

PIMCO MUNICIPAL INCOME FUND III  
Form N-Q  
August 17, 2010

OMB APPROVAL

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM N-Q  
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

**Investment Company Act File Number:** 811-21187

**Registrant Name:** PIMCO Municipal Income Fund III

**Address of Principal Executive Offices:** 1345 Avenue of the Americas,  
New York, NY 10105

**Name and Address of Agent for Service:** Lawrence G. Altadonna  
1345 Avenue of the Americas,  
New York, NY 10105

**Registrant's telephone number, including area code:** 212-739-3371

**Date of Fiscal Year End:** September 30, 2010

**Date of Reporting Period:** June 30, 2010

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Schedule of Investments****PIMCO Municipal Income Fund III Schedule of Investments**

June 30, 2010 (unaudited)

Principal

Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>MUNICIPAL BONDS &amp; NOTES 96.9%</b>			
<b>Alabama 1.1%</b>			
\$ 5,000	Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	Baa2/NR	\$ 4,411,050
500	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC)	Aa3/AAA	540,395
1,500	Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27	Baa3/NR	1,466,640
			6,418,085
<b>Alaska 1.2%</b>			
3,900	Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A	Aaa/AAA	3,919,851
1,000	5.25%, 6/1/32, Ser. C (NPFGC)	Aa2/AA	1,009,150
3,100	Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A	Baa3/NR	2,029,694
			6,958,695
<b>Arizona 5.1%</b>			
1,250	Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A	NR/A+	1,198,888
900	5.50%, 1/1/38, Ser. D	NR/A+	922,158
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	NR/NR	1,742,107
1,500	Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC)	Baa2/BBB-	1,446,915
13,000	Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 (h)	Aa1/AA	12,999,090
5,000	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (h)	Aa1/AA	5,246,650
5,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	A3/A	4,992,568
			28,548,376
<b>California 6.1%</b>			
2,500	Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	A2/A	2,643,950

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1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39 State, GO,	Baa2/NR	1,340,012
250	5.00%, 11/1/37	A1/A-	238,180
5,300	5.00%, 12/1/37	A1/A-	5,049,204
6,000	6.00%, 4/1/38	A1/A-	6,358,920
	Statewide Communities Dev. Auth. Rev.,		
1,000	American Baptist Homes West, 6.25%, 10/1/39	NR/BBB-	1,002,660
2,800	California Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(c)	NR/NR	2,429,196
	Methodist Hospital Project (FHA),		
2,900	6.625%, 8/1/29	Aa2/AA	3,324,415
10,300	6.75%, 2/1/38	Aa2/AA	11,738,086
			34,124,623
	<b>Colorado 2.9%</b>		
9,955	Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser B. (h)	Aa2/AA	10,235,134
500	Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34	NR/NR	349,385
500	Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A	A3/A-	512,395
1,500	Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(c)	NR/BB	1,066,770

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June 30, 2010 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>Colorado (continued)</b>			
\$ 500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	A2/A	\$ 551,355
4,000	Saddle Rock Metropolitan, GO, 5.35%, 12/1/31 (Radian)	NR/NR	3,492,880
			16,207,919
<b>Connecticut 0.2%</b>			
1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	NR/NR	1,318,312
<b>Delaware 0.3%</b>			
1,500	State Economic Dev. Auth. Rev., Delmarva Power & Light Co., 5.40%, 2/1/31	Baa2/BBB	1,539,795
<b>District of Columbia 1.9%</b>			
10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	Aa2/AA	10,831,400
<b>Florida 4.9%</b>			
3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	A3/A-	3,294,690
500	Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O	A1/A+	522,725
4,500	Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (h)	Aa2/AA	4,717,170
2,500	Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B	A3/NR	2,489,600
1,000	Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A	A2/A-	1,026,120
3,895	Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45	NR/NR	3,118,960
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)	Aa1/AAA	4,346,244
6,900	State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33	Aa2/AA	7,885,527
			27,401,036
<b>Georgia 0.2%</b>			
1,750	Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A	NR/NR	1,127,490
400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	NR/NR	322,156

