

PIMCO CALIFORNIA MUNICIPAL INCOME FUND III

Form N-CSR

November 28, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-21188**

PIMCO California Municipal Income Fund III

(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York 10019

(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna 1633 Broadway, New York, New York 10019

(Name and address of agent for service)

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

Date of fiscal year end: **September 30, 2012**

Date of reporting period: **September 30, 2012**

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Item 1. REPORT TO SHAREHOLDERS

Annual Report

September 30, 2012

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund III

PIMCO New York Municipal Income Fund III

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Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

Dear Shareholder:

The municipal bond market benefitted from attractive valuations and strong demand during the fiscal twelve-month reporting period ended September 30, 2012. Longer-term, lower credit municipals were particularly favorable during the reporting period.

For the fiscal twelve-month period ended September 30, 2012:

PIMCO Municipal Income Fund III returned 23.34% on net asset value (NAV) and 33.20% on market price.

PIMCO California Municipal Income Fund III returned 21.38% on NAV and 31.62% on market price.

PIMCO New York Municipal Income Fund III returned 17.20% on NAV and 26.56% on market price.

In contrast, the Barclays Municipal Bond Index increased a tax-advantaged 8.32% during the reporting period. The broad taxable bond market, represented by the Barclays U.S. Aggregate Index, rose 5.16%.

Twelve-Month Period in Review through September 30, 2012

The fiscal twelve-month reporting period began with gross domestic product (GDP), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic performance, expanding at an annual pace of 1.3%. GDP growth accelerated to an annual rate of 4.1% between October and December 2011. This momentum reversed during the first and second quarters of 2012 as GDP eased to a 2.0% and 1.3% annual pace respectively. Economic data released during the third quarter of 2012 indicated that the growth rate would be similarly tepid during that quarter.

The Federal Reserve (the Fed) revealed that it would launch a third round of quantitative easing. The Fed agreed to purchase \$40 billion of mortgage securities each month for the foreseeable future. The objective is to lower already record low mortgage rates in an effort to boost the housing market. The Fed also indicated that it would continue Operation Twist , the program involving the selling of debt obligations with short-term maturities and the purchase of debt obligations with longer-term maturities.

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The Fed also announced that it expected to keep the Fed Funds interest rate in the 0.0% to 0.25% range through 2015, longer than previously stated.

2 PIMCO Municipal Income Funds III Annual Report 9.30.12

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Yields on U.S. Treasury bonds dropped to all-time lows during the twelve-month fiscal reporting period. At one point, the yield on the benchmark 10-year Treasury bond fell to 1.43%. It ended the period at 1.65% as of September 30, 2012. These low yields reflect market uncertainty over a variety of issues, notably the European Union's ongoing fiscal crisis and the ongoing political standoff in Washington with respect to future levels of taxes and spending. Since municipal bond yields tend to track comparable Treasury bonds, municipal yields declined accordingly.

The Road Ahead

The credit and economic environment for municipal bonds is expected to remain challenging. Economic growth has been modest and overall tax revenues remain low, despite improving fiscal conditions of state and local governments. This suggests that municipal securities will remain under pressure.

The political standoff in Washington regarding future levels of taxes and spending is also a matter of

concern. Currently, federal taxes are scheduled to increase, and sharp spending cuts are planned to begin in January 2013. The prospect of higher taxes, reduced spending, or both, is likely to have a detrimental effect on the already-modest economic recovery. The potential for higher taxes, however, may increase the appeal of tax-advantaged products such as municipal securities.

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds' shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Pacific Investment Management Company LLC (PIMCO), the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman

Brian S. Shlissel

President & Chief Executive Officer

Receive this report electronically and eliminate paper mailings. To enroll, go to www.allianzinvestors.com/edelivery.

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PIMCO Municipal Income Funds III Fund Insights

September 30, 2012 (unaudited)

For the 12-month period ended September 30, 2012, PIMCO Municipal Income III (Municipal III) returned 23.34% on net asset value (NAV) and 33.20% on market price.

For the 12-month period ended September 30, 2012, PIMCO California Municipal Income III (California Municipal III) returned 21.38% on NAV and 31.62% on market price.

For the 12-month period ended September 30, 2012, PIMCO New York Municipal Income III (New York Municipal III) returned 17.20% on NAV and 26.56% on market price.

The municipal bond market generated strong results during the 12-month reporting period ended September 30, 2012. While there were several periods of weakness within the municipal market, these proved to be only temporary setbacks. In fact, the overall municipal market, as measured by the Barclays Municipal Bond Index (the Benchmark), posted positive returns during nine of the twelve months of the period. Supporting the market were strengthening municipal fundamentals, including rising tax revenues, as well as overall modest new issuance. In addition, investor demand was generally strong as investors sought higher incremental yield in the low interest rate environment. All told, during the 12-month period the Benchmark returned 8.32%. In comparison, the overall taxable fixed income market, as measured by the Barclays U.S. Aggregate Index, rose 5.16% during the period.

Municipal III and New York Municipal III benefited from positively emphasizing revenue bonds versus general obligation bonds. This contributed to results as revenue bonds outperformed general obligation bonds during the reporting period.

The Funds had an overweighting to the Tobacco and Healthcare sectors. This was beneficial as these sectors outperformed the Benchmark for the fiscal year ended September 30, 2012. Municipal III and New York Municipal III benefited from an overweighting to the strong performing Corporate-backed sector. California Municipal III was rewarded for an overweighting to the Education sector. Municipal III's underweighting to Education and Special Tax sectors detracted from performance. California Municipal III's underweighting to the Lease-backed sector was detrimental to returns as this sector outperformed.

During the reporting period, a shorter duration than that of the Benchmark detracted from all three Funds' performance, as municipal yields declined during the 12-month period. In addition, a short Treasury position through the use of futures by California Municipal III and New York Municipal III was a drag on returns as a result of the declining interest rate environment.

Each fund utilized payer interest rate swaps to manage duration. This detracted from performance due to the falling interest rate environment. The Funds' utilization of Treasury futures to manage the portfolios' duration did not have a meaningful impact on performance.

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PIMCO Municipal Income Funds III Performance & Statistics

September 30, 2012 (unaudited)

Municipal III:

Total Return⁽¹⁾:	Market Price	NAV
1 Year	33.20%	23.34%
5 Year	5.53%	2.84%
Commencement of Operations (10/31/02) to 9/30/12	6.05%	4.79%

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 9/30/12

Market Price/NAV:

Market Price	\$13.31
NAV	\$11.02
Premium to NAV	20.78%
Market Price Yield ⁽²⁾	6.31%
Leverage Ratio ⁽³⁾	38.24%

Moody's Rating

(as a % of total investments)

California Municipal III:

Total Return⁽¹⁾:	Market Price	NAV
1 Year	31.62%	21.38%
5 Year	3.63%	0.63%
Commencement of Operations (10/31/02) to 9/30/12	4.46%	3.65%

Market Price/NAV Performance:

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Commencement of Operations (10/31/02) to 9/30/12

Market Price/NAV:

Market Price	\$11.68
NAV	\$10.23
Premium to NAV	14.17%
Market Price Yield ⁽²⁾	6.16%
Leverage Ratio ⁽³⁾	41.39%

Moody's Rating

(as a % of total investments)

Table of Contents**PIMCO Municipal Income Funds III Performance & Statistics**

September 30, 2012 (unaudited)

New York Municipal III:

Total Return⁽¹⁾:	Market Price	NAV
1 Year	26.56%	17.20%
5 Year	1.90%	1.56%
Commencement of Operations (10/31/02) to 9/30/12	2.98%	2.39%

Market Price/NAV Performance:

Commencement of Operations (10/31/02) to 9/30/12

Market Price/NAV:

Market Price	\$10.66
NAV	\$9.65
Premium to NAV	10.47%
Market Price Yield ⁽²⁾	5.91%
Leverage Ratio ⁽³⁾	42.97%

Moody's Rating

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for each Fund's shares, or changes in each Fund's dividends.

An investment in the Funds involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to

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change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at September 30, 2012.

(3) Represents Floating Rate Notes Issued in tender option bond transactions and Preferred Shares (collectively Leverage) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus accrued liabilities (other than liabilities representing Leverage).

