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**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 SEPTEMBER 30, 2011**

**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, 26<sup>th</sup> 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 November 10, 2011, there were 7,530.90 units of the Registrant's partnership interests issued and outstanding.

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**SQN Alternative Investment Fund III L.P.**

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**Part I — FINANCIAL INFORMATION**

SQN Alternative Investment Fund III L.P.  
Condensed Balance Sheets

|  | September 30,<br>2011 (Unaudited) | December 31, 2010    |
|--|-----------------------------------|----------------------|
| Assets   |                                   |                      |
| Cash and cash equivalents  | \$ 529,014                        | \$ 232               |
| Escrow deposits  | 1,519,773                         | —                    |
| Investment in finance leases, net  | 3,683,270                         | —                    |
| Initial direct costs, net of accumulated amortization of \$7,494 and \$- | 124,959                           | —                    |
| Other assets   | <u>8,673</u>                      | <u>—</u>             |
| <b>Total Assets</b>  | <b><u>\$ 5,865,689</u></b>        | <b><u>\$ 232</u></b> |
| Liabilities and Partners' Equity   |                                   |                      |
| Liabilities:   |                                   |                      |
| Accrued expenses   | \$ 120,850                        | \$ —                 |
| Limited Partners contributions received in advance                       | <u>1,517,400</u>                  | <u>—</u>             |
| <b>Total Liabilities</b>   | <b><u>1,638,250</u></b>           | <b><u>—</u></b>      |
| Partners' Equity:  |                                   |                      |
| Limited Partners   | 4,233,128                         | 133                  |
| General Partner  | <u>(5,689)</u>                    | <u>99</u>            |
| <b>Total Partners' Equity</b>  | <b><u>4,227,439</u></b>           | <b><u>232</u></b>    |
| <b>Total Liabilities and Partners' Equity</b>                            | <b><u>\$ 5,865,689</u></b>        | <b><u>\$ 232</u></b> |

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.  
Condensed Statements of Operations

|   | Three Months<br>Ended September<br>30, 2011<br>(Unaudited) | Nine Months Ended<br>September 30, 2011<br>(Unaudited) |
|---|--|--|
| <b>Revenue:</b>   |  |  |
| Rental income   | \$ 36,633  | \$ 36,633  |
| Finance income  | 9,984  | 9,984  |
| Interest income   | <u>944</u>   | <u>1,878</u>   |
| <b>Total Revenue</b>  | <u>47,561</u>  | <u>48,495</u>  |
| <b>Expenses:</b>  |  |  |
| Management fees — Investment Partner  | 180,000  | 300,000  |
| Fund administration expense   | 1,800  | 24,100   |
| Investor relations expense  | 4,245  | 4,245  |
| Professional fees   | 32,041   | 96,095   |
| Depreciation and amortization   | 15,494   | 15,494   |
| Other expenses  | 205  | 487  |
| Foreign currency transaction loss   | <u>186,806</u>   | <u>186,806</u>   |
| <b>Total Expenses</b>   | <u>420,591</u>   | <u>627,227</u>   |
| <b>Net Loss</b>   | <u>\$ (373,030)</u>  | <u>\$ (578,732)</u>                                    |
| <b>Net loss allocable to:</b>   |  |  |
| Limited Partners  | \$ (369,300)   | \$ (572,944)   |
| General Partner   | <u>(3,730)</u>   | <u>(5,788)</u>   |
|   | <u>\$ (373,030)</u>  | <u>\$ (578,732)</u>                                    |
| <b>Weighted average number of limited partnership interests outstanding</b>   | <u>4,768</u>   | <u>3,642</u>   |
| <b>Net loss attributable to Limited Partners per weighted average number of limited partnership interests outstanding</b> | <u>\$ (77.46)</u>  | <u>\$ (157.33)</u>                                     |

