

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**

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|---|---|
| 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* |
|--|--|-----------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 96.9% | | | |
| Alabama 1.1% | | | |
| \$ 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 |
| Alaska 1.2% | | | |
| 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 |
| Arizona 5.1% | | | |
| 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 |
| California 6.1% | | | |
| 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 |
| | Colorado 2.9% | | |
| 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 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------------|--|--------------------------------|------------|
| Colorado (continued) | | | |
| \$ 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 |
| Connecticut 0.2% | | | |
| 1,250 | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A | NR/NR | 1,318,312 |
| Delaware 0.3% | | | |
| 1,500 | State Economic Dev. Auth. Rev., Delmarva Power & Light Co., 5.40%, 2/1/31 | Baa2/BBB | 1,539,795 |
| District of Columbia 1.9% | | | |
| 10,000 | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h) | Aa2/AA | 10,831,400 |
| Florida 4.9% | | | |
| 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 |
| Georgia 0.2% | | | |
| 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 |
| | Hawaii 0.3% | | |
| 1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A | A3/BBB+ | 1,476,165 |
| | Idaho 1.2% | | |
| 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 |
| | Illinois 8.0% | | |
| 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 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|-----------------------------|---|--------------------------------|--------------|
| Illinois (continued) | | | |
| \$ 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 |
| 4,780 | Univ. of Chicago, 5.00%, 7/1/33, Ser. A | Aa1/AA | 4,915,991 |
| 165 | 5.25%, 7/1/41, Ser. A | Aa1/AA | 168,079 |
| 5,000 | 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 |
| | | | 44,919,539 |
| Indiana 0.7% | | | |
| 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 |
| 1,000 | Portage, Tax Allocation, Ameriplex Project, 5.00%, 7/15/23 | NR/A | 941,500 |
| 775 | 5.00%, 1/15/27 | NR/A | 704,274 |
| | | | 4,192,084 |
| Iowa 1.7% | | | |
| 120 | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27 | NR/NR | 87,187 |
| 575 | 5.50%, 11/15/37 | NR/NR | 381,702 |
| 11,010 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 9,310,827 |
| | | | 9,779,716 |
| Kentucky 1.2% | | | |
| 1,000 | Economic Dev. Finance Auth. Rev., Baptist Healthcare Systems, Ser. A, 5.375%, 8/15/24 | Aa3/NR | 1,086,550 |
| 1,300 | 5.625%, 8/15/27 | Aa3/NR | 1,413,295 |

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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 |
| Louisiana 1.0% | | | |
| | 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 |
| Maryland 0.5% | | | |
| 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 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------|---|--------------------------------|------------|
| Massachusetts 1.3% | | | |
| \$ 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 |
| Michigan 14.8% | | | |
| 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) Detroit Water Rev. (NPFGC), 5.00%, 7/1/34, Ser. A | Aa3/AAA | 9,197,535 |
| 30,000 | 5.00%, 7/1/34, Ser. B | 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 State Hospital Finance Auth. Rev., 175 | A1/A | 1,790,790 |
| | Detroit Medical Center, 5.25%, 8/15/23, Ser. A Oakwood Group, Ser. A, 5,405 | Ba3/BB- | 150,337 |
| | 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 |
| Mississippi 0.8% | | | |
| 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 |
| Missouri 0.1% | | | |
| 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 |
| | Nevada 0.7% | | |
| 4,000 | Clark Cnty., GO, 4.75%, 6/1/30 (AGM) | Aaa/AAA | 4,012,080 |
| | New Hampshire 0.4% | | |
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | Baa1/BBB+ | 2,038,600 |
| | New Jersey 4.5% | | |
| 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 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|-------------------------------|--|--------------------------------|------------|
| New Jersey (continued) | | | |
| \$ 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 |
| New Mexico 0.2% | | | |
| 1,000 | Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D | Baa3/BB+ | 1,002,460 |
| New York 4.3% | | | |
| 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 |
| North Carolina 1.0% | | | |
| 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 |
| Ohio 4.2% | | | |

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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 |
| | Oregon 0.2% | | |
| 1,000 | Medford Hospital Facs. Auth. Rev., Asante Health Systems, 5.00%, 8/15/40, Ser. A (AGM) | Aa3/AAA | 1,009,430 |
| | Pennsylvania 2.7% | | |
| 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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| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|---------------------------------|--|--------------------------------|------------|
| Pennsylvania (continued) | | | |
| | 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 |
| Puerto Rico 1.1% | | | |
| | 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 |
| South Carolina 1.1% | | | |
| 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 |
| Tennessee 0.7% | | | |
| 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 |
| | Texas 10.2% | | |
| 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* |
|----------------------------|---|--------------------------------|---------------|
| Texas (continued) | | | |
| \$ 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 |
| Virginia 0.3% | | | |
| 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 |
| Washington 7.5% | | | |
| 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 |
| Wisconsin 2.3% | | | |
| 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 |
|---|-------------------------------|--|--|---------------------|
| Investments in Securities 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 |
| Total Investments | | \$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

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