structure investments as project financings that are secured by, among other things, essential use equipment and/or other assets. Finally, we use other investment structures, such as vendor and rental (hire) programs that our Investment Manager believes will provide us the appropriate level of security, collateralization, and flexibility to optimize our return on investment while protecting against downside risk. In most cases, the structure includes us holding title to or a priority position in the equipment or other assets.

Although the overall composition of our portfolio cannot be determined at this early stage, we invest in equipment and other assets that are considered essential use or core to a business or operation in the agricultural, energy, environmental, medical, manufacturing, technology, and transportation industries. Our Investment Manager also may identify other assets or industries that meet our investment objectives. We invest in assets and equipment located primarily within the European Union (predominately in the United Kingdom), the United States of America and Canada.

We divide our life into three distinct stages: (i) the Offering Period, (ii) the Operating Period and (iii) the Liquidation Period. The Offering Period is the time-frame in which we raise capital contributions from Limited Partners through the sale of our units in limited partnerhsip interests (“Units”). The Operating Period commences on the initial closing date of our first equipment lease transaction and will last for three years unless it is extended, at the sole discretion of our General Partner for a maximum of two one-year extensions. Our Offering Period and Operating Period will overlap. The Liquidation Period is the period in which we will sell our assets in the ordinary course of business and will last four years, unless it is extended, at the sole discretion of our General Partner for a maximum of two one-year extensions.

We were declared effective by the SEC on March 17, 2011, which is the date our Offering Period began. Since that time through December 31, 2011, we have admitted 137 Limited Partners, raised $8,450,900 in capital contributions and paid or accrued $963,721 in organizational and offering costs. During this span of time we paid or accrued to Securities $169,018 in distribution expenses.

For the three months ended March 31, 2012, we admitted an additional 71 Limited Partners with total capital contributions of $4,840,000. During this time period, we paid an additional $31,398 in organizational and offering costs and our investment Manager and Securities paid $17,945 and $4,980, respectively, in organizational and offering costs on our behalf. For the three months ended March 31, 2012, Securities was paid $96,800 which is included in offering and distribution expenses in the condensed statements of changes in partners’ equity.

We commenced our Operating Period on June 29, 2011 with our first equipment transaction. During the Operating Period we will invest most of the net offering proceeds in items of equipment that are subject to leases, equipment financing transactions, and residual ownership rights in leased equipment. After the net offering proceeds are invested, additional investments will be made with the cash proceeds generated from our initial investments, to the extent that cash is not needed for expenses, reserves, or distributions to Limited Partners. The investment in additional equipment in this manner is called “reinvestment.”

Recent Significant Transactions

Reusable Plastic Bulk Bins

On March 29, 2012, we entered into an operating lease transaction for 10,000 reusable plastic bulk storage bins used in the agricultural and food processing industries for $1,150,000 with a lease term of 60 months. The equipment is located in the United States of America. Under the terms of the agreement we will receive monthly payments of $20,547. The lessee paid a security deposit of $297,176 which will be refunded at the termination of the lease period only if the lessee has made all its payments. On December 31, 2011, we paid initial direct costs associated with the acquisition of this leased equipment totaling $42,641 which has been included in the cost of the leased equipment.

Anaerobic Digestion Plant

On February 16, 2012, we entered into a finance lease transaction for an 80% ownership interest in an anaerobic digestion plant located in the United Kingdom for £576,000 ($912,845 applying exchange rates at February 29, 2012). An anaerobic digestion plant is a series of processes in which microorganism’s breakdown biodegradable materials and produces a biogas which can be used to generate electricity. The lease term is 48 months. Under the terms of the agreement we will receive monthly payments of £15,740 ($24,945 applying exchange rates at February 29, 2012) through September 20, 2015 and then through January 20, 2016, there will be a rent holiday, where no payments are due. At the expiration of the lease term, the lessee has an option to: (i) make a one-time payment of £64,074 ($101,544 applying exchange rates at February 29, 2012) or (ii) make 4 additional monthly payments of £15,740 ($24,945 applying exchange rates at February 29, 2012) and then a final payment of £3,046 ($4,827 applying exchange rates at February 29, 2012). We will also share in the semi-annual cash payments made under a United Kingdom government program for the production of alternative energy. We will account for this as contingent rental payments. Once the final payment is received title to the equipment will pass to the lessee. On February 28, 2012, we paid initial direct costs of £28,800 ($45,642 applying exchange rates at February 29, 2012) relating to the acquisition of this leased equipment.