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.  
Condensed Statements of Changes in Partners' Equity  
Period From March 10, 2010 (Commencement of Operations) Through December 31, 2010  
and the Nine Months Ended September 30, 2011

|  | Limited<br>Partnership<br>Interests | Total               | General<br>Partner | Limited<br>Partners | Subscription<br>Receivable -<br>Limited Partner |
|--|-------------------------------------|---------------------|--------------------|---------------------|---|
| Partners capital contributions                             | 1.00                                | \$ 1,100            | \$ 100             | \$ 1,000            | \$ —  |
| Less: subscription receivable                              | —                                   | (750)               | —                  | —                   | (750)   |
| Net loss   | —                                   | (118)               | (1)                | (117)               | —   |
| Balance, December 31, 2010                                 | 1.00                                | 232                 | 99                 | 883                 | (750)   |
| Limited Partners capital contributions                     | 5,853.50                            | 5,853,500           | —                  | 5,853,500           | —   |
| Redemption of initial Limited Partner capital contribution | (1.00)                              | (250)               | —                  | (1,000)             | 750   |
| Offering and Distribution Expenses                         | —                                   | (1,047,311)         | —                  | (1,047,311)         | —   |
| Net loss   | —                                   | (578,732)           | (5,788)            | (572,944)           | —   |
| Balance, September 30, 2011 (Unaudited)                    | <u>5,853.50</u>                     | <u>\$ 4,227,439</u> | <u>\$(5,689)</u>   | <u>\$ 4,233,128</u> | <u>\$ —</u>                                     |

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.  
Condensed Statement of Cash Flows  
Nine Months Ended September 30, 2011  
(Unaudited)

|   |                    |
|---|--------------------|
| Cash flows from operating activities:                                       |                    |
| Net loss  | \$ (578,732)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                    |
| Finance income  | (9,984)            |
| Depreciation and amortization   | 15,494             |
| Foreign currency transaction loss   | 139,390            |
| Change in operating assets and liabilities:                                 |                    |
| Minimum rental payments received  | 96,127             |
| Other assets  | (8,673)            |
| Accrued expenses  | <u>20,850</u>      |
| Net cash used in operating activities                                       | <u>(325,528)</u>   |
| Cash flows from investing activities:                                       |                    |
| Purchase of finance leases  | (3,916,803)        |
| Cash paid for initial direct costs  | <u>(132,453)</u>   |
| Net cash used in investing activities                                       | <u>(4,049,256)</u> |
| Cash flows from financing activities:                                       |                    |
| Proceeds from Limited Partners' capital contributions                       | 5,853,500          |
| Cash paid for redemption of initial Limited Partner capital contribution    | (250)              |
| Cash paid for offering and distribution expenses                            | (947,311)          |
| Increase in escrow deposits   | (1,519,773)        |
| Limited Partners capital contributions received in advance                  | <u>1,517,400</u>   |
| Net cash provided by financing activities                                   | <u>4,903,566</u>   |
| Net increase in cash and cash equivalents                                   | 528,782            |
| Cash and cash equivalents, beginning of period                              | <u>232</u>         |
| Cash and cash equivalents, end of period                                    | <u>\$ 529,014</u>  |

See notes to condensed financial statements.

SQN Alternative Investment Fund III L.P.  
Notes to Condensed Financial Statements  
September 30, 2011  
(Unaudited)

## 1. Organization and Nature of Operations

**Nature of business and operations** — The condensed financial statements at September 30, 2011 and for the three and nine months ended September 30, 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 in the Prospectus, dated March 17, 2011, contained in the Partnership's Registration Statement on Form S-1, as amended.

SQN Alternative Investment Fund III L.P. (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 equipment 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 or originating equipment leases in such equipment.

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 will manage and control 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 will make all investment decisions and manage the investment portfolio of the Partnership.

On June 28, 2011, the officers of Summit Asset Management Limited ("SAM") which prior to that date had equal ownership of 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.

SQN Capital Corporation and SAM will, from time to time, originate transactions on their own behalf and offer to sell all or part of such transactions to the Partnership either individually or as a portfolio depending upon, among other things, the appropriateness of the proposed investment for the Partnership (as determined by the Investment Manager, in its sole discretion) and the amount available for investment by the Partnership at such time.

The Partnership will make, at the sole discretion of the Investment Manager, semi-annual cash distributions to each partner computed at 3% (pro-rated to the date of admission for each limited partner) of each 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.

A Limited Partner may not redeem their partnership interests 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.

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(Unaudited)

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 at \$1,000 per unit) or March 17, 2013. During the Operating Period the Partnership invests most of the net proceeds from its offering 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 generated from the Partnership's initial investments, to the extent that cash is not needed for expenses, reserves, or distributions to 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.

On May 2, 2011, the first business day after April 30, 2011, the Partnership admitted its initial 19 Limited Partners with total capital contributions of \$1,200,000. From May 3, 2011 through September 30, 2011, the Partnership admitted an additional 76 Limited Partners with total capital contributions of \$4,653,500.