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September 30, 2012

Principal

Amount

(000s)		Value
MUNICIPAL BONDS & NOTES 97.0%		
Alabama 2.2%		
\$ 9,000	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	\$ 9,009,810
500	Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 (AGC)	593,250
1,500	Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27	1,465,065
1,000	State Docks Department Rev., 6.00%, 10/1/40	1,149,710
		12,217,835
Arizona 6.5%		
	Health Facs. Auth. Rev., Banner Health,	
1,250	5.00%, 1/1/35, Ser. A	1,333,500
900	5.50%, 1/1/38, Ser. D	996,417
2,250	Beatitudes Campus Project, 5.20%, 10/1/37	2,053,665
	Pima Cnty. Industrial Dev. Auth. Rev.,	
13,000	5.00%, 9/1/39 (h)	13,613,600
750	Tucson Electric Power Co., 5.25%, 10/1/40, Ser. A	815,745
5,000	Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (h)	5,604,650
11,600	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	12,726,824
		37,144,401
California 14.0%		
	Bay Area Toll Auth. Rev., San Francisco Bay Area,	
1,500	5.00%, 10/1/29	1,712,985
500	5.00%, 4/1/34, Ser. F-1	561,890
3,260	5.00%, 10/1/42	3,605,625
	Golden State Tobacco Securitization Corp. Rev., Ser. A-1,	
4,600	5.125%, 6/1/47	3,543,564
7,120	5.75%, 6/1/47	6,070,156
	Health Facs. Financing Auth. Rev.,	
2,500	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	2,928,100
	Sutter Health,	
600	5.00%, 11/15/42, Ser. A (IBC-NPFGC)	630,912
1,500	6.00%, 8/15/42, Ser. B	1,788,840
3,350	Indian Wells Redev. Agcy., Tax Allocation,	
	Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC)	3,044,044
130	Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC)	141,526
2,000	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,607,300
1,580	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project,	
	7.75%, 4/1/31, Ser. B	1,868,129

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September 30, 2012 (continued)

Principal

Amount

(000s)		Value
California (continued)		
\$ 1,250	Palomar Pomerado Health, CP, 6.75%, 11/1/39	\$ 1,405,912
1,600	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,800,240
	State, GO,	
5,000	5.00%, 6/1/37	5,425,000
5,300	5.00%, 12/1/37	5,843,091
1,350	5.25%, 3/1/38	1,489,995
1,300	5.25%, 11/1/40	1,497,340
3,200	5.50%, 3/1/40	3,693,504
2,500	5.75%, 4/1/31	2,948,175
5,000	6.00%, 4/1/38	5,963,700
	Statewide Communities Dev. Auth. Rev.,	
1,000	American Baptist Homes West, 6.25%, 10/1/39	1,090,870
2,205	California Baptist Univ., 5.75%, 11/1/17, Ser. B (a)(d)	2,533,347
	Methodist Hospital Project (FHA),	
2,900	6.625%, 8/1/29	3,677,722
10,300	6.75%, 2/1/38	12,711,127
1,200	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	980,160
		79,563,254
Colorado 0.8%		
500	Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34	403,295
	Health Facs. Auth. Rev.,	
500	Evangelical Lutheran, 6.125%, 6/1/38, Ser. A (Pre-refunded @ \$100, 6/1/14) (c)	547,955
2,000	Sisters of Charity of Leavenworth Health System, 5.00%, 1/1/40, Ser. A	2,181,040
500	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	639,905
500	Regional Transportation Dist. Rev., Denver Transportation Partners, 6.00%, 1/15/34	585,235
		4,357,430
Connecticut 0.3%		
1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	1,427,862
District of Columbia 2.1%		
10,000	Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	11,757,800
Florida 4.1%		
3,480	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34	3,602,774
500	Broward Cnty. Airport System Rev., 5.375%, 10/1/29, Ser. O	576,465
4,500	Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (h)	5,184,945
3,000	Cape Coral Water & Sewer Rev., 5.00%, 10/1/41 (AGM)	3,376,710
350	Dev. Finance Corp. Rev., Renaissance Charter School, 6.50%, 6/15/21, Ser. A	394,800
2,500	Hillsborough Cnty. Industrial Dev. Auth. Rev.,	
	Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B	2,560,650

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

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
Florida (continued)		
\$ 3,895	Sarasota Cnty. Health Facs. Auth. Rev.,	
	Sarasota-Manatee Jewish Housing Council, Inc. Project, 5.75%, 7/1/45	\$ 2,994,905
4,200	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h)	4,799,382
		23,490,631
Georgia 0.4%		
1,750	Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev.,	
	Lenbrook Project, 5.125%, 7/1/42, Ser. A	1,679,002
400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	387,584
		2,066,586
Hawaii 0.3%		
1,500	Hawaii Pacific Health Rev., 5.50%, 7/1/40, Ser. A	1,666,410
Illinois 5.7%		
5,000	Chicago, GO, 5.00%, 1/1/34, Ser. C (h)	5,475,900
	Finance Auth. Rev.,	
	Leafs Hockey Club Project, Ser. A (b)(e),	
1,000	5.875%, 3/1/27	339,500
625	6.00%, 3/1/37	209,831
400	OSF Healthcare System, 7.125%, 11/15/37, Ser. A	483,384
12,795	Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC)	12,864,733
1,000	Swedish Covenant Hospital, 6.00%, 8/15/38, Ser. A	1,125,110
	Univ. of Chicago,	
165	5.25%, 7/1/41, Ser. 05-A	165,147
5,000	5.50%, 7/1/37, Ser. B (h)	5,918,250
5,000	State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B	5,568,800
		32,150,655
Indiana 1.1%		
500	Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC)	500,430
	Portage, Tax Allocation, Ameriplex Project,	
1,000	5.00%, 7/15/23	1,025,540
775	5.00%, 1/15/27	786,943
2,800	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 7.50%, 9/1/22	3,653,440
		5,966,353
Iowa 0.1%		
	Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A,	
120	5.50%, 11/15/27	113,173
575	5.50%, 11/15/37	518,650
		631,823

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PIMCO Municipal Income Fund III Schedule of Investments

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
	Kentucky 0.8%	
	Economic Dev. Finance Auth. Rev.,	
\$ 1,000	Catholic Healthcare Partners, 5.25%, 10/1/30	\$ 1,000,000
2,000	Owensboro Medical Healthcare Systems, 6.375%, 6/1/40, Ser. A	2,375,960
1,250	Ohio Cnty. Pollution Control Rev.,	
	Big Rivers Electric Corp. Project, 6.00%, 7/15/31, Ser. A	1,329,662
		4,705,622
	Louisiana 1.6%	
	Local Gov t Environmental Facs. & Community Dev. Auth. Rev.,	
400	Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A-2	466,928
	Woman s Hospital Foundation, Ser. A,	
1,500	5.875%, 10/1/40	1,698,495
1,000	6.00%, 10/1/44	1,137,160
	Public Facs. Auth. Rev., Ochsner Clinic Foundation Project,	
1,700	5.50%, 5/15/47, Ser. B	1,794,707
2,000	6.50%, 5/15/37	2,396,800
1,345	Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B	1,376,164
		8,870,254
	Maryland 0.8%	
1,000	Economic Dev. Corp. Rev., 5.75%, 6/1/35, Ser. B	1,086,930
	Health & Higher Educational Facs. Auth. Rev.,	
1,500	Calvert Health System, 5.50%, 7/1/36	1,559,565
700	Charlestown Community, 6.25%, 1/1/41	801,171
1,000	Lifebridge Health, 6.00%, 7/1/41	1,162,310
		4,609,976
	Massachusetts 1.3%	
	Dev. Finance Agcy. Rev.,	
300	Adventcare Project, 7.625%, 10/15/37	340,941
	Linden Ponds, Inc. Fac.,	
140	zero coupon, 11/15/56, Ser. B (b)	1,921
28	5.50%, 11/15/46, Ser. A-2 (b)	18,957
529	6.25%, 11/15/39, Ser. A-1	408,439
4,910	Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H	4,917,512
1,600	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	1,823,808
		7,511,578
	Michigan 12.4%	
1,500	Detroit, GO, 5.25%, 11/1/35	1,650,030
9,320	Detroit Sewage Disposal System Rev., 5.00%, 7/1/32, Ser. A (AGM)	9,388,502

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

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
	Michigan (continued)	
\$ 5,000	Detroit Water and Sewerage Department Rev., 5.25%, 7/1/39, Ser. A	\$ 5,341,700
	Detroit Water Supply System Rev.,	
16,000	5.00%, 7/1/34, Ser. A (NPFGC)	16,189,280
7,555	5.00%, 7/1/34, Ser. B (NPFGC)	7,644,376
5,000	5.25%, 7/1/41, Ser. A	5,324,050
500	Global Preparatory Academy Rev., 5.25%, 11/1/36	396,385
1,500	Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39	1,932,060
	State Hospital Finance Auth. Rev.,	
575	Oakwood Group, 6.00%, 4/1/22, Ser. A (Pre-refunded @ \$100, 4/1/13) (c)	591,445
20,000	Trinity Health, 5.375%, 12/1/30 (Pre-refunded @ \$100, 12/1/12) (c)	20,167,600
1,300	State Univ. Rev., 6.173%, 2/15/50, Ser. A	1,593,345
		70,218,773
	Minnesota 0.0%	
125	Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A	127,691
	Missouri 0.1%	
250	Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23	245,035
500	Manchester, Tax Allocation, Highway 141/Manchester Road Project, 6.875%, 11/1/39	534,095
		779,130
	New Hampshire 0.4%	
2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	2,266,200
	New Jersey 6.1%	
1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	1,024,140
300	Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14	300,927
4,500	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28	5,434,380
1,000	Health Care Facs. Financing Auth. Rev., St. Peter's Univ. Hospital, 5.75%, 7/1/37	1,052,760
	Tobacco Settlement Financing Corp. Rev., Ser. 1-A,	
1,600	4.75%, 6/1/34	1,318,768
19,745	5.00%, 6/1/41	16,425,471
8,000	Transportation Trust Fund Auth. Rev., 5.00%, 6/15/42, Ser. B	9,066,160
		34,622,606
	New Mexico 0.2%	
1,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	1,115,170