The option is contingent upon Orchard House Foods, the end user of the electricity generated by the anaerobic digestion plant, extending its service agreement for 6 months or longer. The service agreements term runs concurrently with the lease term and is between the Orchard House Foods and Bio Wayste Holdings Ltd., an independent service provider and our lessee, who operates and maintains the anaerobic digestion plant in good working order.

The remaining 20% ownership interest is held by SQN Alternative Investment Fund II, LLC, which is another equipment leasing fund managed by the Investment Manager.

Hydroelectric Facility Loan Receivable

On February 2, 2012, we made an additional payment under a Senior Loan Note Instrument (the "Instrument") with Romney Hydropower Company Limited for £250,000 ($395,750 applying exchange rates at February 15, 2012).

On October 31, 2011, we entered into the Instrument with a special purpose entity controlled by Summit Asset Management. This special purpose entity was set-up to provide financing for a hydro-electricity generating plant located on the Romney Weir in Windsor, England. The total amount available under the Instrument is £1,700,000, accrues interest at 12.0% per year and is guaranteed by the borrower's parent company. Interest accrues on the Instrument until the project commencement date, as defined in the agreement, at which time all accrued interest is due and payable. Thereafter, repayment consisting of principal and interest commences three months after the project commencement date and quarterly thereafter. Quarterly principal and interest payments are calculated as follows: £46 per £1,000 of original outstanding principal for the first eight years and the £22 per £1,000 of original outstanding principal for the next three years.

Recent Accounting Pronouncements

Refer to Part I Item 1. Financial Statements, Note 2 Summary of Significant Accounting Policies, Recent Accounting Pronouncements in our condensed financial statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies

An understanding of our critical accounting policies is necessary to understand our financial results. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires our General Partner and our Investment Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates primarily include the determination of allowance for doubtful accounts, depreciation and amortization, impairment losses and the estimated useful lives and residual values of the leased equipment we acquire. Actual results could differ from those estimates.

Lease Classification and Revenue Recognition

Each equipment lease we enter into is classified as either a finance lease or an operating lease, which is determined at lease inception, based upon the terms of each lease, or when there are significant changes to the lease terms. We capitalizes initial direct costs ("IDC") associated with the origination and funding of lease assets. IDC includes both internal costs (e.g., labor and overhead) and external broker fees incurred with the origination. Costs related to leases that are not consummated are not eligible for capitalization as IDC and are expensed as incurred as acquisition expense. For a finance lease, IDC is capitalized and amortized over the lease term using the effective interest rate method. For an operating lease, the initial direct costs are included as a component of the cost of the equipment and depreciated over the lease term.

For finance leases, we record, at lease inception, the total minimum lease payments receivable from the lessee, the estimated unguaranteed residual value of the equipment at lease termination, the initial direct costs related to the lease, if any, and the related unearned income. Unearned income represents the difference between the sum of the minimum lease payments receivable, plus the estimated unguaranteed residual value, minus the cost of the leased equipment. Unearned income is recognized as finance income over the term of the lease using the effective interest rate method.

For operating leases, rental income is recognized on a straight-line basis over the lease term. Billed operating lease receivables are included in accounts receivable until collected. Accounts receivable are stated at their estimated net realizable value. Deferred revenue is the difference between the timing of the receivables billed and the income recognized on a straight-line basis.