## 2. Summary of Significant Accounting Policies

**Cash and cash equivalents** — The Partnership considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of funds maintained in checking and money market accounts held at financial institutions.

The Partnership's cash and cash equivalents are held principally at two financial institutions and at times may exceed federally insured limits. The Partnership has placed these funds in high quality institutions in order to minimize risk relating to exceeding insured limits.

**Finance lease receivables and allowance for doubtful accounts** — In the normal course of business, the Partnership provides credit or financing to its customers, performs credit evaluations of these customers, and maintains reserves for potential credit losses. These credit or financing transactions are normally collateralized by the equipment being financed. In determining the amount of allowance for doubtful accounts, the Investment Manager considers historical credit losses, the past due status of receivables, payment history, and other customer-specific information. The past due status of a receivable is based on its contractual terms. Expected credit losses are recorded as an allowance for doubtful accounts. Receivables are written off when the Investment Manager determines they are uncollectible. An allowance for doubtful accounts is not currently provided since, in the opinion of the Investment Manager, all accounts recorded on the books are deemed collectible.

**Risks and uncertainties** — In the normal course of business, the Partnership is exposed to credit risk. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments. Concentrations of credit risk with respect to lessees are dispersed across different industry segments throughout the United Kingdom. Although the Partnership does not currently foresee a concentrated credit risk associated with these customers, lease payments are dependent upon the financial stability of the industry segments in which they operate.

**Asset impairments** — The significant assets in the Partnership's investment 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 is recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. If there is an indication of impairment, the Partnership estimates 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 is measured as the amount by which the carrying value of a long-lived asset exceeds its fair value and is recorded in the statement of operations in the period the determination is made.



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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 value in the asset. The preparation of the undiscounted cash flows requires the use of assumptions and estimates, including the level of future rents or receipts from the sale of the residual value investment, estimated downtime between re-leasing events, and the amount of re-leasing costs. The 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.

**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 will be capitalized and amortized over the term of the related lease for a finance lease. For an operating lease, the initial direct costs will be included as a component of the cost of the equipment and depreciated.

For finance leases, the Partnership will record, 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 will be recognized as finance income over the term of the lease using the effective interest rate method.

For operating leases, rental income will be recognized on a straight line basis over the lease term. Billed and uncollected operating lease receivables will be included in accounts receivable. Accounts receivable will be stated at their 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 lessee's 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.

**Initial direct costs** — The Partnership 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. These costs are amortized on a lease by lease basis based on actual contract term using the effective interest rate method for finance leases and a straight-line method for operating leases. Upon disposal of the underlying lease assets, both the IDC and the associated accumulated amortization are relieved. Costs related to leases that are not consummated are not eligible for capitalization as initial direct costs and are expensed as incurred as acquisition expense.

**Acquisition expense** — Acquisition expense represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses, and miscellaneous expenses related to selection and acquisition of equipment which are to be borne by the Partnership under the terms of the Registration Statement, as amended. As these costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.

**Income taxes** — As a partnership no provision for income taxes will be recorded since the liability for such taxes is that of each of the partners rather than the Partnership. The Partnership's income tax returns are subject to

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examination by the federal and state taxing authorities, and changes, if any, could adjust the individual income tax of the partners.

**Uncertain tax positions** — The Partnership has adopted the provisions of *Accounting for Uncertainty in Income Taxes* (“*Uncertain Tax Position*”). Uncertain Tax Position prescribes recognition thresholds that must be met before a tax position is recognized in the financial statements and provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under Uncertain Tax Position, an entity may only recognize or continue to recognize tax positions that meet a “more likely than not” threshold. The Partnership has evaluated its tax position for the period ended December 31, 2010 and the nine months ended September 30, 2011, and does not expect any material adjustments to be made. The tax year 2010 remains open to examination by the major taxing jurisdictions to which the Partnership is subject.

**Per Share Data** — Net loss attributable to the Partnership’s weighted average number of limited partnership interests is calculated based upon the weighted average number of limited partnership interests outstanding during the period.

