

PIMCO MUNICIPAL INCOME FUND III
Form N-Q
February 23, 2011

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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, 2011

Date of Reporting Period: December 31, 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**

December 31, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|--|---|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 97.9% | | | |
| Alabama 1.3% | | | |
| \$ 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 | \$ 4,329,950 |
| 500 | Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC) | Aa3/AA+ | 523,465 |
| 1,500 | Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27 | Ba1/NR | 1,378,920 |
| 1,000 | State Docks Department Rev., 6.00%, 10/1/40 | NR/BBB+ | 959,790 |
| | | | 7,192,125 |
| Alaska 1.2% | | | |
| 3,900 | Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,809,364 |
| 1,000 | 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA | 993,590 |
| 3,100 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 1,856,900 |
| | | | 6,659,854 |
| Arizona 5.1% | | | |
| 1,250 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/A+ | 1,161,000 |
| 900 | 5.50%, 1/1/38, Ser. D | NR/A+ | 893,736 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | NR/NR | 1,670,445 |
| 1,500 | Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC) | Baa2/BBB- | 1,389,900 |
| 13,000 | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 (e) | Aa2/AA | 11,679,200 |
| 750 | Tuscon Electric Power Co., 5.25%, 10/1/40, Ser. A | Baa3/BBB- | 653,708 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (e) | Aa1/AA | 4,955,300 |
| 5,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 4,784,640 |
| | | | 27,187,929 |
| California 6.1% | | | |
| 2,500 | Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A | A2/A | 2,546,525 |

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| | | | |
|--------|--|---------|------------|
| 1,250 | Palomar Pomerado Health, CP, 6.75%, 11/1/39 | Baa3/NR | 1,268,062 |
| | State, GO, | | |
| 250 | 5.00%, 11/1/37 | A1/A- | 224,813 |
| 5,300 | 5.00%, 12/1/37 | A1/A- | 4,765,495 |
| 6,000 | 6.00%, 4/1/38 | A1/A- | 6,120,360 |
| | Statewide Communities Dev. Auth. Rev., | | |
| 1,000 | American Baptist Homes West, 6.25%, 10/1/39 | NR/BBB- | 951,350 |
| 2,485 | California Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(b) | NR/NR | 2,172,710 |
| | Methodist Hospital Project, (FHA), | | |
| 2,900 | 6.625%, 8/1/29 | Aa2/NR | 3,176,457 |
| 10,300 | 6.75%, 2/1/38 | Aa2/NR | 11,265,728 |
| | | | 32,491,500 |
| | Colorado 2.4% | | |
| 9,955 | Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser. B (e) | Aa2/AA | 9,941,959 |
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | NR/NR | 350,875 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------|---|--------------------------------|------------|
| | Colorado (continued) | | |
| \$ 500 | Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A | A3/A- | \$ 503,695 |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(b) | NR/BB | 973,995 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | A2/A | 524,520 |
| 500 | Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34 | Baa3/NR | 495,065 |
| | | | 12,790,109 |
| | Connecticut 0.2% | | |
| 1,250 | Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A | NR/NR | 1,283,125 |
| | Delaware 0.3% | | |
| 1,500 | State Economic Dev. Auth. Rev., Delmarva Power & Light Co., 5.40%, 2/1/31 | Baa2/BBB+ | 1,469,355 |
| | District of Columbia 2.0% | | |
| 10,000 | Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (e) | Aa2/AA | 10,440,700 |
| | Florida 4.9% | | |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | A3/A- | 3,064,314 |
| 500 | Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O | A1/A+ | 502,900 |
| 4,500 | Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (e) | Aa2/AA | 4,594,275 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B | A3/NR | 2,241,775 |
| 1,000 | Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A | A2/A- | 974,390 |
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45 | NR/NR | 3,000,202 |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (e) | Aa1/AAA | 4,168,836 |
| 6,900 | State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33 | Aa2/AA | 7,646,787 |
| | | | 26,193,479 |

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Georgia 0.3%

| | | | |
|-------|---|-------|-----------|
| 1,750 | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | NR/NR | 1,072,627 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | NR/NR | 306,764 |
| | | | 1,379,391 |

Hawaii 0.3%

| | | | |
|-------|---|---------|-----------|
| 1,500 | Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A | A3/BBB+ | 1,371,810 |
|-------|---|---------|-----------|

Idaho 1.2%

| | | | |
|-------|--|--------|-----------|
| 1,000 | State Building Auth. Rev., Ser. A (XLCA), 5.00%, 9/1/33 | WR/AA- | 1,001,750 |
| 5,750 | 5.00%, 9/1/43 | WR/AA- | 5,578,592 |
| | | | 6,580,342 |