			1,449,646
	<b>Hawaii 0.3%</b>		
1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	A3/BBB+	1,476,165
	<b>Idaho 1.2%</b>		
1,000	State Building Auth. Rev., Ser. A (XLCA), 5.00%, 9/1/33	WR/AA-	1,010,820
5,750	5.00%, 9/1/43	WR/AA-	5,800,772
			6,811,592
	<b>Illinois 8.0%</b>		
500	Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC-NPFGC) Chicago, GO,	Aa2/AA-	188,900
720	5.00%, 1/1/31, Ser. A (NPFGC)	Aa2/AA-	730,908
5,000	5.00%, 1/1/34, Ser. C (h)	Aa2/AA-	5,075,950
7,000	Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC)	Aa3/AA+	7,087,010

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June 30, 2010 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>Illinois (continued)</b>			
\$ 1,175	Finance Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22	Baa1/NR	\$ 1,179,853
1,000	Leafs Hockey Club Project, Ser. A (b)(d), 5.875%, 3/1/27	NR/NR	251,880
625	6.00%, 3/1/37	NR/NR	156,806
400	OSF Healthcare System, 7.125%, 11/15/37, Ser. A	A3/A	450,740
12,795	Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC)	A1/A-	12,809,842
1,000	Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A	NR/BBB+	1,007,180
	Univ. of Chicago, 5.00%, 7/1/33, Ser. A	Aa1/AA	4,915,991
4,780	5.25%, 7/1/41, Ser. A	Aa1/AA	168,079
165	5.50%, 7/1/37, Ser. B (h)	Aa1/AA	5,472,600
5,000	State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B	Aa3/AA-	5,423,800
5,000			44,919,539
<b>Indiana 0.7%</b>			
500	Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC)	A2/NR	499,990
2,000	Finance Auth. Rev., United States Steel Corp., 6.00%, 12/1/26	Ba2/BB	2,046,320
	Portage, Tax Allocation, Ameriplex Project, 5.00%, 7/15/23	NR/A	941,500
1,000	5.00%, 1/15/27	NR/A	704,274
775			4,192,084
<b>Iowa 1.7%</b>			
	Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27	NR/NR	87,187
120	5.50%, 11/15/37	NR/NR	381,702
575	Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B	Baa3/BBB	9,310,827
11,010			9,779,716
<b>Kentucky 1.2%</b>			
	Economic Dev. Finance Auth. Rev., Baptist Healthcare Systems, Ser. A, 5.375%, 8/15/24	Aa3/NR	1,086,550
1,000	5.625%, 8/15/27	Aa3/NR	1,413,295
1,300			

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1,000	Catholic Healthcare Partners, 5.25%, 10/1/30	A1/AA-	1,008,510
2,000	Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	Baa2/NR	2,059,900
1,250	Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp., 6.00%, 7/15/31, Ser. A	Baa1/BBB-	1,270,112
			6,838,367
<b>Louisiana 1.0%</b>			
	Local Gov t Environmental Facs. & Community Dev. Auth. Rev., Woman s Hospital Foundation, Ser. A,		
1,500	5.875%, 10/1/40	A3/BBB+	1,484,145
1,000	6.00%, 10/1/44	A3/BBB+	1,000,650
1,700	Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B	Baa1/NR	1,548,598
1,595	Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B	Baa3/BBB	1,561,250
			5,594,643
<b>Maryland 0.5%</b>			
1,000	Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B	Baa3/NR	1,019,600
1,500	Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36	A3/NR	1,530,585
			2,550,185