**Foreign currency transactions** — The Partnership has designated the United States of America dollar as the functional currency for most of the Partnership’s operations in international locations. In those countries where the Partnership has designated the United States of America dollar as the functional currency, certain assets and liabilities are translated at historical exchange rates, revenues and expenses in these countries 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**

In September 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment* (“ASU 2011-08”), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The guidance is effective for annual and interim goodwill impairment testing performed for fiscal years beginning after December 15, 2011. The adoption of this guidance will not have an effect on the Partnership’s financial position or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220)* (“ASU 2011-05”), new accounting guidance related to the presentation of other comprehensive income (“OCI”). ASU 2011-05 eliminates the option to present components of OCI as part of the statement of changes in partners’ equity. ASU 2011-05 allows for a one-statement or two-statement approach, outlined as follows:

- One-statement approach: Present the components of net income and total net income, the components of OCI and total OCI, along with the total comprehensive income in a single continuous statement.
- Two-statement approach: Present the components of net income and total net income in the statement of operations. A statement of OCI would immediately follow the statement of operations and include the components of OCI and a total for OCI, along with the total of comprehensive income.

ASU 2011-05 also requires an entity to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income. At the FASB’s October 21, 2011 Board

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meeting it was decided that the effective date of this guidance will be deferred, therefore ASU 2011-05 will no longer be effective for interim and annual periods beginning after December 15, 2011.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU 2011-04”). ASU 2011-04 amends the accounting guidance related to fair value measurements in order to more closely align its disclosure requirements with those in International Financial Reporting Standards (“IFRS”). ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements and also changes certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Partnership’s financial position or results of operations.

### 3. Related Party Transactions

The General Partner is responsible for the day-to-day operations 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 2% of all capital contributions received by 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 General Partner also has a 1% interest in the profits, losses and distributions of the Partnership.

The Partnership also pays the Investment Manager an amount 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 and nine months ended September 30, 2011, the Partnership paid the Investment Manager \$180,000 and \$300,000, respectively, for management fees which is included in the condensed statement of operations.

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 interests 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. For the nine months ended September 30, 2011, Securities was paid \$117,070, which is included in offering and distribution expense in the condensed statement of changes in partners’ equity.

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

SQN Capital Corporation and SAM, will, from time to time, originate transactions on their own behalf and offer to sell all or part of such transactions to the Partnership either individually or as a portfolio depending upon, among other things, the appropriateness of the proposed investment for the Partnership (as determined by the Investment Manager, in its sole discretion) and the amount available for investment by the Partnership at such time.

### 4. Investment in finance lease

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 for £602,794 (\$985,509 applying exchange rates at August 31, 2011) with a lease term of 48 months. Under the terms of the agreement the Partnership is to receive quarterly lease payments of £58,797 (\$96,127 applying exchange rates at August 31, 2011) through May 16, 2014 and quarterly lease payments of £13,931 (\$22,775 applying exchange rates at August 31, 2011) through November 16, 2016. At the termination of the lease the lessee has a bargain purchase option to acquire the

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(Unaudited)

public address system for \$1. The Partnership paid initial direct costs of \$59,131 related to the acquisition of this leased equipment. For the three and nine months ended September 30, 2011, the Partnership incurred amortization expense related to this \$7,494.

On June 29, 2011, the Partnership entered into a lease transaction for a bottle recycling and extrusion line located in the United Kingdom for £1,830,000 (\$2,931,294 applying exchange rates at June 30, 2011) with a lease term of 60 months. Under the terms of the agreement the Partnership is to fund the lessee in two installments; an initial installment of £1,100,000 and a second installment of £730,000. The Partnership paid the initial installment on June 29, 2011, in the amount of \$1,774,520. The second installment was contingent upon the lessee raising its own equity of £3,000,000, which it reached during September 2011 and the Partnership funded the second installment on September 30, 2011 in the amount of \$1,185,220. At lease termination the lessee has an option to purchase the leased equipment for £253,821 (\$406,570 applying exchange rates at June 30, 2011). On July 14, 2011, the Partnership paid initial direct costs of \$73,322 related to the acquisition of this leased equipment.

During the period from the initial payment until the lease commences the Partnership earns monthly rental income of £11,229 (\$17,987 applying exchange rates at June 30, 2011). For the three and nine months ended September 30, 2011, the Partnership earned \$36,633 in rental income and incurred \$8,000 in depreciation expense. Once the lease commences, the Partnership will receive monthly payments of £40,937 (\$65,573 applying exchange rates at June 30, 2011).