Illinois 8.5%

| | | | |
|-------|---|--------|-----------|
| 720 | Chicago, GO, 5.00%, 1/1/31, Ser. A (NPFGC) | Aa3/A+ | 723,305 |
| 5,000 | 5.00%, 1/1/34, Ser. C (e) | Aa3/A+ | 4,460,700 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2010 (unaudited)

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|-----------------------------|---|--------------------------------|------------|
| Illinois (continued) | | | |
| \$ 500 | Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC-NPFGC) | Aa2/AA- | \$ 149,805 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) Finance Auth. Rev., | Aa3/AA+ | 6,659,380 |
| 1,175 | Elmhurst Memorial Healthcare, 5.50%, 1/1/22 Leafs Hockey Club Project, Ser. A (f), | Baa1/NR | 1,141,994 |
| 1,000 | 5.875%, 3/1/27 | NR/NR | 252,260 |
| 625 | 6.00%, 3/1/37 | NR/NR | 156,062 |
| 400 | OSF Healthcare System, 7.125%, 11/15/37, Ser. A | A3/A | 419,036 |
| 12,795 | Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC) | A1/A- | 11,982,518 |
| 1,000 | Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A Univ. of Chicago, | NR/BBB+ | 962,150 |
| 3,000 | 5.00%, 7/1/33, Ser. A | Aa1/AA | 2,952,210 |
| 165 | 5.25%, 7/1/41, Ser. 05-A | Aa1/AA | 165,069 |
| 10,000 | 5.50%, 7/1/37, Ser. B (e) | Aa1/AA | 10,271,400 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | Aa3/AA- | 5,034,550 |
| | | | 45,330,439 |
| Indiana 0.8% | | | |
| 500 | Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC) | A2/NR | 479,730 |
| 2,000 | Finance Auth. Rev., U.S. Steel Corp., 6.00%, 12/1/26 Portage, Tax Allocation, AmeriPLEX Project, | Ba2/BB | 1,918,820 |
| 1,000 | 5.00%, 7/15/23 | NR/A | 921,060 |
| 775 | 5.00%, 1/15/27 | NR/A | 686,402 |
| | | | 4,006,012 |
| Iowa 1.7% | | | |
| | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, | | |
| 120 | 5.50%, 11/15/27 | NR/NR | 85,355 |
| 575 | 5.50%, 11/15/37 | NR/NR | 370,950 |
| 11,010 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 8,768,584 |
| | | | 9,224,889 |

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Kentucky 1.2%

| | | | |
|-------|---|-----------|-----------|
| | Economic Dev. Finance Auth. Rev., Baptist Healthcare Systems, Ser. A, | | |
| 1,000 | 5.375%, 8/15/24 | Aa3/NR | 1,048,020 |
| 1,300 | 5.625%, 8/15/27 | Aa3/NR | 1,348,841 |
| 1,000 | Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA- | 965,360 |
| 2,000 | Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A | Baa2/NR | 1,990,640 |
| 1,250 | Ohio Cnty. Pollution Control Rev., Big Rivers Electric Corp., 6.00%, 7/15/31, Ser. A | Baa1/BBB- | 1,220,312 |
| | | | 6,573,173 |