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

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
New York 12.2%		
\$ 9,800	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.25%, 7/15/40	\$ 11,314,394
5,000	Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A	5,909,050
1,700	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37	2,042,975
3,000	Metropolitan Transportation Auth. Rev., 5.00%, 11/15/36, Ser. D	3,368,460
1,150	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	790,257
10,450	New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 (AGC)	12,647,217
	New York City Municipal Water Finance Auth. Water & Sewer Rev. (h),	
4,900	5.00%, 6/15/37, Ser. D	5,360,208
4,000	Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD	4,424,680
	New York Liberty Dev. Corp. Rev.,	
10,000	1 World Trade Center Project, 5.00%, 12/15/41	11,305,100
11,255	4 World Trade Center Project, 5.00%, 11/15/44	12,451,519
		69,613,860
North Carolina 1.4%		
1,500	Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC)	1,528,740
6,000	New Hanover Cnty. Rev., New Hanover Regional Medical Center, 5.00%, 10/1/28	6,655,140
		8,183,880
Ohio 3.9%		
500	Allen Cnty. Catholic Healthcare Rev., Allen Hospital, 5.00%, 6/1/38, Ser. A	538,500
	Buckeye Tobacco Settlement Financing Auth. Rev., Ser. A-2,	
2,400	5.875%, 6/1/30	1,984,680
2,350	5.875%, 6/1/47	1,897,132
7,290	6.00%, 6/1/42	6,039,765
5,000	6.50%, 6/1/47	4,423,450
3,500	Hamilton Cnty. Healthcare Rev.,	
	Christ Hospital Project, 5.00%, 6/1/42	3,708,880
500	Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems,	
	6.75%, 1/15/39, Ser. 2009-A (Pre-refunded @ \$100, 1/15/15) (c)	572,335
2,500	Lorain Cnty. Hospital Rev., Catholic Healthcare,	
	5.375%, 10/1/30 (Pre-refunded @ \$100, 10/1/12) (c)	2,500,000
500	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A	534,875
		22,199,617
Pennsylvania 2.3%		
1,000	Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39	1,130,620

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

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
Pennsylvania (continued)		
\$ 4,000	Berks Cnty. Municipal Auth. Rev., Reading Hospital Medical Center, 5.00%, 11/1/44, Ser. A	\$ 4,388,960
	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A,	
750	5.625%, 7/1/28	792,240
670	6.00%, 7/1/35	711,614
1,000	Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A	1,130,220
1,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B (e)	988,600
100	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	111,561
500	Philadelphia Water & Sewer Rev., 5.25%, 1/1/36, Ser. A	556,080
3,000	Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D	3,284,400
		13,094,295
Puerto Rico 1.0%		
	Sales Tax Financing Corp. Rev.,	
2,400	5.00%, 8/1/40, Ser. A (AGM) (h)	2,532,288
3,000	5.375%, 8/1/38, Ser. C	3,212,250
		5,744,538
South Carolina 1.3%		
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	1,092,090
5,305	Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B	5,336,140
800	State Ports Auth. Rev., 5.25%, 7/1/40	896,512
		7,324,742
Tennessee 0.5%		
1,250	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	1,416,687
1,000	Johnson City Health & Educational Facs. Board Rev.,	
	Mountain States Health Alliance, 6.00%, 7/1/38, Ser. A	1,160,890
		2,577,577
Texas 8.5%		
1,300	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	1,445,288
3,000	Harris Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor College of Medicine, 5.00%, 11/15/37	3,247,470
	North Harris Cnty. Regional Water Auth. Rev.,	
5,500	5.25%, 12/15/33	6,129,255
5,500	5.50%, 12/15/38	6,137,230

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

September 30, 2012 (continued)

Principal

Amount

(000s)		Value
Texas (continued)		
	North Texas Tollway Auth. Rev.,	
\$ 3,000	5.00%, 1/1/38	\$ 3,277,020
600	5.50%, 9/1/41, Ser. A	717,030
10,800	5.625%, 1/1/33, Ser. A	12,238,560
700	5.75%, 1/1/33, Ser. F	773,409
2,000	Sabine River Auth. Pollution Control Rev., TXU Energy, 5.20%, 5/1/28, Ser. C (b)	205,140
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev.,	
	Baylor Health Care Systems Project, 6.25%, 11/15/29	3,643,830
	Texas Municipal Gas Acquisition & Supply Corp. I Rev.,	
150	5.25%, 12/15/26, Ser. A	167,733
8,100	6.25%, 12/15/26, Ser. D	9,950,121
500	Wise Cnty. Rev., Parker Cnty. Junior College Dist., 8.00%, 8/15/34	578,750
		48,510,836
Virginia 0.3%		
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	1,145,120
1,000	James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A	825,660
		1,970,780
Washington 3.7%		
	Health Care Facs. Auth. Rev.,	
500	Kadlec Regional Medical Center, 5.50%, 12/1/39	529,600
1,000	Seattle Cancer Care Alliance, 7.375%, 3/1/38	1,236,950
18,685	Tobacco Settlement Auth. Rev., 6.50%, 6/1/26	19,462,296
		21,228,846
West Virginia 0.2%		
1,000	Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41	1,216,680
Wisconsin 0.4%		
	Health & Educational Facs. Auth. Rev.,	
1,000	Aurora Health Care, Inc., 5.625%, 4/15/39, Ser. A	1,103,410
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	1,186,320
		2,289,730
	Total Municipal Bonds & Notes (cost- \$497,537,744)	551,223,421
VARIABLE RATE NOTES (a)(d)(f)(g) 3.0%		
California 0.4%		
1,675	Los Angeles Community College Dist., GO, 13.80%, 8/1/33, Ser. 3096	2,308,569
Florida 1.1%		

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5,000	Greater Orlando Aviation Auth. Rev., 9.44%, 10/1/39, Ser. 3174	6,031,600
Texas 1.5%		
6,500	JPMorgan Chase Putters/Drivers Trust, GO, 9.386%, 2/1/17, Ser. 3480	8,729,500
Total Variable Rate Notes (cost-\$13,078,420)		17,069,669
Total Investments (cost-\$510,616,164) 100.0%		\$ 568,293,090

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

September 30, 2012 (continued)

Industry classification of portfolio holdings as a percentage of total investments at September 30, 2012 was as follows:

Revenue Bonds:	
Health, Hospital, Nursing Home Revenue	24.8%
Tobacco Settlement Funded	11.2
Water Revenue	10.6
Natural Gas Revenue	7.0
Sewer Revenue	4.7
Recreational Revenue	4.3
Miscellaneous Revenue	4.2
Port, Airport & Marina Revenue	3.7
College & University Revenue	3.5
Highway Revenue Tolls	3.4
Industrial Revenue	2.7
Lease (Appropriation)	2.4
Local or Government Housing	1.6
Electric Power & Lighting Revenue	1.6
Miscellaneous Taxes	1.0
Sales Tax Revenue	1.0
Transit Revenue	0.7
Ad Valorem Property Tax	0.1
Tax Increment/ Allocation Revenue	0.0
Total Revenue Bonds	88.5%
General Obligation Bonds	9.1
Tax Allocation	1.2
Special Assessments	1.0
Certificates of Participation	0.2
Total Investments	100.0%

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PIMCO California Municipal Income Fund III Schedule of Investments

September 30, 2012

Principal Amount (000s)		Value
CALIFORNIA MUNICIPAL BONDS & NOTES 95.5%		
\$ 1,250	Bay Area Toll Auth. Rev., San Francisco Bay Area, 5.00%, 4/1/34, Ser. F-1	\$ 1,404,725
1,000	Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (NPFGC)	975,910
1,150	Ceres Redev. Agcy., Tax Allocation, Project Area No. 1, 5.00%, 11/1/33 (NPFGC)	1,152,898
2,000	Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B	2,363,280
550	City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, Ser. A	616,671
1,415	Contra Costa Cnty. Public Financing Auth., Tax Allocation, 5.625%, 8/1/33, Ser. A	1,390,195
	Educational Facs. Auth. Rev. (h),	
9,800	Claremont McKenna College, 5.00%, 1/1/39	10,784,998
10,000	Univ. of Southern California, 5.00%, 10/1/39, Ser. A	11,342,000
1,695	El Dorado Irrigation Dist. & El Dorado Cnty. Water Agcy., CP, 5.75%, 8/1/39, Ser. A (AGC)	1,835,600
	Golden State Tobacco Securitization Corp. Rev.,	
11,000	5.00%, 6/1/45 (AMBAC-TCRS)	11,241,010
4,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS)	4,087,640
13,865	5.75%, 6/1/47, Ser. A-1	11,820,606
	Health Facs. Financing Auth. Rev.,	
	Adventist Health System, Ser. A,	
500	5.00%, 3/1/33	506,225
4,000	5.75%, 9/1/39	4,495,880
	Catholic Healthcare West, Ser. A,	
1,935	6.00%, 7/1/34	2,080,493
4,000	6.00%, 7/1/39	4,684,960
450	Children s Hospital of Los Angeles, 5.25%, 7/1/38 (AGM)	476,964
500	Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A	610,480
6,000	Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC)	6,065,040
1,300	Scripps Health, 5.00%, 11/15/36, Ser. A	1,434,771
2,900	Stanford Hospital, 5.25%, 11/15/40, Ser. A-2	3,322,327
	Sutter Health,	
1,000	5.00%, 8/15/35, Ser. D	1,122,370
5,000	5.00%, 8/15/38, Ser. A	5,361,550
500	5.00%, 11/15/42, Ser. A (IBC-NPFGC)	525,760
1,200	6.00%, 8/15/42, Ser. B	1,431,072
500	Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39	564,405