Investment in finance lease consists of the following at September 30, 2011:

|                          |                     |
|--------------------------|---------------------|
| Minimum rents receivable | \$ 4,935,476        |
| Estimated residual value | 406,570             |
| Unearned income          | <u>(1,658,776)</u>  |
|                          | <u>\$ 3,683,270</u> |

At September 30, 2011, the aggregate amounts of future minimum lease payments receivable are as follows:

|                            |                    |
|----------------------------|--------------------|
| Years Ending September 30, |                    |
| 2012                       | \$ 283,762         |
| 2013                       | 1,135,048          |
| 2014                       | 1,135,048          |
| 2015                       | 994,840            |
| 2016                       | 811,102            |
| Thereafter                 | <u>575,676</u>     |
|                            | <u>\$4,935,476</u> |

## 5. 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

SQN Alternative Investment Fund III L.P.  
Notes to Condensed Financial Statements  
September 30, 2011  
(Unaudited)

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.

**6. Subsequent Events**

On October 31, 2011, the Partnership entered into a Loan Note Instrument (the "Agreement") with an entity located in the United Kingdom for £1,700,000, with a term of eight years and interest accruing at 12% per annum. The Partnership made its initial payment under the Agreement on October 31, 2011 for £300,000 (\$485,400 applying exchange rates at October 31, 2011). Repayment of the proceeds under the Agreement will not commence until three months after the project commencement date, which is defined as the date on which the project commences to earn revenue. The equipment is guaranteed by the entity's parent company, also located in the United Kingdom. The Partnership expects to pay the remaining outstanding balance under the Agreement before the end of 2011.

During October 2011, the Partnership admitted an additional 26 Limited Partners with capital contributions totaling \$1,677,400. At October 31, 2011, the Partnership incurred and paid to Securities \$33,548 in distribution expenses related to the capital contributions raised during October 2011.

## **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 Prospectus, dated March 17, 2011, contained in our Registration Statement on Form S-1, as amended. 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.

Many of our investments are 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 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 asset.

Although the overall composition of our portfolio cannot be determined at this stage, we invest in assets and equipment 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 United States, Canada and the European Union.

We will conduct our activities for at least seven years and divide our life into three periods: the Offering Period, the Operating Period and the Liquidation Period. During the Offering Period we raise money from investors for the earlier of; (i) \$50,000,000 or (ii) two years from the date of our Prospectus, which was March 17, 2011. During the Operating Period we invest the offering proceeds 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 Operating Period begins and, unless extended by our General Partner, will last for three years from the date we acquired our first leased equipment which was June 29, 2011. During the Operating Period, we anticipate paying a semi-annual cash distribution to our partners equal to 3% of their capital contributions. We anticipate that the Operating Period will overlap with the Offering Period. The Liquidation Period, unless extended at the sole discretion of our General Partner will last four years. During the Liquidation Period we will make irregular

distributions to our partners as the investments in our portfolio mature. We generally will not be reinvesting the proceeds from investments during this period. It is our intention to wind down the portfolio and distribute proceeds to our partners during this period.

Our General Partner is SQN AIF III GP, LLC (the “General Partner”), a wholly-owned subsidiary of our Investment Manager, SQN Capital Management, LLC (the “Investment Manager”). Our General Partner manages and controls our business affairs, including, but not limited to, our investments in equipment leases, under the terms of our Partnership Agreement. Our Investment Manager will originate and service our investments. Our Investment Manager also sponsors and manages three other equipment leasing and finance funds.

SQN Capital Corporation and Summit Asset Management (“SAM”) will, from time to time, originate transactions on their own behalf and offer to sell all or part of such transactions to us, either individually or as a portfolio depending upon, among other things, the appropriateness of the proposed investment for us (as determined by the Investment Manager, in its sole discretion) and the amount available for investment by us at such time.

On June 28, 2011, the officers of SAM which prior to that date had equal ownership of 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. In doing so, SAM will be able to provide credit enhancements and origination services that could not be provided as an affiliate of ours under NASAA Guidelines.

### ***Recent Significant Transactions***

#### ***Hydroelectric Facility Loan Receivable***

On October 31, 2011, we entered into a Loan Note Instrument (the “Agreement”) with Romney Hydropower Company Limited, an entity located in the United Kingdom for £1,700,000, with a term of eight years and interest accruing at 12% per annum. We made our initial payment under the Agreement on October 31, 2011 for £300,000 (\$485,400 applying exchange rates at October 31, 2011). Repayment of the proceeds under the Agreement will not commence until three months after the project commencement date, which is defined as the date on which the project commences to earn revenue. The Agreement is guaranteed by the entity’s parent company, Southeast Power Engineering Ltd., also located in the United Kingdom. We expect to pay the remaining outstanding balance under the Agreement before the end of 2011.