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June 30, 2010 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>Massachusetts 1.3%</b>			
\$ 750	Dev. Finance Agcy. Rev., Linden Ponds, Inc. Fac., 5.75%, 11/15/35, Ser. A	NR/NR	\$ 541,455
4,910	Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H	Aa3/AA-	4,937,840
1,600	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	Aa2/AA-	1,750,656
			7,229,951
<b>Michigan 14.8%</b>			
500	Conner Creek Academy East Rev., 5.25%, 11/1/36	NR/BB+	370,185
1,500	Detroit, GO, 5.25%, 11/1/35	Aa3/AA-	1,485,360
9,320	Detroit Sewer Rev., 5.00%, 7/1/32, Ser. A (AGM)	Aa3/AAA	9,197,535
30,000	Detroit Water Rev. (NPFGC), 5.00%, 7/1/34, Ser. A	A2/A+	29,424,600
7,555	5.00%, 7/1/34, Ser. B	A1/A	7,349,202
1,500	Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39	A1/A	1,790,790
175	State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23, Ser. A	Ba3/BB-	150,337
5,405	Oakwood Group, Ser. A, 5.75%, 4/1/32	A2/A	5,432,944
575	6.00%, 4/1/22	A2/A	588,599
20,000	Trinity Health Credit, 5.375%, 12/1/30, Ser. C	Aa2/AA	20,189,400
10,000	Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A	NR/BBB	7,311,400
			83,290,352
<b>Mississippi 0.8%</b>			
3,000	Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.875%, 4/1/22	Ba1/BBB	3,011,370
1,250	5.90%, 5/1/22	Ba1/BBB	1,250,000
			4,261,370
<b>Missouri 0.1%</b>			
250	Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23	NR/NR	223,883
500	Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39	NR/NR	501,465



			725,348
	<b>Nevada 0.7%</b>		
4,000	Clark Cnty., GO, 4.75%, 6/1/30 (AGM)	Aaa/AAA	4,012,080
	<b>New Hampshire 0.4%</b>		
2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	Baa1/BBB+	2,038,600
	<b>New Jersey 4.5%</b>		
1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	Baa3/BBB	840,620
300	Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14	Ba1/NR	300,606
4,500	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28	Baa3/NR	4,951,170

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**PIMCO Municipal Income Fund III Schedule of Investments**

June 30, 2010 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>New Jersey (continued)</b>			
\$ 1,070	Health Care Facs. Financing Auth. Rev., Pascack Valley Hospital Assoc., 6.625%, 7/1/36 (d)	NR/NR	\$ 16,045
1,000	St. Peters Univ. Hospital, 5.75%, 7/1/37	Baa2/BBB-	989,180
1,150	Trinitas Hospital, 5.25%, 7/1/30, Ser. A	Baa3/BBB-	1,037,967
2,000	State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E	A3/A+	2,104,820
22,645	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	Baa3/BBB	14,848,553
			25,088,961
<b>New Mexico 0.2%</b>			
1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	Baa3/BB+	1,002,460
<b>New York 4.3%</b>			
1,700	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37	A1/A	1,773,695
1,150	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	1,139,454
10,450	New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)	Aa3/AAA	12,085,425
4,900	New York City Municipal Water Finance Auth. Water & Sewer Rev. (h), 5.00%, 6/15/37, Ser. D	Aa1/AAA	5,086,445
4,000	Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD	Aa2/AA+	4,066,120
			24,151,139
<b>North Carolina 1.0%</b>			
1,300	Eastern Municipal Power Agcy. Rev., 5.125%, 1/1/23, Ser. D	Baa1/A-	1,337,375
2,000	5.125%, 1/1/26, Ser. D	Baa1/A-	2,046,080
795	5.375%, 1/1/17, Ser. C	Baa1/A-	831,928
1,500	Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC)	WR/A	1,448,130
			5,663,513
<b>Ohio 4.2%</b>			

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15,375	Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC)	Aa3/A	15,510,454
500	Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A	A1/AA-	494,045
5,000	Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2	Baa3/BBB	3,589,900
500	Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A	A2/A	534,620
2,500	Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30	A1/AA-	2,518,350
500	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A	Aa3/NR	524,765
250	State Rev., Ashland Univ. Project, 6.25%, 9/1/24	Ba1/NR	254,012
			23,426,146
	<b>Oregon 0.2%</b>		
1,000	Medford Hospital Facs. Auth. Rev., Asante Health Systems, 5.00%, 8/15/40, Ser. A (AGM)	Aa3/AAA	1,009,430
	<b>Pennsylvania 2.7%</b>		
1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39	Aa3/A+	1,037,810