Our Investment Manager has an investment committee that approves each new equipment lease and other financing transaction. As part of its process, the investment committee determines the residual value, if any, to be used once the investment has been approved. The factors considered in determining the residual value include, but are not limited to, the creditworthiness of the potential lessee, the type of equipment considered, how the equipment is integrated into the potential lessee's business, the length of the lease and the industry in which the potential lessee operates. Residual values are reviewed for impairment in accordance with our impairment review policy.

The residual value assumes, among other things, that the asset is utilized normally in an open, unrestricted and stable market. Short-term fluctuations in the marketplace are disregarded and it is assumed that there is no necessity either to dispose of a significant number of the assets, if held in quantity, simultaneously or to dispose of the asset quickly. The residual value is calculated using information from various external sources, such as trade publications, auction data, equipment dealers, wholesalers and industry experts, as well as inspection of the physical asset and other economic indicators.

Asset Impairments

The significant assets in our portfolio are periodically reviewed, no less frequently than annually or when indicators of impairment exist, to determine whether events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss will be recognized only if the carrying value of a long-lived asset is not recoverable and exceeds its fair value. If there is an indication of impairment, we will estimate the future cash flows (undiscounted and without interest charges) expected from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If an impairment is determined to exist, the impairment loss will be measured as the amount by which the carrying value of a long-lived asset exceeds its fair value and recorded in the statement of operations in the period the determination is made.

The events or changes in circumstances that generally indicate that an asset may be impaired are, (i) the estimated fair value of the underlying equipment is less than its carrying value, (ii) the lessee is experiencing financial difficulties and (iii) it does not appear likely that the estimated proceeds from the disposition of the asset will be sufficient to satisfy the residual position in the asset. The preparation of the undiscounted cash flows requires the use of assumptions and estimates, including the level of future rents, the residual value expected to be realized upon disposition of the asset, estimated downtime between re-leasing events and the amount of re-leasing costs. Our Investment Manager's review for impairment includes a consideration of the existence of impairment indicators including third-party appraisals, published values for similar assets, recent transactions for similar assets, adverse changes in market conditions for specific asset types and the occurrence of significant adverse changes in general industry and market conditions that could affect the fair value of the asset.

Depreciation

We record depreciation expense on equipment when the lease is classified as an operating lease. In order to calculate depreciation, we first determine the depreciable equipment cost, which is the cost less the estimated residual value. The estimated residual value is our estimate of the value of the equipment at lease termination. Depreciation expense is recorded by applying the straight-line method of depreciation to the depreciable equipment cost over the lease term.

Results of Operations for the three months ended March 31, 2012 (the "2012 Quarter") compared to the three months ended March 31, 2011 (the "2011 Quarter")

We are currently in our Offering Period and entered into our initial lease transaction on June 29, 2011, which marked the beginning of our Operating Period. The Offering Period is designated as the period in which we are raising capital from investors. During this period we expect to generate the majority of our cash in-flow from financing activities. We have also entered our Operating Period, which is defined as the period in which we invest the net offering proceeds from the Offering Period into business-essential, revenue-producing (or cost saving) equipment and other physical assets with substantial economic lives and, in many cases, associated revenue streams. During this period we anticipate substantial cash outflows from investing activities as we acquire leased equipment.

We are currently in both our Offering Period and our Operating Period. During our Offering Period we will continue raising capital contributions from Limited Partners until, the earlier of: (i) raising $50,000,000 in Limited Partner capital contributions or (ii) March 17, 2013.

During our Operating Period, we will continue to make investments in leased equipment and financing transactions with the cash generated from our initial investments, to the extent that the cash will not be needed for expenses, reserves and distributions to our Limited Partners. As our investments mature, we anticipate reinvesting the cash proceeds in additional investments in leased equipment and financing transactions. We anticipate incurring gains and losses on our investments during our Operating Period. Additionally, we expect to see our rental income and finance income increase, as well as related expenses, such as depreciation and amortization expense.