#### ***Public address system***

On August 19, 2011, we entered into a lease transaction for a public address system for a Scottish Premier League football team located in Scotland for £602,794 (\$985,509 applying exchange rates at August 31, 2011) with a lease term of 48 months. Under the terms of the agreement we will receive quarterly lease payments of £58,797 (\$96,127 applying exchange rates at August 31, 2011) through May 16, 2014 and quarterly lease payments of £13,931 (\$22,775 applying exchange rates at August 31, 2011) through November 16, 2016. At the termination of the lease the lessee has a bargain purchase option to acquire the public address system for \$1. We paid initial direct costs of \$59,131 related to the acquisition of this leased equipment.

#### ***Bottle recycling and extrusion line***

On June 29, 2011, we entered into a lease transaction with Eco Plastics Limited for a bottle recycling and extrusion line located in the United Kingdom for £1,830,000 (\$2,931,294 applying exchange rates at June 30, 2011) with a lease term of 60 months. Under the terms of the agreement the Partnership is to fund the lessee in two installments; an initial installment of £1,100,000 and a second installment of £730,000. The Partnership paid the initial installment on June 29, 2011, in the amount of \$1,774,520. The second installment was contingent upon the lessee raising its own equity of £3,000,000, which it reached during September 2011 and we funded the second installment on September 30, 2011 in the amount of \$1,185,220. On July 14, 2011, we paid initial direct costs of \$73,322 related to the acquisition of this leased equipment.

During the period from the initial payment until the lease commences we earn monthly rental income of £11,229 (\$17,987 applying exchange rates at June 30, 2011). Once the lease commences, the Partnership will receive monthly payments of £40,937 (\$65,573 applying exchange rates at June 30, 2011).

### ***Recent Accounting Pronouncements***

In September 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment* (“ASU 2011-08”), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The guidance is effective for annual and interim goodwill impairment testing performed for fiscal years beginning after December 15, 2011. The adoption of this guidance will not have an effect on our financial position or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220)* (“ASU 2011-05”), new accounting guidance related to the presentation of other comprehensive income (“OCI”). ASU 2011-05 eliminates the option to present components of OCI as part of the statement of changes in partners’ equity. ASU 2011-05 allows for a one-statement or two-statement approach, outlined as follows:

- One-statement approach: Present the components of net income and total net income, the components of OCI and total OCI, along with the total comprehensive income in a single continuous statement.
- Two-statement approach: Present the components of net income and total net income in the statement of operations. A statement of OCI would immediately follow the statement of operations and include the components of OCI and a total for OCI, along with the total of comprehensive income.

ASU 2011-05 also requires an entity to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income. At the FASB’s October 21, 2011 Board meeting it was decided that the effective date of this guidance will be deferred, therefore ASU 2011-05 will no longer be effective for interim and annual periods beginning after December 15, 2011.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU 2011-04”). ASU 2011-04 amends the accounting guidance related to fair value measurements in order to more closely align its disclosure requirements with those in International Financial Reporting Standards (“IFRS”). ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements and also changes certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on our financial position or results of operations.

### ***Critical Accounting Policies***

An understanding of our critical accounting policies is necessary to understand our financial results. The preparation of financial statements in accounting principles generally accepted in the United States of America requires our General Partner and 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, estimated useful lives and residual values. 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. For a finance lease, initial direct costs are capitalized and amortized over the lease term. 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 from July 1, 2011 through September 30, 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. During the 2011 Quarter we admitted 38 Limited Partners totaling \$2,003,000 in Limited

Partner capital contributions. We have also entered our Operating Period, which is defined as the period in which we invest the net 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.

For the 2011 Quarter we earned total revenue of \$47,561, which consisted of rental income from Eco Plastics Limited of \$36,633, finance income of \$9,984 from our lease of a public address system for a Scottish Premier League football team and interest income of \$994. The rental income from Eco Plastics is not expected to continue, since we anticipate the lease term commencing in the near future. Once that event happens, the lease will begin earning finance income as a finance lease. As we acquire additional equipment leases we expect our revenue to grow substantially.