Louisiana 1.0%

| | | | |
|-------|---|----------|-----------|
| | Local Gov t Environmental Facs. & Community Dev. Auth. Rev., | | |
| 400 | Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2 | Ba2/BBB- | 388,924 |
| 1,500 | Woman s Hospital Foundation, Ser. A, 5.875%, 10/1/40 | A3/BBB+ | 1,395,675 |
| 1,000 | 6.00%, 10/1/44 | A3/BBB+ | 938,310 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------|---|--------------------------------|--------------|
| | Louisiana (continued) | | |
| \$ 1,700 | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B | Baa1/NR | \$ 1,449,369 |
| 1,345 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | 1,286,856 |
| | | | 5,459,134 |
| | Maryland 0.6% | | |
| 1,000 | Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B | Baa3/NR | 943,710 |
| 1,500 | Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36 | A3/NR | 1,500,930 |
| 700 | Charlestown Community, 6.25%, 1/1/41 | NR/NR | 686,980 |
| | | | 3,131,620 |
| | Massachusetts 1.4% | | |
| | Dev. Finance Agcy. Rev., | | |
| 300 | Adventcare Project, 7.625%, 10/15/37 | NR/NR | 293,424 |
| 750 | Linden Ponds, Inc. Fac., 5.75%, 11/15/35, Ser. A | NR/NR | 521,647 |
| 4,910 | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,769,967 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | Aa2/AA- | 1,661,520 |
| | | | 7,246,558 |
| | Michigan 14.8% | | |
| 500 | Conner Creek Academy East Rev., 5.25%, 11/1/36 | NR/BB+ | 374,170 |
| 1,500 | Detroit, GO, 5.25%, 11/1/35 | Aa3/AA | 1,352,415 |
| 9,320 | Detroit Sewer Rev., 5.00%, 7/1/32, Ser. A (AGM) Detroit Water Rev., (NPFGC), | Aa3/AA+ | 8,447,368 |
| 30,000 | 5.00%, 7/1/34, Ser. A | A1/A+ | 27,553,800 |
| 7,555 | 5.00%, 7/1/34, Ser. B | A2/A | 6,679,073 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | A1/A | 1,721,415 |
| 175 | State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23, Ser. A | Ba3/BB- | 168,324 |
| 5,405 | Oakwood Group, Ser. A, 5.75%, 4/1/32 | A2/A | 5,205,718 |

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| | | | |
|--------|--|---------|------------|
| 575 | 6.00%, 4/1/22 | A2/A | 582,855 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30, Ser. C | Aa2/AA | 19,698,600 |
| 10,000 | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BB | 6,812,300 |
| | | | 78,596,038 |
| | Minnesota 0.0% | | |
| 125 | Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A | NR/BBB- | 112,341 |
| | Mississippi 0.8% | | |
| 3,000 | Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.875%, 4/1/22 | Ba1/BBB | 2,945,340 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,229,650 |
| | | | 4,174,990 |
| | Missouri 0.1% | | |
| 250 | Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | NR/NR | 218,125 |
| 500 | Manchester, Tax Allocation, Highway141/Manchester Road Project, 6.875%, 11/1/39 | NR/NR | 486,210 |
| | | | 704,335 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------|---|--------------------------------|--------------|
| \$ 4,000 | Nevada 0.7% Clark Cnty., GO, 4.75%, 6/1/30 (AGM) | Aa1/AA+ | \$ 3,701,840 |
| 2,000 | New Hampshire 0.4% Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A | Baa1/BBB+ | 1,969,220 |
| 1,000 | New Jersey 4.5% Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A | Baa3/BBB | 840,920 |
| 300 | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14 | Ba1/NR | 299,970 |
| 4,500 | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28 | Ba2/NR | 4,636,845 |
| 1,000 | Health Care Facs. Financing Auth. Rev., St. Peters Univ. Hospital, 5.75%, 7/1/37 | Baa3/BBB- | 943,050 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 1,019,072 |
| 2,000 | State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E | A3/A+ | 2,011,640 |
| 1,600 | Tobacco Settlement Financing Corp. Rev., Ser. 1-A, 4.75%, 6/1/34 | Baa3/BB+ | 972,416 |
| 22,645 | 5.00%, 6/1/41 | Baa3/BB- | 13,499,817 |
| | | | 24,223,730 |
| 1,000 | New Mexico 0.2% Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D | Baa3/BB+ | 975,410 |
| 1,700 | New York 4.3% Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | A1/A | 1,681,062 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 1,058,391 |
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC) | Aa3/AA+ | 11,511,302 |
| 4,900 | New York City Municipal Water Finance Auth. Water & Sewer Rev. (e), 5.00%, 6/15/37, Ser. D | Aa1/AAA | 4,850,216 |

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|--------|--|---------|------------|
| 4,000 | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD | Aa2/AA+ | 3,865,160 |
| | | | 22,966,131 |
| | North Carolina 0.5% | | |
| 1,700 | Capital Facs. Finance Agcy. Rev., Duke Energy, 4.625%, 11/1/40, Ser. A | A1/A | 1,526,532 |
| 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | WR/A | 1,327,290 |
| | | | 2,853,822 |
| | Ohio 4.0% | | |
| 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC) | Aa3/A | 13,524,465 |
| 500 | Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A | A1/AA- | 466,805 |