Our revenue for the 2012 Quarter compared to the 2011 Quarter is summarized as follows:

	Three Months Ended March 31,	
	2012	2011
Revenue:		
Rental income	$ 89,146	$ —
Finance income	59,746	—
Interest income	51,774	—
Total Revenue	$ 200,666	$ —

For the 2012 Quarter we earned total revenue of $200,666. Our rental income of $89,146 was earned from one lessee in the United Kingdom relating to a bottling recycling and extrusion production line. This lessee has both an initial rental period and a fixed rental period. The initial rental period was for four months but was extended when the lessee reached certain milestones. Accordingly, the initial rental period has been extended until the earlier of either; (i) twelve months from date of the HP Agreement or (ii) the Plant Valuation date, as defined in the HP Agreement. Our Investment Manager anticipates that the fixed rental period will begin on July 1, 2012. Once the fixed rental period begins the revenue will likely become finance income, as we reassess the classification of the lease terms. During late March 2012, we entered into a lease where the equipment is located in the United States of America and going forward we expect will generate rental income over the next 60 months.

We earned our finance revenue of $59,746 from three lessees located in the United Kingdom. As we acquire additional leases classified as finance leases we believe our finance income will continue to grow. We earned $49,828 of our interest income from our equipment notes receivable, which is with a single entity located in the United Kingdom.

Our expenses for the 2012 Quarter compared to the 2011 Quarter are summarized as follows:

	Three Months Ended March 31,	
	2012	2011
Expenses:		
Management fees - Investment Manager	$ 180,000	$ —
Professional fees	75,098	18,727
Depreciation and amortization	63,380	—
Fund administration expense	13,095	10,500
Other expenses	1,322	54
Foreign currency transaction gain	(256,348)	—
Total Expenses	$ 76,547	$ 29,281

During the 2012 Quarter, we incurred total expenses, excluding a foreign currency transaction gain, of $332,895 compared to $29,281 for the 2011 Quarter. During the 2011 Quarter we were beginning our operations, we had just entered our Offering Period and had not yet begun our Operating Period, and accordingly we had incurred few expenses when compared to the 2012 Quarter where we are in both our Offering Period and our Operating Period. We envision that, (i) as we admit additional Limited Partners and (ii) as we enter into more lease transactions and financings our expenses will increase.

Our largest expense was $180,000 for management fee expense paid to our Investment Manager. The monthly management fee reimburses our Investment Manager for normal overhead expenses, which include, but are not limited to, employee compensation, rent, professional services, office equipment, and supplies. The significant portion of our professional fees, $73,500, related to a combination of compliance work regarding the rules and regulations of the SEC and for income tax matters. Depreciation and amortization totaled $63,380 for the 2012 Quarter. Depreciation totaled $36,000 and related solely to the equipment purchased in the HP Agreement. Once the initial rental period is completed this equipment is not expected to incur any additional depreciation expense. Amortization expense totaled $27,380 and relates to the amortization of initial direct costs incurred during the acquisition of leased equipment. Since the amortization expense is calculated using the effective interest rate method amortization will be greater in the early years of our leased equipment and decrease over time.

For the 2012 Quarter we incurred a foreign currency transaction gain of $256,348: $254,507 related directly to our equipment leasing transactions or project financings in the United Kingdom and Scotland and $1,841 related to foreign exchange fluctuation changes in our cash account located in the United Kingdom. The exchange rate between the British Pound and the United States of America dollar increased 3.5% during the 2012 Quarter. We do not currently, and we have no plans in the future to hedge our British pounds sterling activity. We expect to have gains and losses relating to our foreign currency transactions and the swings may be large from period to period.

Net Income

As a result of the factors discussed above we earned net income for the 2012 Quarter of $124,119 compared to a net loss for the 2011 Quarter of $29,281.

Liquidity and Capital Resources

Sources and Uses of Cash

	Three Months Ended March 31, 2012	2011
Cash provided by (used in):		
Operating activities	$ 33,097	$ (54)
Investing activities	$ (3,574,234)	$ —
Financing activities	$ 4,711,802	$ 500

Sources of Liquidity

We are currently in both our Offering Period and our Operating Period. The Offering Period is the time-frame in which we raise capital contributions from Limited Partners through the sale of our Units. As such, we expect that a substantial portion of our cash in-flows will be from financing activities. The Operating Period is the time-frame in which we acquire equipment under lease or enter into other equipment financing transactions. During this time period we anticipate that a substantial portion of our cash out-flows will be for investing activities. We believe that the cash in-flows will be sufficient to finance our liquidity requirements for the foreseeable future, including semi-annual distributions to our Limited Partners, general and administrative expenses, fees paid to our Investment Manager and new investment opportunities.