Table of Contents**PIMCO California Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Principal Amount (000s)		Value
\$ 150	Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35	\$ 162,921
5,020	Long Beach Airport Rev., 5.00%, 6/1/40, Ser. A	5,437,714
5,600	Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A	6,382,096
5,000	Long Beach Unified School Dist., GO, 5.75%, 8/1/33, Ser. A	5,900,450
6,000	Los Angeles Department of Water & Power Rev., 4.75%, 7/1/30, Ser. A-2 (AGM) (h)	6,386,940
10,000	5.00%, 7/1/39, Ser. A (h)	11,088,700
1,500	5.00%, 7/1/43, Ser. B	1,736,685
9,580	Los Angeles Unified School Dist., GO, 4.75%, 1/1/28, Ser. A (NPFGC) (Pre-refunded @ \$100, 7/1/13) (c)	9,903,325
10,000	5.00%, 1/1/34, Ser. I (h)	11,330,000
550	Malibu, City Hall Project, CP, 5.00%, 7/1/39, Ser. A	597,085
1,000	Manteca Financing Auth. Sewer Rev., 5.75%, 12/1/36	1,131,910
5,000	Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (h)	5,697,450
2,980	Modesto Irrigation Dist., Capital Improvement Projects, CP, 5.00%, 7/1/33, Ser. A (NPFGC)	3,004,734
3,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	3,291,570
1,700	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	2,216,205
955	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	1,129,154
5,000	Oakland, GO, 5.00%, 1/15/33, Ser. A (NPFGC) (Pre-refunded @ \$100, 1/15/13) (c)	5,068,100
3,900	Orange Unified School Dist., CP, 4.75%, 6/1/29 (NPFGC)	3,900,000
1,250	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	1,362,937
1,250	Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(d)	1,300,075
1,950	Poway Unified School Dist., Special Tax, 5.125%, 9/1/28	1,983,891
5,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC) (Pre-refunded @ \$100, 9/1/13) (c)	5,217,900
500	Rocklin Unified School Dist. Community Facs. Dist., Special Tax, 5.00%, 9/1/29 (NPFGC)	506,205
3,250	Sacramento Municipal Utility Dist. Rev., 5.00%, 8/15/33, Ser. R (NPFGC) (Pre-refunded @ \$100, 8/15/13) (c)	3,377,191
6,250	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	6,773,875
12,075	San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (AGM) (Pre-refunded @ \$100, 5/1/13) (c)	12,410,202
4,000	San Diego Public Facs. Financing Auth. Sewer Rev., 5.25%, 5/15/39, Ser. A	4,541,480
2,200	San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A	2,473,372

Table of Contents**PIMCO California Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Principal Amount (000s)		Value
\$ 1,000	San Francisco Public Utilities Commission Water Rev., 5.00%, 11/1/43	\$ 1,147,450
1,500	San Jose Hotel Tax Rev., Convention Center Expansion, 6.50%, 5/1/36	1,791,615
12,200	San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC-NPFGC)	12,371,410
1,000	San Marcos Unified School Dist., GO, 5.00%, 8/1/38, Ser. A	1,125,150
500	Santa Clara Cnty. Financing Auth. Rev., El Camino Hospital, 5.75%, 2/1/41, Ser. A (AMBAC)	547,685
1,200	Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A	1,421,016
4,425	South Tahoe JT Powers Financing Auth. Rev., South Tahoe Redev. Project, 5.45%, 10/1/33, Ser. 1-A	4,425,398
7,300	State, GO, 6.00%, 4/1/38 State Public Works Board Rev.,	8,707,002
2,000	California State Univ., 6.00%, 11/1/34, Ser. J	2,370,200
2,050	Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A Statewide Communities Dev. Auth. Rev.,	2,086,756
500	American Baptist Homes West, 6.25%, 10/1/39 California Baptist Univ.,	545,435
1,300	5.50%, 11/1/38, Ser. A	1,347,697
500	6.50%, 11/1/21 Catholic Healthcare West,	610,985
1,015	5.50%, 7/1/31, Ser. D	1,135,917
1,015	5.50%, 7/1/31, Ser. E	1,135,917
4,500	Kaiser Permanente, 5.00%, 3/1/41, Ser. B	4,768,650
1,000	Lancer Student Housing Project, 7.50%, 6/1/42	1,147,990
7,300	Los Angeles Jewish Home, 5.50%, 11/15/33 (CA Mtg. Ins.)	7,421,253
15,000	Memorial Health Services, 5.50%, 10/1/33, Ser. A (Pre-refunded @ \$100, 4/1/13) (c) Methodist Hospital Project (FHA),	15,394,200
2,000	6.625%, 8/1/29	2,536,360
7,200	6.75%, 2/1/38	8,885,448
3,100	St. Joseph Health System, 5.75%, 7/1/47, Ser. A (FGIC)	3,451,416
1,800	Sutter Health, 6.00%, 8/15/42, Ser. A	2,146,608
11,000	Trinity Health, 5.00%, 12/1/41	12,310,650
2,000	Univ. of California Irvine E. Campus, 5.375%, 5/15/38	2,168,340
3,505	Statewide Communities Dev. Auth., The Internext Group, CP, 5.375%, 4/1/30 Tobacco Securitization Agcy. Rev.,	3,513,727
	Alameda Cnty.,	
8,100	5.875%, 6/1/35	8,099,757
7,000	6.00%, 6/1/42	6,999,370
2,000	Kern Cnty., 6.125%, 6/1/43, Ser. A	1,999,900

Table of Contents**PIMCO California Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Principal Amount (000s)		Value
\$ 5,000	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	\$ 4,084,000
2,950	Torrance Rev., Torrance Memorial Medical Center, 5.50%, 6/1/31, Ser. A	2,956,165
5,000	Univ. of California Rev., 5.00%, 5/15/42, Ser. G	5,748,700
650	West Basin Municipal Water Dist., CP, 5.00%, 8/1/30, Ser. A (NPFGC)	675,734
350	5.00%, 8/1/30, Ser. A (NPFGC) (Pre-refunded @ \$100, 8/1/13) (c)	354,834
2,000	Western Municipal Water Dist. Facs. Auth. Rev., 5.00%, 10/1/39, Ser. B	2,224,020
1,000	Westlake Village, CP, 5.00%, 6/1/39	1,056,010
2,500	William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33, Ser. 2002-1	2,521,200
2,750	Woodland Finance Auth. Rev., 5.00%, 3/1/32 (XLCA)	2,818,585
	Total California Municipal Bonds & Notes (cost-\$321,654,115)	360,062,547
OTHER MUNICIPAL BONDS & NOTES 4.2%		
Indiana 1.3%		
5,000	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(d)	5,106,750
New Jersey 0.2%		
1,000	Tobacco Settlement Financing Corp. Rev., 4.75%, 6/1/34, Ser. 1-A	824,230
New York 1.0%		
3,300	New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (h)	3,609,936
Ohio 0.6%		
2,000	American Municipal Power-Ohio, Inc. Rev., Fremont Energy Center Project, 5.00%, 2/15/42, Ser. B	2,215,840
Puerto Rico 1.1%		
1,535	Sales Tax Financing Corp. Rev., 5.00%, 8/1/46, Ser. C	1,650,509
2,200	5.25%, 8/1/43, Ser. A-1	2,335,432
		3,985,941
	Total Other Municipal Bonds & Notes (cost-\$12,589,603)	15,742,697
CALIFORNIA VARIABLE RATE NOTES (a)(d)(f)(g) 0.3%		
1,000	Los Angeles Community College Dist., GO, 13.80%, 8/1/33, Ser. 3096 (cost-\$996,673)	1,378,250
	Total Investments (cost-\$335,240,391) 100.0%	\$ 377,183,494

Table of Contents**PIMCO California Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Industry classification of portfolio holdings as a percentage of total investments at September 30, 2012 was as follows:

Revenue Bonds:	
Health, Hospital, Nursing Home Revenue	26.4%
Tobacco Settlement Funded	13.0
College & University Revenue	9.1
Electric Power & Lighting Revenue	6.1
Water Revenue	4.2
Natural Gas Revenue	2.9
Lease (Abatement)	2.1
Sewer Revenue	1.5
Port, Airport & Marina Revenue	1.4
Tax Increment/ Allocation Revenue	1.2
Sales Tax Revenue	1.1
Local or Government Housing	0.7
Hotel Occupancy Tax	0.5
Highway Revenue Tolls	0.4
 Total Revenue Bonds	 70.6%
General Obligation Bonds	16.1
Certificates of Participation	7.3
Tax Allocation	4.7
Special Tax	1.3
 Total Investments	 100.0%

Table of Contents**PIMCO New York Municipal Income Fund III Schedule of Investments**