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|----------------------------|---|--------------------------------|--------------|
| Ohio (continued) | | | |
| \$ 5,650 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BB- | \$ 3,725,554 |
| 500 | Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A | A2/A | 519,190 |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,503,275 |
| 500 | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A | Aa3/NR | 512,495 |
| 250 | State Rev., Ashland Univ. Project, 6.25%, 9/1/24 | Ba1/NR | 248,952 |
| | | | 21,500,736 |
| Oregon 0.2% | | | |
| 1,000 | Medford Hospital Facs. Auth. Rev., Asante Health Systems, 5.00%, 8/15/40, Ser. A (AGM) | Aa3/AA+ | 916,370 |
| Pennsylvania 2.8% | | | |
| 1,000 | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39 | Aa3/A+ | 1,009,780 |
| 1,000 | West Penn Allegheny Health System, 5.375%, 11/15/40, Ser. A Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, | B1/BB- | 669,060 |
| 750 | 5.625%, 7/1/28 | NR/BBB- | 666,247 |
| 670 | 6.00%, 7/1/35 | NR/BBB- | 590,612 |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A | A2/A | 1,004,510 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B | NR/NR | 1,071,588 |
| 100 | Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39 | A2/A | 96,083 |
| 6,200 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A | Baa3/BBB | 6,200,930 |
| 500 | Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A | A1/A | 486,435 |
| 3,000 | Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D | A3/A- | 2,869,560 |
| | | | 14,664,805 |

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Puerto Rico 1.1%

| | | | |
|-------|--|---------|-----------|
| 2,400 | Sales Tax Financing Corp. Rev., 5.00%, 8/1/40, Ser. A (AGM) (e) | Aa3/AA+ | 2,275,848 |
| 3,000 | 5.375%, 8/1/38, Ser. C | A1/A+ | 2,837,280 |
| 1,000 | 5.50%, 8/1/42, Ser. A | A1/A+ | 973,670 |
| | | | 6,086,798 |

South Carolina 1.3%

| | | | |
|-------|---|-------|-----------|
| 1,000 | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39 | A2/A+ | 944,800 |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B | A3/A- | 5,208,184 |
| 800 | State Ports Auth. Rev., 5.25%, 7/1/40 | A1/A+ | 752,128 |
| | | | 6,905,112 |

Tennessee 0.7%

| | | | |
|-------|---|-----------|-----------|
| 1,250 | Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39 | NR/NR | 1,265,113 |
| 1,000 | Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38 | Baa1/BBB+ | 946,090 |

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| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|------------------------------|---|--------------------------------|--------------|
| Tennessee (continued) | | | |
| \$ 1,200 | Tennessee Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21 | Ba3/BB+ | \$ 1,186,428 |
| 365 | 5.25%, 9/1/22 | Ba3/BB+ | 359,043 |
| | | | 3,756,674 |
| Texas 10.3% | | | |
| 6,810 | Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD) | Aaa/AAA | 6,674,277 |
| 1,300 | Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC) | Aa3/AA+ | 1,239,862 |
| 10,115 | Denton Independent School Dist., GO, 5.00%, 8/15/33 (PSF-GTD) (e) | Aaa/AAA | 10,223,635 |
| 465 | Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD) | Aaa/NR | 465,195 |
| 150 | Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A | A2/A | 139,244 |
| 8,100 | 6.25%, 12/15/26, Ser. D | A2/A | 8,475,516 |
| 5,500 | North Harris Cnty. Regional Water Auth. Rev., 5.25%, 12/15/33 | A1/A+ | 5,321,800 |
| 5,500 | 5.50%, 12/15/38 | A1/A+ | 5,407,325 |
| 10,800 | North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A | A2/A- | 10,372,536 |
| 700 | 5.75%, 1/1/33, Ser. F | A3/BBB+ | 660,856 |
| 2,000 | 6.25%, 1/1/39, Ser. A | A2/A- | 2,031,340 |
| 2,000 | Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C | Ca/NR | 539,780 |
| 3,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29 | Aa2/AA- | 3,216,900 |
| | | | 54,768,266 |
| Virginia 0.3% | | | |
| 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A | Aa2/AA+ | 1,033,070 |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A | NR/NR | 582,730 |
| | | | 1,615,800 |