For the 2011 Quarter we incurred \$420,591 in total expenses. The largest component of our total expenses was \$186,806 in foreign currency transaction losses. Our foreign currency transaction loss was due to fact that our lessee's are contractually obligated to make their lease payments in British Pounds and the exchange rate has experienced a 2.5% decrease in value since we entered into our recent lease transactions. Since we do not hedge our foreign currency transactions we expect our foreign currency transaction (gain) loss to fluctuate over time. We also incurred \$180,000 in management fees we paid to our Investment Manager. For the 2011 Quarter we incurred \$32,041 in professional fees. Professional fees relate primarily to costs incurred relating to filing our reports with the Securities and Exchange Commission. We anticipate that these costs will continue and increase somewhat over time as our leasing activity increases.

#### *Net Loss*

As a result of the factors discussed above we incurred a net loss for the 2011 Quarter of \$373,030.

#### ***Results of Operations from January 1, 2011 through September 30, 2011 (the "2011 Period")***

On March 17, 2011 the Securities and Exchange Commission (the "SEC") declared our Registration Statement effective. Since that date, we have completed our application process to sell our partnership interests in numerous states and are continuing the process in other states. For the 2011 Period, in those states where we have completed the application process, we have admitted 95 Limited Partners and accepted \$5,853,500 in Limited Partner capital contributions.

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 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.

For the 2011 Period we earned total revenue of \$48,495, which consisted of rental income from Eco Plastics Limited of \$36,633, finance income of \$9,984 from our lease of a public address system for a Scottish Premier League football team and interest income of \$1,878. The rental income from Eco Plastics is not expected to continue, since we anticipate the lease term commencing in the near future. Once that event happens, the lease will begin earning finance income as a finance lease. As we acquire additional equipment leases we expect our revenue to grow substantially.

For the 2011 Period we incurred \$627,227 in total expenses. The largest component of our total expenses was \$300,000 in management fees paid to our Investment Manager. We also incurred \$186,806 in foreign currency transaction losses. Our foreign currency transaction loss was due to fact that our lessee's are contractually obligated to make their lease payments in British Pounds and the exchange rate has experienced a 2.5% decrease in value since we entered into our recent lease transactions. Since we do not hedge our foreign currency transactions we expect our foreign currency transaction (gain) loss to fluctuate over time. For the 2011 Period we incurred \$96,095 in professional fees. We anticipate that these costs will continue and increase somewhat over time as our leasing activity increases. We also incurred expenses of \$24,100 for fund administration expense. Fund administration expense is required by certain of our custodial platforms used to retain and deliver financial information electronically to our Limited Partners. We anticipate as our investor base grows these costs will increase.

### *Net Loss*

As a result of the factors discussed above we incurred a net loss for the 2011 Period of \$578,732.

### ***Liquidity and Capital Resources***

#### *Cash Flows Summary*

For the 2011 Period, we increased our overall cash position by \$528,782. This increase was primarily the result of our entering the Offering Period and admitting 95 Limited Partners, who combined, contributed \$5,853,500 in capital contributions. We also incurred various cash out flows; (i) the acquisition of leased equipment and related costs totaled \$4,049,256 which was from investing activities and (ii) \$947,311 relating to costs paid for offering and distribution expenses which were from financing activities.

#### *Operating Activities*

For the 2011 Period, we incurred net cash flows used in operating activities of \$325,528. This was principally due to our net loss for the 2011 Period of \$578,732, which was offset by our increases in cash flows from foreign currency transaction loss of \$139,390, minimum rental payments received of \$96,127 and accrued expenses of \$20,850. Our foreign currency transaction loss was due to fact that our lessee's are contractually obligated to make their lease payments in British Pounds and the exchange rate has experienced a 2.5% decrease in value since we entered into our recent lease transactions. We anticipate that foreign currency transaction (gain) loss will fluctuate period to period. As we acquire additional leased equipment we believe that we will begin to experience positive cash flows from operating activities.

#### *Investing Activities*

For the 2011 Period, we experienced net cash flows used in investing activities of \$4,049,256. This was solely due to expenditures relating to leased equipment acquisitions. During August 2011, we paid \$985,509 for a public address system for a Scottish Premier League football team and an additional \$59,131 relating to initial direct costs associated with acquiring this lease. During September 2011 and June 2011, we made several payments totaling \$2,931,294 for the acquisition of a bottle recycling and extrusion line on lease to Eco Plastics and an additional \$73,322 relating to initial direct costs associated with acquiring this lease. We expect that over the next several years we will continue to have cash out flows from investing activities as we acquire more leased equipment.