Operating Activities

Cash provided by operating activities for the 2012 Quarter was primarily driven by the following factors; (i) our net income for the 2012 Quarter of $124,119 and (ii) from rental payments from our finance leases totaling $200,873. Offsetting these increases was a decrease in non-cash activities in foreign currency transaction gains of $254,508, which was due to the unrealized gains we incurred from our equipment leasing and financing transactions during the 2012 Quarter. We anticipate that as we enter into additional equipment leasing transactions we will generate greater net cash in-flows from operations.

Investing Activities

Cash used in investing activities was $3,574,234 for the 2012 Quarter. This decrease was solely related to our purchase of various equipment leases and financing transactions; (i) we purchased an anaerobic digestion plant for $912,845 and paid an additional $45,642 in initial direct costs, (ii) we purchased reusable plastic bulk bins for $852,824, excluding initial direct costs paid during December 31, 2011 of $42,641, (iii) we purchased a residual interest in agricultural containers for $1,367,173 and (iii) we made an additional funding under a Senior Loan Note Instrument for $395,750.

Financing Activities

Cash provided by financing activities was $4,711,802 for the 2012 Quarter. During the 2012 Quarter we raised $4,840,000 in capital contributions from the additional 71 Limited Partners we admitted. Offsetting this was offering and distribution expenses paid of $128,198. We expect to continue generating cash in-flows during the Offering Period. Thereafter we believe we will generate cash out-flows primarily from distributions to our Limited partners.

Financings and Borrowings

None.

Distributions

We will make, at the sole discretion of our Investment Manager and contingent upon the availability of funds, semi-annual cash distributions to each Limited Partner computed at 3% (pro-rated to the date of admission for each Limited Partner) of each Limited Partner's capital contribution, beginning six months after the Partnership's initial closing which occurred on May 2, 2011. We expect to make distributions to our Limited Partner's through the Operating Period. We expect our next distribution will be on November 1, 2012.

On May 1, 2012, we paid a distribution to our Limited Partners of $293,758.

Commitments and Contingencies and Off-Balance Sheet Transactions

Commitment and Contingencies

At March 31, 2012 we had a liability for Limited Partners contributions received in advance totaling $245,000. Any Investors whom we do not admit as Limited Partners, within a reasonable period of time, will be refunded the amount they intended to invest.

Our income, losses and distributions are allocated 99% to our Limited Partners and 1% to our General Partner until the Limited Partners have received total distributions equal to each Limited Partners' capital contribution plus an 8%, compounded annually, cumulative return on each Limited Partners' capital contribution. After such time, income, losses and distributions will be allocated 80% to our Limited Partners and 20% to our General Partner.

We enter into contracts that contain a variety of indemnifications. Our maximum exposure under these arrangements is not known.

In the normal course of business, we enter into contracts of various types, including lease contracts, contracts for the sale or purchase of lease assets, and management contracts. It is prevalent industry practice for most contracts of any significant value to include provisions that each of the contracting parties, in addition to assuming liability for breaches of the representations, warranties, and covenants that are part of the underlying contractual obligations, to also assume an obligation to indemnify and hold the other contractual party harmless for such breaches, and for harm caused by such party's gross negligence and willful misconduct, including, in certain instances, certain costs and expenses arising from the contract. Generally, to the extent these contracts are performed in the ordinary course of business under the reasonable business judgment of our General Partner and our Investment Manager, no liability will arise as a result of these provisions. Our General Partner and our Investment Manager knows of no facts or circumstances that would make our contractual commitments outside standard mutual covenants applicable to commercial transactions between businesses. Accordingly, we believe that these indemnification obligations are made in the ordinary course of business as part of standard commercial and industry practice, and that any potential liability under our similar commitments is remote. Should any such indemnification obligation become payable, we would separately record and/or disclose such liability in accordance with accounting principles generally accepted in the United States of America.