September 30, 2012

Principal Amount (000s)		Value
NEW YORK MUNICIPAL BONDS & NOTES 91.2%		
\$ 1,000	Brooklyn Arena Local Dev. Corp. Rev., Barclays Center Project, 6.375%, 7/15/43	\$ 1,160,350
1,500	Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%, 4/1/42	1,689,195
730	Dutchess Cnty. Industrial Dev. Agcy. Rev., Elant Fishkill, Inc., 5.25%, 1/1/37, Ser. A	632,866
800	East Rochester Housing Auth. Rev., St. Mary's Residence Project, 5.375%, 12/20/22, Ser. A (GNMA)	832,472
4,000	Hudson Yards Infrastructure Corp. Rev., 5.75%, 2/15/47, Ser. A Liberty Dev. Corp. Rev.,	4,727,240
1,050	Bank of America Tower at One Bryant Park Project, 6.375%, 7/15/49 Goldman Sachs Headquarters, 5.25%, 10/1/35	1,213,317
1,810	5.50%, 10/1/37	2,139,022
2,400	5.50%, 10/1/37	2,884,200
1,500	Long Island Power Auth. Rev., 5.75%, 4/1/39, Ser. A Metropolitan Transportation Auth. Rev.,	1,778,715
5,220	5.00%, 11/15/32, Ser. A (FGIC-NPFGC)	5,384,900
500	5.00%, 11/15/34, Ser. B	564,665
3,000	Monroe Cnty. Industrial Dev. Corp. Rev., Unity Hospital Rochester Project, 5.50%, 8/15/40 (FHA) (h)	3,488,490
500	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	343,590
2,695	New York City, GO, 5.00%, 3/1/33, Ser. I (Pre-refunded @ \$100, 3/1/13) (c)	2,747,687
	New York City Industrial Dev. Agcy. Rev., (AGC), Pilot Queens Baseball Stadium, 6.50%, 1/1/46	701,976
600	Yankee Stadium, 7.00%, 3/1/49	2,662,572
2,200	New York City Municipal Water Finance Auth. Water & Sewer Rev., Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD (h)	5,530,850
5,000	5.00%, 6/15/39, Ser. GG-1	1,708,125
1,500	5.00%, 6/15/39, Ser. GG-1	
2,000	New York City Transitional Finance Auth. Rev., 5.00%, 5/1/39, Ser. F-1	2,300,240
3,450	New York City Trust for Cultural Res. Rev., Wildlife Conservation Society, 5.00%, 2/1/34 (FGIC-NPFGC)	3,548,566
4,000	New York Liberty Dev. Corp. Rev., 4 World Trade Center Project, 5.75%, 11/15/51	4,717,680
1,000	Niagara Falls Public Water Auth. Water & Sewer Rev., 5.00%, 7/15/34, Ser. A (NPFGC)	1,009,970
400	Onondaga Cnty. Rev., Syracuse Univ. Project, 5.00%, 12/1/36	459,160

Table of Contents**PIMCO New York Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Principal Amount (000s)		Value
\$ 600	Port Auth. of New York & New Jersey Rev., JFK International Air Terminal, 6.00%, 12/1/36	\$ 702,864
	State Dormitory Auth. Rev., 5.00%, 3/15/38, Ser. A	1,144,850
1,000	Jewish Board Family & Children, 5.00%, 7/1/33 (AMBAC)	2,264,715
2,250	Lutheran Medical Hospital, 5.00%, 8/1/31 (FHA-NPFGC)	
3,000	(Pre-refunded @ \$100, 2/1/13) (c)	3,046,740
	NYU Hospitals Center, 6.00%, 7/1/40, Ser. A	292,803
250	St. Barnabas Hospital, 5.00%, 2/1/31, Ser. A (AMBAC-FHA)	3,750,472
3,740	Teachers College, 5.50%, 3/1/39	1,328,004
1,200	The New School, 5.50%, 7/1/40	573,505
500	Univ. Dormitory Facs., 5.00%, 7/1/42, Ser. A	2,862,775
2,500	Winthrop Univ. Hospital Assoc., 5.50%, 7/1/32, Ser. A	627,855
620	Winthrop-Nassau Univ., 5.75%, 7/1/28	2,540,275
2,500	State Environmental Facs. Corp. Rev., 4.75%, 6/15/32, Ser. B	820,185
750	State Thruway Auth. Rev., 5.00%, 1/1/42, Ser. I	1,801,536
1,600	State Urban Dev. Corp. Rev., 5.00%, 3/15/35, Ser. B	2,587,440
2,400	5.00%, 3/15/36, Ser. B-1 (h)	2,537,040
2,200	Triborough Bridge & Tunnel Auth. Rev., 5.25%, 11/15/34, Ser. A-2 (h)	2,382,580
2,000	Troy Capital Res. Corp. Rev., Rensselaer Polytechnic Institute Project, 5.125%, 9/1/40, Ser. A	1,547,826
1,400	Warren & Washington Cntys. Industrial Dev. Agcy. Rev., Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM)	2,042,920
	Westchester Cnty. Healthcare Corp. Rev., 6.125%, 11/1/37, Ser. C-2	704,436
600	Yonkers Economic Dev. Corp. Rev., Charter School of Educational Excellence Project, 6.00%, 10/15/30, Ser. A	105,063
100		
	Total New York Municipal Bonds & Notes (cost-\$77,584,875)	85,889,732
OTHER MUNICIPAL BONDS & NOTES 8.8%		
District of Columbia 0.2%		
175	Tobacco Settlement Financing Corp. Rev., 6.50%, 5/15/33	200,653
Ohio 1.1%		
1,250	Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2	1,009,113
Puerto Rico 6.8%		
580	Children's Trust Fund Rev., 5.625%, 5/15/43	580,058
	Sales Tax Financing Corp. Rev., 5.00%, 8/1/40, Ser. A (AGM) (h)	4,220,480
4,000	5.25%, 8/1/43, Ser. A-1	530,780
500	5.375%, 8/1/38, Ser. C	1,070,750
1,000		
		6,402,068

Table of Contents**PIMCO New York Municipal Income Fund III Schedule of Investments**

September 30, 2012 (continued)

Principal Amount (000s)		Value
	U.S. Virgin Islands 0.6%	
\$ 500	Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A	\$ 559,840
	Washington 0.1%	
135	Tobacco Settlement Auth. Rev., 6.625%, 6/1/32	140,292
	Total Other Municipal Bonds & Notes (cost-\$7,613,595)	8,311,966
	Total Investments (cost-\$85,198,470) 100.0%	\$ 94,201,698

Industry classification of portfolio holdings as a percentage of total investments at September 30, 2012 was as follows:

Revenue Bonds:	
Health, Hospital, Nursing Home Revenue	21.8%
Industrial Revenue	11.2
Water Revenue	9.6
Income Tax Revenue	9.1
Recreational Revenue	7.8
College & University Revenue	7.2
Transit Revenue	6.3
Sales Tax Revenue	6.2
Miscellaneous Revenue	5.6
Miscellaneous Taxes	5.0
Highway Revenue Tolls	2.5
Tobacco Settlement Funded	2.1
Electric Power & Lighting Revenue	1.9
Port, Airport & Marina Revenue	0.8
Total Revenue Bonds	97.1%
General Obligation Bonds	2.9
Total Investments	100.0%

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PIMCO New York Municipal Income Funds Notes to Schedules of Investments

September 30, 2012 (continued)

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$19,603,016 and \$7,785,075, representing 3.4% and 2.1% of total investments in Municipal III and California Municipal III, respectively.
- (b) Illiquid.
- (c) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding date (payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
- (d) 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.
- (e) In default.
- (f) 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 September 30, 2012.
- (g) 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 September 30, 2012.
- (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 each 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.
CA Mtg. Ins.	-	insured by California Mortgage Insurance
CP	-	Certificates of Participation
FGIC	-	insured by Financial Guaranty Insurance Co.
FHA	-	insured by Federal Housing Administration
GNMA	-	insured by Government National Mortgage Association
GO	-	General Obligation Bond
IBC	-	Insurance Bond Certificate
NPFGC	-	insured by National Public Finance Guarantee Corp.
TCRS	-	Temporary Custodian Receipts
XLCA	-	insured by XL Capital Assurance

Table of Contents**PIMCO Municipal Income Funds III Statements of Assets and Liabilities**

September 30, 2012

	Municipal III	California Municipal III	New York Municipal III
Assets:			
Investments, at value (cost-\$510,616,164, \$335,240,391 and \$85,198,470, respectively)	\$568,293,090	\$377,183,494	\$94,201,698
Cash	3,813,897	2,281,267	425,181
Interest receivable	9,034,307	5,606,274	1,078,109
Prepaid expenses and other assets	36,679	26,117	14,627
Total Assets	581,177,973	385,097,152	95,719,615
Liabilities:			
Payable for Floating Rate Notes issued	32,121,219	33,623,688	8,932,500
Dividends payable to common and preferred shareholders	2,275,232	1,320,810	297,064
Investment management fees payable	289,615	185,366	45,748
Interest payable	76,701	77,969	14,320
Accrued expenses and other liabilities	276,266	293,229	102,880
Total Liabilities	35,039,033	35,501,062	9,392,512
Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 7,560, 5,000 and 1,280 shares issued and outstanding, respectively)	189,000,000	125,000,000	32,000,000
Net Assets Applicable to Common Shareholders	\$357,138,940	\$224,596,090	\$54,327,103
Composition of Net Assets Applicable to Common Shareholders:			
Common Shares:			
Par value (\$0.00001 per share)	\$324	\$220	\$56
Paid-in-capital in excess of par	457,380,551	308,901,832	79,174,051
Undistributed net investment income	3,817,545	5,860,568	1,935,488
Accumulated net realized loss	(161,738,310)	(132,091,831)	(35,784,307)
Net unrealized appreciation of investments	57,678,830	41,925,301	9,001,815
Net Assets Applicable to Common Shareholders	\$357,138,940	\$224,596,090	\$54,327,103
Common Shares Issued and Outstanding	32,402,125	21,951,128	5,630,985
Net Asset Value Per Common Share	\$11.02	\$10.23	\$9.65