#### *Financing Activities*

For the 2011 Period we generated cash flow from financing activities of \$4,903,566. This was predominately due to our entering our Offering Period and admitting 95 Limited Partners, who combined contributed \$5,853,500 in capital contributions. We also had various cash outflows during the 2011 Period, most notable for offering and distribution expenses which totaled \$947,311. We anticipate, during the Offering Period that most, if not all, of our source of cash will be from capital contributions from new investors purchasing our limited partnership interests.

#### *Contractual Obligations*

On October 31, 2011, we entered into an Agreement with Romney Hydropower Company Limited, an entity located in the United Kingdom for £1,700,000. We made our initial payment under the Agreement on October 31, 2011 for £300,000 (\$485,400 applying exchange rates at October 31, 2011). We expect to pay the remaining outstanding balance of £1,400,000 before the end of 2011.

At September 30, 2011, we have contractual obligations with our Investment Manager and SQN Securities, LLC ("Securities"). We will pay the Investment Manager either a fixed monthly management fee of \$60,000 or 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. We anticipate that we will pay this monthly management fee through the Operating Period. We will pay Securities a distribution expense equal to 2% of the aggregate offering proceeds, excluding proceeds from the General Partner or any affiliated entities. At September 30, 2011, we cannot determine what this amount will be.

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

### **Commitments and Contingencies and Off-Balance Sheet Transactions**

At September 30, 2011, we had entered into no commitments and had no off balance sheet transactions.

### **Subsequent Event**

On October 31, 2011, we entered into a Loan Note Instrument (the "Agreement") with Romney Hydropower Company Limited, an entity located in the United Kingdom for £1,700,000, with a term of eight years and interest accruing at 12% per annum. We made our initial payment under the Agreement on October 31, 2011 for £300,000 (\$485,400 applying exchange rates at October 31, 2011). Repayment of the proceeds under the Agreement will not commence until three months after the project commencement date, which is defined as the date on which the project commences to earn revenue. The Agreement is guaranteed by the entity's parent company, Southeast Power Engineering Ltd., also located in the United Kingdom. We expect to pay the remaining outstanding balance under the Agreement before the end of 2011.

During October 2011, we admitted an additional 26 Limited Partners with capital contributions totaling \$1,677,400. At October 31, 2011, we incurred and paid to SQN Securities, LLC \$33,548 in distribution expenses related to the capital contributions raised during October 2011.

### **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 Prospectus, dated March 17, 2011, contained in our Registration Statement on Form S-1, as amended.

### **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 September 30, 2011, as well as the financial statements for our General Partner, our General Partner carried out an evaluation, under the supervision and with the participation of the management of our General Partner, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our General Partner'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 disclosure controls and procedures were effective.

In designing and evaluating our General Partner's disclosure controls and procedures, our General Partner 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 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**

In the ordinary course of conducting our business, there may be certain claims, suits and complaints filed against us. In the opinion of management, the outcome of such matters, if any, will not have a material impact on our financial position or results of operations. 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 prospectus, dated March 17, 2011, contained in our Registration Statement on Form S-1, as amended.

### **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. From March 17, 2011 through September 30, 2011 we received capital contributions totaling \$5,853,500. For the 2011 Period we have paid distribution expenses to SQN Securities, LLC of \$117,070 and we have paid or accrued offering expenses totaling \$930,241.

During October 2011, we admitted an additional 26 Limited Partners with capital contributions totaling \$1,677,400. At October 31, 2011, we incurred and paid to SQN Securities, LLC \$33,548 in distribution expenses related to the capital contributions raised during October 2011.

### **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 September 30, 2011.

### **Item 5. Other Information**

Not applicable.

### **Item 6. Exhibits**

Exhibits 31.1  
Exhibits 31.2  
Exhibits 32.1

## **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

November 14, 2011

/s/ Jeremiah Silkowski

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

November 14, 2011

/s/ David C. Wright

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

## 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: November 14, 2011

/s/ Jeremiah Silkowski

Jeremiah Silkowski

Chief Executive Officer

(Principal Executive Officer)



**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: November 14, 2011

/s/ David C. Wright

David C. Wright

Chief Financial Officer

(Principal Financial Officer)

**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 September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the undersigned, Jeremiah Silkowski, Chief Executive Officer of the Company, and 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: November 14, 2011

/s/ Jeremiah Silkowski

Jeremiah Silkowski  
Chief Executive Officer  
(Principal Executive Officer)

/s/ David C. Wright

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