Off-Balance Sheet Transactions

None.

Contractual Obligations

During the Operating Period, we anticipate paying a semi-annual cash distribution to our partners equal to 3% of their capital contributions.

Subsequent Event

From April 1, 2012 through May 10, 2012, we admitted an additional 19 Limited Partners with capital contributions totaling $1,955,000. For the period from April 1, 2012 through May 10, 2012, we incurred and paid to SQN Securities, LLC $39,100 in distribution expenses related to the capital contributions raised during this time period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes to the disclosures related to these items since we filed our Annual Report on Form 10-K dated March 29, 2012.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, our General Partner and Investment Manager carried out an evaluation, under the supervision and with the participation of the management of our General Partner and Investment Manager, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our General Partner's and Investment Manager's disclosure controls and procedures as of the end of the period covered by this Report pursuant to the Securities Exchange Act of 1934. Based on the foregoing evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our General Partner's and Investment Manager's disclosure controls and procedures were effective.

In designing and evaluating our General Partner's and Investment Manager's disclosure controls and procedures, our General Partner and Investment Manager recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our General Partner's and Investment Manager's disclosure controls and procedures have been designed to meet reasonable assurance standards. Disclosure controls and procedures cannot detect or prevent all error and fraud. Some inherent limitations in disclosure controls and procedures include costs of implementation, faulty decision-making, simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all anticipated and unanticipated future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with established policies or procedures.

Evaluation of internal control over financial reporting

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any material legal proceedings that are currently pending against us or against any of our assets.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K dated March 29, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our Registration Statement on Form S-1, as amended, was declared effective by the SEC on March 17, 2011. Our Offering Period commenced on March 17, 2011 and is anticipated to end no later than March 16, 2013. For the 2012 Quarter, we admitted 71 Limited Partners with total capital contributions of $4,840,000 and we incurred and paid to SQN Securities, LLC $96,800 in distribution expense related to the capital contributions raised during the 2012 Quarter.

From April 1, 2012 through May 10, 2012, we admitted an additional 19 Limited Partners with capital contributions totaling $1,955,000. For the period from April 1, 2012 through May 10, 2012, we incurred and paid to SQN Securities, LLC $39,100 in distribution expenses related to the capital contributions raised during this time period.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2012.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

31.1	Certification of President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of President and Chief Executive pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

File No. 333-166195
SQN AIF III GP, LLC
General Partner of the Registrant

May 11, 2012

/s/ JEREMIAH SILKOWSKI

Jeremiah Silkowski
Chief Executive Officer and President
(Principal Executive Officer)

May 11, 2012

/s/ DAVID C. WRIGHT

David C. Wright
Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT 31.1

CERTIFICATION

I, Jeremiah Silkowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SQN Alternative Investment Fund III L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of 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 officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) 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
    d) 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 officer(s) 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: May 11, 2012

/s/ Jeremiah Silkowski

Jeremiah Silkowski
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, David C. Wright, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SQN Alternative Investment Fund III L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of 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 officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 consolidate subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) 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
    d) 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 officer(s) 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: May 11, 2012

/s/ David C. Wright

David C. Wright
Chief Financial Officer
(Principal Financial Officer)

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 Quarterly Report of SQN Alternative Investment Fund III L.P. (the "Company") on Form 10-Q for the period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, the undersigned, Jeremiah Silkowski, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: May 11, 2012

/s/ Jeremiah Silkowski

Jeremiah Silkowski
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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 Quarterly Report of SQN Alternative Investment Fund III L.P. (the "Company") on Form 10-Q for the period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, the undersigned, David C. Wright, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: May 11, 2012

/s/ David C. Wright
David C. Wright
Chief Financial Officer
(Principal Financial Officer)