See accompanying Notes to Financial Statements

9.30.12

PIMCO Municipal Income Funds III Annual Report

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Table of Contents**PIMCO Municipal Income Funds III Statements of Operations**

Year ended September 30, 2012

	Municipal III	California Municipal III	New York Municipal III
Investment Income:			
Interest	\$31,121,148	\$20,695,207	\$5,197,424
Expenses:			
Investment management fees	3,409,237	2,193,233	543,907
Interest expense	356,541	304,314	70,753
Auction agent fees and commissions	307,800	191,699	53,016
Custodian and accounting agent fees	103,854	78,931	48,850
Audit and tax services	80,336	63,866	45,103
Shareholder communications	55,770	30,112	19,207
Trustees' fees and expenses	48,616	29,585	7,742
Transfer agent fees	42,497	41,871	40,930
New York Stock Exchange listing fees	25,722	21,309	21,071
Legal fees	12,208	6,652	12,212
Insurance expense	11,095	7,438	2,679
Miscellaneous	11,966	11,982	11,031
Total Expenses	4,465,642	2,980,992	876,501
Less: investment management fees waived	(194,179)	(125,057)	(31,080)
custody credits earned on cash balances	(2,254)	(4,178)	(1,190)
Net Expenses	4,269,209	2,851,757	844,231
Net Investment Income	26,851,939	17,843,450	4,353,193
Realized and Change In Unrealized Gain (Loss):			
Net realized gain (loss) on:			
Investments	(1,407,521)	861,734	527,953
Futures contracts	273,273	(310,285)	(107,072)
Swaps	(2,252,916)	(3,997,978)	(526,064)
Net change in unrealized appreciation/depreciation of: Investments	43,496,985	22,188,286	3,409,069
Swaps	3,672,956	4,663,255	637,653
Net realized and change in unrealized gain on investments, futures contracts and swaps	43,782,777	23,405,012	3,941,539
Net Increase in Net Assets Resulting from Investment Operations	70,634,716	41,248,462	8,294,732
Dividends on Preferred Shares from Net Investment Income	(459,781)	(303,346)	(78,584)
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$70,174,935	\$40,945,116	\$8,216,148

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Table of Contents**PIMCO Municipal Income Funds III Statements of Changes in Net Assets****Applicable to Common Shareholders**

	Municipal III	
	Year ended September 30, 2012	Year ended September 30, 2011
Investment Operations:		
Net investment income	\$26,851,939	\$28,086,793
Net realized loss on investments, futures contracts and swaps	(3,387,164)	(4,849,640)
Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps	47,169,941	(14,805,435)
Net increase in net assets resulting from investment operations	70,634,716	8,431,718
Dividends on Preferred Shares from Net Investment Income	(459,781)	(651,323)
Net increase in net assets applicable to common shareholders resulting from investment operations	70,174,935	7,780,395
Dividends to Common Shareholders from Net Investment Income	(27,184,685)	(27,072,603)
Common Share Transactions:		
Reinvestment of dividends	1,127,973	1,473,126
Total increase (decrease) in net assets applicable to common shareholders	44,118,223	(17,819,082)
Net Assets Applicable to Common Shareholders:		
Beginning of year	313,020,717	330,839,799
End of year (including undistributed net investment income of \$3,817,545 and \$4,610,072; \$5,860,568 and \$4,108,834; \$1,935,488 and \$1,204,306; respectively)	\$357,138,940	\$313,020,717
Common Shares Issued in Reinvestment of Dividends	101,480	146,402

Table of Contents**PIMCO Municipal Income Funds III Statements of Changes in Net Assets****Applicable to Common Shareholders (continued)**

California Municipal III		New York Municipal III	
Year ended September 30, 2012	Year ended September 30, 2011	Year ended September 30, 2012	Year ended September 30, 2011
\$17,843,450	\$16,886,814	\$4,353,193	\$3,847,375
(3,446,529)	(8,192,235)	(105,183)	(1,231,817)
26,851,541	(4,941,083)	4,046,722	(2,130,334)
41,248,462	3,753,496	8,294,732	485,224
(303,346)	(428,181)	(78,584)	(110,402)
40,945,116	3,325,315	8,216,148	374,822
(15,785,355)	(15,719,522)	(3,543,427)	(3,527,553)
687,943	825,372	164,219	243,118
25,847,704	(11,568,835)	4,836,940	(2,909,613)
198,748,386	210,317,221	49,490,163	52,399,776
\$224,596,090	\$198,748,386	\$54,327,103	\$49,490,163
70,417	94,251	17,760	28,553

See accompanying Notes to Financial Statements 9.30.12 PIMCO Municipal Income Funds III Annual Report

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Table of Contents**PIMCO California Municipal Income Fund III Statement of Cash Flows**

Year ended September 30, 2012

Decrease in Cash from:**Cash Flows provided by Operating Activities:**

Net increase in net assets resulting from investing operations	\$41,248,462
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Adjustments to Reconcile Net Increase in Net Assets Resulting from Investment Operations to Net Cash provided by Operating Activities:

Purchases of long-term investments	(35,428,608)
Proceeds from sales of long-term investments	36,742,385
Sales of short-term portfolio investments, net	5,571,780
Net change in unrealized appreciation/depreciation of investments, futures contracts and swaps	(26,229,645)
Net realized loss on investments, futures contracts and swaps	2,821,617
Net amortization/accretion on investments	(1,592,752)
Decrease in interest receivable	13,571
Payments for futures contracts transactions	(310,285)
Increase in prepaid expenses and other assets	(4,002)
Net cash used for swap transactions	(4,179,560)
Increase in investment management fees payable	26,604
Decrease in accrued expenses and other liabilities	(19,306)
Net cash provided by operating activities	18,660,261

Cash Flows used of Financing Activities:

Cash dividends paid (excluding reinvestment of dividends of \$687,943)	(15,394,462)
Cash retirement on issuance of Floating Rate Notes	(6,706,700)
Net cash used for financing activities	(22,101,162)
Net decrease in cash	(3,440,901)
Cash at beginning of year	5,722,168
Cash at end of year	\$2,281,267

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies

PIMCO Municipal Income Fund III ("Municipal III"), PIMCO California Municipal Income Fund III ("California Municipal III") and PIMCO New York Municipal Income Fund III ("New York Municipal III") (each a "Fund" and collectively referred to as the "Funds" or "PIMCO Municipal Income Funds III"), were organized as Massachusetts business trusts on August 20, 2002. Prior to commencing operations on October 31, 2002, the Funds had no operations other than matters relating to their organization and registration as non-diversified, closed-end management investment companies registered under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the "Investment Manager") and Pacific Investment Management Company LLC ("PIMCO" or the "Sub-Adviser") serve as the investment manager and sub-adviser, respectively, and are indirect, wholly-owned subsidiaries of Allianz Asset Management of America L.P. ("AAM"). AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has authorized an unlimited amount of common shares with \$0.00001 par value.

Under normal market conditions, Municipal III invests substantially all of its assets in a portfolio of municipal bonds, the interest from which is exempt from U.S. federal income taxes. Under normal market conditions, California Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal and California state income taxes. Under normal market conditions, New York Municipal III invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal, New York State and New York City income taxes. There can be no assurance that the Funds will meet their stated objectives. The Funds will generally seek to avoid investing in bonds generating interest income which could potentially subject individuals to alternative minimum tax. The issuers' abilities to meet their obligations may be affected by economic and political developments in a specific state or region.

The preparation of the Funds' financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund's financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred.

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-11, "Disclosures About Offsetting Assets and Liabilities" , which requires enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments are effective for fiscal years beginning on or after January 1, 2013. The Funds' management is currently evaluating the effect that the guidance may have on the Funds' financial statements.

The following is a summary of significant accounting policies consistently followed by the Funds:

(a) Valuation 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. The Funds' 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.

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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.

The Board of Trustees (the Board) has adopted procedures for valuing portfolio securities and other financial derivative instruments in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to the Investment Manager and Sub-Adviser. The Funds Valuation Committee was established by the Board to oversee the implementation of the Funds valuation methods and to make fair value determinations on behalf of the Board, as instructed. The Sub-Adviser monitors the continued appropriateness of methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies (continued)

other factors. If the Sub-Adviser determines that a valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will be convened to consider the matter and take any appropriate action in accordance with procedures set forth by the Board. The Board shall review the appropriateness of the valuation methods and these methods may be amended or supplemented from time to time by the Valuation Committee.

If third party evaluated vendor pricing is neither available nor deemed to be reliable of fair value, the Sub-Adviser may elect to obtain market quotations (broker quotes) directly from a broker-dealer.