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June 30, 2010 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
<b>Pennsylvania (continued)</b>			
	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A,		
\$ 750	5.625%, 7/1/28	NR/BBB-	\$ 657,915
670	6.00%, 7/1/35	NR/BBB-	600,106
1,000	Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A	A2/A	1,043,340
1,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B	NR/NR	1,104,900
100	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	A2/A	102,878
6,200	Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A	Baa3/BBB	6,201,612
500	Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A	A1/A	517,995
3,000	Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D	A2/A-	3,082,080
			15,105,026
<b>Puerto Rico 1.1%</b>			
	Sales Tax Financing Corp. Rev.,		
2,400	5.00%, 8/1/40, Ser. A (AGM) (h)	Aa3/AAA	2,414,424
3,000	5.375%, 8/1/38, Ser. C	A1/A+	3,005,640
1,000	5.50%, 8/1/42, Ser. A	A1/A+	1,011,080
			6,431,144
<b>South Carolina 1.1%</b>			
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	A2/A	1,009,700
5,305	Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B	A3/A-	5,321,392
			6,331,092
<b>Tennessee 0.7%</b>			
1,250	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	NR/NR	1,288,550
1,000	Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38	Baa1/BBB+	1,018,020

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	Tennessee Energy Acquisition Corp. Rev., Ser. A,		
1,200	5.25%, 9/1/21	Ba3/BB+	1,200,912
365	5.25%, 9/1/22	Ba3/BB+	363,354
			3,870,836
	<b>Texas 10.2%</b>		
6,810	Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD)	Aaa/AAA	6,941,842
1,300	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	Aa3/AAA	1,338,818
10,115	Denton Independent School Dist., GO, 5.00%, 8/15/33 (PSF-GTD)		
	(h)	Aaa/AAA	10,399,636
465	Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD)	Aaa/NR	468,441
	Municipal Gas Acquisition & Supply Corp. I Rev.,		
150	5.25%, 12/15/26, Ser. A	A2/A	141,171
8,100	6.25%, 12/15/26, Ser. D	A2/A	8,465,067
	North Harris Cnty. Regional Water Auth. Rev.,		
5,500	5.25%, 12/15/33	A1/A+	5,639,260
5,500	5.50%, 12/15/38	A1/A+	5,691,125

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Principal Amount (000s)		Credit Rating (Moody's/S&P)	Value*
<b>Texas (continued)</b>			
\$ 10,800	North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A	A2/A-	\$ 11,265,048
700	5.75%, 1/1/33, Ser. F	A3/BBB+	731,115
2,000	6.25%, 1/1/39, Ser. A	A2/A-	2,172,600
2,000	Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C	Caa3/NR	1,003,960
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29	Aa2/AA-	3,346,680
			57,604,763
<b>Virginia 0.3%</b>			
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	Aa2/AA+	1,076,120
1,000	James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A	NR/NR	615,930
			1,692,050
<b>Washington 7.5%</b>			
6,375	Chelan Cnty. Public Utility Dist. No. 1 Rev., Chelan Hyrdo Systems, 5.125%, 7/1/33, Ser. C (AMBAC)	Aa2/AA	6,472,856
1,000	Health Care Facs. Auth. Rev., Seattle Cancer Care Alliance, 7.375%, 3/1/38	A3/NR	1,119,580
15,000	King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (AGM) (h)	Aa2/AAA	15,136,650
19,265	Tobacco Settlement Auth. Rev., 6.50%, 6/1/26	Baa3/BBB	19,704,242
			42,433,328
<b>Wisconsin 2.3%</b>			
1,000	Health & Educational Facs. Auth. Rev., Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A	A3/NR	1,010,770
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	A1/A+	1,087,690
10,000	State Rev., 6.00%, 5/1/36, Ser. A	Aa3/AA-	10,997,200
			13,095,660

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Total Municipal Bonds & Notes (cost \$533,412,548) 545,423,427