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| | | | |
|------------------------|--|----------|-------------|
| Washington 8.0% | | | |
| 6,375 | Chelan Cnty. Public Utility Dist. No. 1 Rev., Chelan Hyrdo Systems, 5.125%, 7/1/33, Ser. C (AMBAC) | Aa2/AA | 6,403,496 |
| | Health Care Facs. Auth. Rev., | | |
| 500 | Kadlec Regional Medical Center, 5.50%, 12/1/39 | Baa2/NR | 431,680 |
| 1,000 | Seattle Cancer Care Alliance, 7.375%, 3/1/38 | A3/NR | 1,078,190 |
| 15,000 | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (AGM) (e) | Aa2/AA+ | 15,007,050 |
| 19,260 | Tobacco Settlement Auth. Rev., 6.50%, 6/1/26 | Baa3/BBB | 19,471,282 |
| | | | 42,391,698 |
| Wisconsin 2.4% | | | |
| | Health & Educational Facs. Auth. Rev., | | |
| 1,000 | Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A | A3/NR | 957,000 |
| 1,000 | Prohealth Care, Inc., 6.625%, 2/15/39 | A1/A+ | 1,048,090 |
| 10,000 | State Rev., 6.00%, 5/1/36, Ser. A | Aa3/AA- | 10,694,200 |
| | | | 12,699,290 |
| | Total Municipal Bonds & Notes (cost \$535,943,293) | | 521,594,950 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2010 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|--|--|--------------------------------|-----------------------|
| VARIABLE RATE NOTES (a)(b)(c)(d) 2.1% | | | |
| | California 0.3% | | |
| \$ 1,675 | Los Angeles Community College Dist., GO, 11.33%, 8/1/33, Ser. 3096 | NR/AA | \$ 1,496,914 |
| | Florida 0.5% | | |
| 3,335 | Greater Orlando Aviation Auth. Rev., 11.30%, 10/1/39, Ser. 3174 | NR/NR | 2,851,592 |
| | Texas 1.3% | | |
| 6,500 | JPMorgan Chase Putters/Drivers Trust, GO, 7.764%, 2/1/17, Ser. 3480 | NR/AA+ | 6,651,645 |
| | Total Variable Rate Notes (cost \$11,406,541) | | 11,000,151 |
| | Total Investments (cost \$547,349,834)(g) 100.0% | | \$ 532,595,101 |

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. 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 \$14,146,856, representing 2.7% of total investments.
- (b) 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.
- (c) 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 December 31, 2010.
- (d) 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 December 31, 2010.
- (e) 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.
- (f) In default.
- (g) At December 31, 2010, the cost basis of investments for federal income tax purposes was \$486,943,207. Aggregate gross unrealized appreciation for securities in which there was an excess value over tax cost was \$16,946,737; aggregate gross unrealized depreciation for securities in which there was an excess of tax cost over value was \$31,187,915; and net unrealized depreciation for federal income tax purposes was \$14,241,178. The difference between book and tax cost was attributable to inverse floater transactions.

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
GO General Obligation Bond
GTD Guaranteed
NPFGC insured by National Public Finance Guarantee Corp.
NR Not Rated
PSF Public School Fund
WR Withdrawn Rating
XLCA insured by XL Capital Assurance

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 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 three months ended December 31, 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 following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles.

Municipal Bonds and Variable Rate Notes Municipal bonds and variable rate notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

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

A summary of the inputs used at December 31, 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 12/31/10 |
|---|-------------------------------|--|--|----------------------|
| Investments in Securities Assets | | | | |
| Municipal Bonds & Notes | | \$521,594,950 | | \$521,594,950 |
| Variable Rate Notes | | 11,000,151 | | 11,000,151 |
| Total Investments | | \$532,595,101 | | \$532,595,101 |

There were no significant transfers between Levels 1 and 2 during the three months ended December 31, 2010.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the three months ended December 31, 2010, was as follows:

| Beginning Balance | Net Accrued Purchases (Sales) | Net Realized Gains (Losses) | Net Change in Unrealized Appreciation/Depreciation | Transfers into | Transfers out | Ending Balance |
|-------------------|-------------------------------|-----------------------------|--|----------------|---------------|----------------|
|-------------------|-------------------------------|-----------------------------|--|----------------|---------------|----------------|

| | and 9/30/10 Settlement | (Premiums) | Gain(Loss) | Depreciation | Level 3 | of Level 3 | 12/31/10 |
|----------------------------------|---------------------------|------------|-------------------------|-----------------------|------------|------------------|----------|
| Investments in Securities | Assets | | | | | | |
| Municipal Bonds & Notes: | | | | | | | |
| New Jersey | \$16,045 | | \$(1,036,209)(a) | \$1,020,164(a) | | | |
| Total Investments | \$16,045 | | \$(1,036,209)(a) | \$1,020,164(a) | | | |

(a) Security was deemed worthless and removed from the Fund's Schedule of Investments.

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: February 23, 2011

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting
Officer

Date: February 23, 2011

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: February 23, 2011

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting
Officer

Date: February 23, 2011