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 Funds to value securities may differ from the value that would be realized if the securities were sold, and these differences could be material to the Funds' financial statements. Each Fund's net asset value (NAV) 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.

(b) 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 Funds have the ability to access

Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs

Level 3 valuations based on significant unobservable inputs (including the Sub-Adviser's or Valuation Committee's own assumptions and single broker quotes in determining the fair value of investments)

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 Funds generally use 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 (GAAP).

Municipal Bonds & Notes and Variable Rate Notes Municipal bonds and notes 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 or note insurance. To the extent that these inputs are observable, the values of municipal bonds and notes and variable rate notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

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The valuation techniques used by the Funds to measure fair value during the year ended September 30, 2012 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Funds' policy is to recognize transfers between levels at the end of the reporting period. 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 the 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 techniques used. Assets categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

Organization and Significant Accounting Policies (continued)

A summary of the inputs used at September 30, 2012 in valuing each Fund's assets and liabilities is listed below (refer to the Schedules of Investments for more detailed information on Investments in Securities):

Municipal III:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 9/30/12
Investments in Securities Assets				
Municipal Bonds & Notes		\$ 551,223,421		\$ 551,223,421
Variable Rate Notes		17,069,669		17,069,669
Total Investments		\$ 568,293,090		\$ 568,293,090

California Municipal III:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 9/30/12
Investments in Securities Assets				
California Municipal Bonds & Notes		\$ 360,062,547		\$ 360,062,547
Other Municipal Bonds & Notes		15,742,697		15,742,697
California Variable Rate Notes		1,378,250		1,378,250
Total Investments		\$ 377,183,494		\$ 377,183,494

New York Municipal III:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 9/30/12
Investments in Securities Assets				
New York Municipal Bonds & Notes		\$85,889,732		\$85,889,732
Other Municipal Bonds & Notes		8,311,966		8,311,966
Total Investments		\$94,201,698		\$94,201,698

At September 30, 2012, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the year ended September 30, 2012, was as follows:

Municipal III:

Purchases

Sales

Transfers

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	Beginning Balance 9/30/11	Accrued Discounts (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	out of Level 3*	Ending Balance 9/30/12
Investments in Securities	Assets						
Municipal Bonds & Notes:							
California	\$ 2,313,600	\$ (205,000)		\$ 424,747		\$ (2,533,347)	

*Transferred out of Level 3 into Level 2 because evaluated price from a third-party pricing vendor was available.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discount and amortization of premium is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income.

(d) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Funds' management has determined that its evaluation has resulted in no material impact to the Funds' financial statements at September 30, 2012. The Funds' federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions – Common Shares

The Funds declare dividends from net investment income to common shareholders monthly. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital.

(f) Inverse Floating Rate Transactions – Residual Interest Municipal Bonds (RIBs) / Residual Interest Tax Exempt Bonds (RITEs)

The Funds invest in RIBs and RITEs (Inverse Floaters), whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. In inverse floating rate transactions, the Funds sell a fixed rate municipal bond (Fixed Rate Bond) to a broker who places the Fixed Rate Bond in a special purpose trust (Trust) from which floating rate bonds (Floating Rate Notes) and Inverse Floaters are issued. The Funds simultaneously or within a short period of time, purchase the Inverse Floaters from the broker. The Inverse Floaters held by the Funds provide the Funds with the right to: (1) cause the holders of the Floating Rate Notes to tender their notes at par, and (2) cause the broker to transfer the Fixed-Rate Bond held by the Trust to the Funds, thereby collapsing the Trust. The Funds account for the transaction described above as a secured borrowing by including the Fixed Rate Bond in their Schedules of Investments, and account for the Floating Rate Notes as a liability under the caption Payable for Floating Rate Notes issued in the Funds' Statements of Assets and Liabilities. The Floating Rate Notes have interest rates that generally reset weekly and their holders have the option to tender their notes to the broker for redemption at par at each reset date.

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The Funds may also invest in Inverse Floaters without transferring a fixed rate municipal bond into a Trust, which are not accounted for as secured borrowings. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

The Inverse Floaters are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process typically every 7 to 35 days. After income is paid on the short-term securities at current rates, the residual income from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term rates result in lower income for the long-term component and vice versa. The longer-term bonds may be more volatile and less liquid than other municipal bonds of comparable maturity. Investments in Inverse Floaters typically will involve greater risk than in an investment in Fixed Rate Bonds.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies (continued)

The Funds' restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

In addition to general market risks, the Funds' investments in Inverse Floaters may involve greater risk and volatility than an investment in a fixed rate bond, and the value of Inverse Floaters may decrease significantly when market interest rates increase. Inverse Floaters have varying degrees of liquidity, and the market for these securities may be volatile. These securities tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, Inverse Floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Trusts in which Inverse Floaters may be held could be terminated due to market, credit or other events beyond the Funds' control, which could require the Funds to reduce leverage and dispose of portfolio investments at inopportune times and prices.

(g) Interest Expense

Interest expense relates to the Funds' participation in Floating Rate Notes held by third parties in conjunction with Inverse Floater transactions.

(h) Custody Credits on Cash Balances

The Funds benefit from an expense offset arrangement with their custodian bank, whereby uninvested cash balances may earn credits that reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income-producing securities, they would have generated income for the Funds. Cash overdraft charges, if any, are included in custodian and accounting agent fees.

2. Principal Risks

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate, credit and leverage risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Funds are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.* yield) movements.

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Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When a Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds' shares.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

2. Principal Risks (continued)

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Sub-Adviser seeks to minimize the Funds' counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are exposed to risks associated with leverage. Leverage may cause the value of the Funds' shares to be more volatile than if the Funds did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Funds' portfolio securities. The Funds may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, to the extent the Funds employ leverage, interest costs may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Funds' investment returns, resulting in greater losses.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements (ISDA Master Agreements) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

3. Financial Derivative Instruments

Disclosure about derivatives and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivatives, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives, which are accounted for as hedges , and those that do not qualify for such accounting. Although the Funds sometimes use derivatives for hedging purposes, the Funds reflect derivatives at fair value and recognize changes in fair value through the Funds' Statements of Operations, and such derivatives do not qualify for hedge accounting treatment.

(a) Futures Contracts

The Funds may use futures contracts to manage their exposure to the securities markets or the movements in interest rates and currency values. A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Upon entering into such a contract, the Funds are required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange. Pursuant to the contracts, the Funds agree to receive from or pay to the broker an amount of cash or securities equal to the daily fluctuation in the value of the contracts. Such receipts or payments are known as variation margin and are recorded by the Funds as unrealized appreciation or depreciation. When the contracts are closed, the Funds record a realized gain or loss equal to the difference between the value of the contracts at the time they were opened and the value at the time they were closed. Any unrealized appreciation or depreciation recorded is simultaneously reversed. The use of futures transactions involves various risks, including the risk of an imperfect correlation in the movements in the price of futures contracts, interest rates and underlying hedging assets, and possible inability or unwillingness of counterparties to meet the terms of their contracts.

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(b) Swap Agreements

Swap agreements are bilaterally negotiated agreements between the Funds and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market or event-linked returns at specified, future intervals. Swap agreements may be privately negotiated in the over-the-counter market (OTC swaps) or may be executed in a multilateral or other trade facility platform, such as a registered commodities exchange (centrally cleared swaps). The

Table of Contents**PIMCO Municipal Income Funds III Notes to Financial Statements**

September 30, 2012

3. Financial Derivative Instruments (continued)

Funds enter into credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements in order, among other things, to manage their exposure to credit, currency and interest rate risk. In connection with these agreements, securities may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

OTC swap payments received or made at the beginning of the measurement period are reflected as such on the Funds' Statements of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Funds' Statements of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Funds' Statements of Operations. Net periodic payments received or paid by the Funds are included as part of realized gains or losses on the Funds' Statements of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable, as applicable, for variation margin on centrally cleared swaps on the Funds' Statements of Assets and Liabilities.

Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Funds' Statements of Assets and Liabilities. Such risks include the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

Interest Rate Swap Agreements Interest rate swap agreements involve the exchange by the Funds with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different money markets.

The following is a summary of the fair valuation of the Funds' derivatives categorized by risk exposure.