**VARIABLE RATE NOTES (a)(c)(e)(f) 2.2%**

**California 0.3%**

1,675 Los Angeles Community College Dist., GO, 13.56%, 8/1/33, Ser. 3096 NR/AA 1,777,242

**Florida 0.6%**

3,335 Greater Orlando Aviation Auth. Rev., 13.53%, 10/1/39, Ser. 3174 NR/NR 3,380,690

**Texas 1.3%**

6,500 JPMorgan Chase Putters/Drivers Trust, GO, 9.24%, 2/1/17, Ser. 3480 NR/AA+ 7,235,475

Total Variable Rate Notes (cost \$11,404,771) 12,393,407

**SHORT-TERM INVESTMENTS (g) 0.9%**

**Corporate Notes 0.9%**

**Financial Services 0.9%**

5,000 SLM Corp., 0.476%, 7/26/10, FRN (cost \$4,969,522) Ba1/BBB- 4,999,645

**Total Investments (cost \$549,786,841) 100.0% \$ 562,816,479**

**Notes to Schedule of Investments:**

\* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available, or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Fund's investments are valued daily using



prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales.

Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics.

Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Fund to value securities may differ from the value that would be realized if the securities were

sold and these differences could be material. The Fund's net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange ( NYSE ) on each day the NYSE is open for business.

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$15,889,373 representing 2.8% of total investments.
- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) In default.
- (e) Inverse Floater The interest rate shown bears an inverse relationship to the

interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on June 30, 2010.

- (f) Variable Rate  
Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on June 30, 2010.
- (g) All or partial amount segregated as collateral for reverse repurchase agreement.
- (h) Residual Interest  
Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.

**Glossary:**

AGC insured by Assured Guaranty Corp.  
 AGM insured by Assured Guaranty Municipal Corp.  
 AMBAC insured by American Municipal Bond Assurance Corp.  
 CP Certificates of Participation  
 FGIC insured by Financial Guaranty Insurance Co.  
 FHA insured by Federal Housing Administration  
 FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on June 30, 2010.  
 GO General Obligation Bond  
 GTD Guaranteed  
 NPFGC insured by National Public Finance Guarantee Corp.  
 NR Not Rated  
 PSF Public School Fund  
 Radian insured by Radian Guaranty, Inc.  
 WR Withdrawn Rating  
 XLCA insured by XL Capital Assurance

**Other Investments:**

(A) Open reverse repurchase agreement at June 30, 2010 was:

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Principal
Barclays Bank	0.48%	6/8/2010	7/9/2010	\$4,751,457	\$ 4,750,000

The weighted average daily balance of reverse repurchase agreements outstanding during the nine months ended June 30, 2010 was \$5,265,205, at a weighted average interest rate of 0.60%. The total market value of underlying collateral (refer to the Schedule of Investments for positions segregated as collateral for reverse repurchase agreement) for open reverse repurchase agreement at June 30, 2010 was \$4,999,645.

**Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access

Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges

Level 3 valuations based on significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in the aggregate, that is significant to fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique used.

The valuation techniques used by the Fund to measure fair value during the nine months ended June 30, 2010 maximized the use of observable inputs and minimized the use of unobservable inputs.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Fund's policy is to recognize transfers between levels at the end of the reporting period.

A summary of the inputs used at June 30, 2010 in valuing the Fund's assets and liabilities is listed below:

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 6/30/10
<b>Investments in Securities</b>				
Assets				
Municipal Bonds & Notes		\$545,423,427		\$545,423,427
Variable Rate Notes		12,393,407		12,393,407
Short Term Investments		4,999,645		4,999,645
<b>Total Investments</b>		\$562,816,479		\$562,816,479

There were no transfers into and out of Levels 1 and 2 during the nine months ended June 30, 2010.

**Item 2. Controls and Procedures**

(a) The registrant's President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a -3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a -3(d))) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits**

(a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: PIMCO Municipal Income Fund III

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: August 17, 2010

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting  
Officer

Date: August 17, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: August 17, 2010

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting  
Officer

Date: August 17, 2010