The effect of derivatives on the Statements of Operations for the year ended September 30, 2012:

Municipal III:

Location	Interest Rate Contracts
Net realized gain (loss) on:	
Futures contracts	\$ 273,273
Swaps	(2,252,916)

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Total net realized loss	\$ (1,979,643)
Net change in unrealized appreciation/depreciation of:	
Swaps	\$ 3,672,956

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September 30, 2012

3. Financial Derivative Instruments (continued)

California Municipal III:

Location	Interest Rate Contracts
Net realized loss on:	
Futures contracts	\$ (310,285)
Swaps	(3,997,978)
Total net realized loss	\$ (4,308,263)
Net change in unrealized appreciation/depreciation of:	
Swaps	\$ 4,663,255

New York Municipal III:

Location	Interest Rate Contracts
Net realized loss on:	
Futures contracts	\$ (107,072)
Swaps	(526,064)
Total net realized loss	\$ (633,136)
Net change in unrealized appreciation/depreciation of:	
Swaps	\$ 637,653

The average volume (measured at each fiscal quarter-end) of derivative activity during the year ended September 30, 2012:

	Futures Contracts ⁽¹⁾	Interest Rate Swap Agreements ⁽²⁾
	Short	
Municipal III		\$ 3,460
California Municipal III	(12)	2,360
New York Municipal III	(4)	360

⁽¹⁾ Number of contracts⁽²⁾ Notional amount (in thousands)**4. Investment Manager/Sub-Adviser**

Each Fund has an Investment Management Agreement (each an "Agreement") with the Investment Manager. Subject to the supervision of each Fund's Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.65% of each Fund's average daily net assets, inclusive of net assets attributable to any Preferred Shares that were outstanding. For the period October 1, 2011 through June 30, 2012, the Investment Manager voluntarily agreed to waive a portion of its fee for each Fund at the annual rate of 0.05% of each Fund's average daily net assets, inclusive of net assets attributable to any Preferred Shares that were outstanding. For the year ended September 30, 2012, each Fund paid investment management fees at an effective rate of 0.61% of each Fund's average daily net assets, inclusive of net assets attributable to any Preferred Shares that were outstanding.

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The Investment Manager has retained the Sub-Adviser to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. The Investment Manager, not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

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PIMCO Municipal Income Funds III Notes to Financial Statements

September 30, 2012

5. Investments in Securities

For the year ended September 30, 2012, purchases and sales of investments, other than short-term securities were:

	Municipal III	California Municipal III	New York Municipal III
Purchases	\$ 136,929,646	\$ 35,428,608	\$ 17,210,316
Sales	162,266,365	36,742,385	14,483,574

Floating Rate Notes for the year ended September 30, 2012:

The weighted average daily balance of Floating Rate Notes outstanding during the year ended September 30, 2012 for Municipal III, California Municipal III and New York Municipal III was \$36,960,359, \$39,177,855 and \$8,932,500 at a weighted average interest rate, including fees, of 0.96%, 0.78% and 0.79%, respectively.

6. Income Tax Information

The tax character of dividends paid was:

	Year ended September 30, 2012		Year ended September 30, 2011 Tax	
	Ordinary Income	Tax Exempt Income	Ordinary Income	Exempt Income
Municipal III	\$ 296,167	\$ 27,348,299	\$ 341,172	\$ 27,382,754
California Municipal III	1,306,838	14,781,863	223,752	15,923,951
New York Municipal III	542,793	3,079,218	45,404	3,592,551

At September 30, 2012, the components of distributable earnings was:

	Tax Exempt Income	Capital Loss Carryforwards ⁽¹⁾	Post-October Capital Loss ⁽²⁾	
			Short-Term	Long-Term
Municipal III	\$ 3,817,545	\$ 159,672,061		\$ 2,778,388

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California Municipal III	5,860,568	131,948,687	
New York Municipal III	1,935,488	35,705,104	\$ 41,190

- (1) Capital loss carryforwards available as a reduction, to the extent provided in the regulations, of any future net realized gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be disbursed.
- (2) Capital losses realized during the period November 1, 2011 through September 30, 2012 which the Funds elected to defer to the following taxable year pursuant to income tax regulations.

Under the Regulated Investment Company Modernization Act of 2010, the Funds will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010, for an unlimited period. However, any losses incurred in those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term capital losses.

At September 30, 2012, capital loss carryforward amounts was:

	2013	2014	2015	2016	2017	2018	2019	<u>No Expiration⁽³⁾</u>	
								Short-Term	Long-Term
Municipal III	\$ 14,905,572	\$ 9,012,699		\$ 2,478,209	\$ 11,389,399	\$ 116,860,369	\$ 695,314	\$ 4,330,499	
California Municipal III	11,508,959	8,216,646		1,376,562	9,243,137	89,815,298		6,881,698	\$ 4,906,387
New York Municipal III	2,109,136	1,605,360		426,250	3,263,786	26,935,773		1,364,799	

- (3) Carryforward amounts are subject to the provisions of the Regulated Investment Company Modernization Act of 2010.

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September 30, 2012

6. Income Tax Information (continued)

For the year ended September 30, 2012, California Municipal III had capital loss carryforwards of \$506,345 which expired.

For the year ended September 30, 2012, permanent book-tax adjustments were:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-In-Capital In Excess of Par
Municipal III			
California Municipal III (a)(b)	\$ (3,015)	\$ 509,360	\$ (506,345)
New York Municipal III			

These permanent book-tax differences were primarily attributable to:

- (a) Differing treatment of Inverse Floaters
- (b) Expiring Capital Loss Carryforwards

Net investment income, net realized gains or losses and net assets were not affected by these adjustments.

At September 30, 2012, the aggregate cost basis of investments and the net unrealized appreciation of investments for federal income tax purposes were:

	Cost of Investments	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
Municipal III	\$ 477,636,110	\$ 63,359,232	\$ 4,968,266	\$ 58,390,966
California Municipal III	301,590,968	42,552,876	770,720	41,782,156
New York Municipal III	76,268,618	9,172,187	208,384	8,963,803

- (4) Differences, if any, between book and tax cost basis were attributable to Inverse Floater transactions.

7. Auction-Rate Preferred Shares

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Municipal III has 1,512 shares of Preferred Shares Series A, 1,512 shares of Preferred Shares Series B, 1,512 shares of Preferred Shares Series C, 1,512 shares of Preferred Shares Series D and 1,512 shares of Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

California Municipal III has 2,500 shares of Preferred Shares Series A and 2,500 shares of Preferred Shares Series B outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

New York Municipal III has 1,280 shares of Preferred Shares Series A outstanding, with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures (or through default procedures in the event of failed auctions). Distributions of net realized capital gains, if any, are paid annually.

For the year ended September 30, 2012, the annualized dividend rates ranged from:

	High	Low	At September 30, 2012
Municipal III:			
Series A	0.381%	0.107%	0.274%
Series B	0.381%	0.107%	0.274%
Series C	0.396%	0.107%	0.274%
Series D	0.396%	0.107%	0.274%
Series E	0.396%	0.107%	0.274%

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September 30, 2012

7. Auction-Rate Preferred Shares (continued)

	High	Low	At September 30, 2012
California Municipal III:			
Series A	0.381%	0.107%	0.274%
Series B	0.396%	0.107%	0.274%
New York Municipal III:			
Series A	0.381%	0.107%	0.274%

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference plus any accumulated, unpaid dividends.

Preferred shareholders, who are entitled to one vote per share, generally vote together with the common shareholders but vote separately as a class to elect two Trustees and on any matters affecting the rights of the Preferred Shares.

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and the ARPS holders have continued to receive dividends at the defined maximum rate equal to the higher of the 30-day AA Composite Commercial Paper Rate multiplied by 110% or the Taxable Equivalent of the Short-Term Municipal Obligations Rate-defined as 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the Kenny S&P 30-day High Grade Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal) multiplied by 110% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction). If the Funds ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds common shareholders could be adversely affected. S&P Evaluation Services has announced that it will discontinue providing the Kenny S&P 30-day High Grade Index effective January 1, 2013. The Funds are currently considering alternatives to replace this Index for purpose of calculating ARPS dividend rates on and after January 1, 2013.

In July 2012, Moody's Investor Service downgraded its ratings for each series of the Funds Preferred Shares from Aaa to Aa2.

8. Transfer Agent Change

American Stock Transfer & Trust Company, LLC (AST) assumed responsibility as the Funds transfer agent, effective September 17, 2012 (the Effective Date). The amended Dividend Reinvestment Plan (the Plan) and AST's role as transfer agent for Participants under the Plan commenced as of the Effective Date.

9. Subsequent Events

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On October 1, 2012, the following dividends were declared to common shareholders payable November 1, 2012 to shareholders of record on October 11, 2012:

Municipal III	\$0.07 per common share
California Municipal III	\$0.06 per common share
New York Municipal III	\$0.0525 per common share

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PIMCO Municipal Income Funds Notes to Financial Statements

September 30, 2012

9. Subsequent Events (continued)

On November 1, 2012, the following dividends were declared to common shareholders payable December 3, 2012 to shareholders of record on November 13, 2012:

Municipal III	\$0.07 per common share
California Municipal III	\$0.06 per common share
New York Municipal III	\$0.0525 per common share

There were no other subsequent events that require recognition or disclosure. In preparing these financial statements, the Funds' management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Table of Contents**PIMCO Municipal Income Fund III Financial Highlights**

For a common share outstanding throughout each year:

	Year ended September 30,				
	2012	2011	2010	2009	2008
Net asset value, beginning of year	\$9.69	\$10.29	\$10.16	\$10.81	\$14.53
Investment Operations:					
Net investment income	0.83	0.87	0.86	0.96	1.29
Net realized and change in unrealized gain (loss) on investments, futures contracts, options written and swaps	1.35	(0.61)	0.13	(0.67)	(3.87)
Total from investment operations	2.18	0.26	0.99	0.29	(2.58)
Dividends on Preferred Shares from Net Investment Income					
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.01)	(0.02)	(0.02)	(0.10)	(0.30)
	2.17	0.24	0.97	0.19	(2.88)
Dividends to Common Shareholders from Net Investment Income					
Net asset value, end of year	(0.84)	(0.84)	(0.84)	(0.84)	(0.84)