

PIMCO MUNICIPAL INCOME FUND III
Form N-Q
February 23, 2010

OMB APPROVAL

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

| | |
|---|---|
| Investment Company Act File Number: | 811-21187 |
| Registrant Name: | PIMCO Municipal Income Fund III |
| Address of Principal Executive Offices: | 1345 Avenue of the Americas, New York, NY 10105 |
| Name and Address of Agent for Service: | Lawrence G. Altadonna 1345 Avenue of the Americas, New York, NY 10105 |
| Registrant's telephone number, including area code: | 212-739-3371 |
| Date of Fiscal Year End: | September 30, 2010 |
| Date of Reporting Period: | December 31, 2009 |

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

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

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

December 31, 2009 (unaudited)

Principal

| Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|--|--|-----------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 97.3% | | | |
| Alabama 1.1% | | | |
| \$ 5,000 | Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | Baa2/NR | \$ 4,134,750 |
| 500 | Birmingham Special Care Facs. Financing Auth. Rev., Childrens Hospital, 6.00%, 6/1/39 | Aa3/AAA | 526,380 |
| 1,500 | Colbert Cnty. Northwest Health Care Auth. Rev., 5.75%, 6/1/27 | Baa3/NR | 1,410,420 |
| | | | 6,071,550 |
| Alaska 1.3% | | | |
| 3,900 | Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,873,987 |
| 1,000 | 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA | 1,005,290 |
| 3,100 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 2,029,601 |
| | | | 6,908,878 |
| Arizona 5.1% | | | |
| 1,250 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/A+ | 1,196,712 |
| 900 | 5.50%, 1/1/38, Ser. D | NR/A+ | 911,007 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | NR/NR | 1,635,008 |
| 1,500 | Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC) | Baa2/BBB- | 1,396,545 |
| 13,000 | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 | Aa2/AA | 12,665,770 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (h) | Aa1/AA | 5,220,650 |
| 5,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 4,761,904 |
| | | | 27,787,596 |
| California 5.9% | | | |
| 2,500 | Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A | A2/A | 2,644,425 |

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| | | | |
|--------|---|---------|------------|
| 1,250 | Palomar Pomerado Health, CP, 6.75%, 11/1/39 State, GO, | Baa2/NR | 1,245,225 |
| 250 | 5.00%, 11/1/37 | Baa1/A | 225,158 |
| 5,300 | 5.00%, 12/1/37 | Baa1/A | 4,780,388 |
| 6,000 | 6.00%, 4/1/38 | Baa1/A | 6,118,620 |
| | Statewide Communities Dev. Auth. Rev., | | |
| 2,800 | Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(c) | NR/NR | 2,318,904 |
| | Methodist Hospital Project (FHA), | | |
| 2,900 | 6.625%, 8/1/29 | Aa2/AA | 3,276,014 |
| 10,300 | 6.75%, 2/1/38 | Aa2/AA | 11,573,801 |
| | | | 32,182,535 |
| | Colorado 3.0% | | |
| 9,955 | Colorado Springs Utilities Rev., 5.00%, 11/15/30, Ser. B (h) | Aa2/AA | 10,404,269 |
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | NR/NR | 354,535 |
| 500 | Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A | A3/A- | 495,645 |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. | | |
| | Project, 5.875%, 6/1/37 (a)(c) | NR/BB | 1,026,795 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | A2/A | 527,650 |
| 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian) | NR/NR | 3,375,960 |
| | | | 16,184,854 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|-------------------------------|--|-----------------------------------|---------------|
| | District of Columbia 2.0% | | |
| \$ 10,000 | Dist. of Columbia Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h) | Aa3/AA | \$ 10,858,000 |
| | Florida 5.2% | | |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | A3/A- | 3,175,256 |
| 500 | Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O | A1/A+ | 513,495 |
| 4,500 | Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (h) | Aa3/AA | 4,681,845 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B | A3/NR | 2,364,200 |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special Assessment, 5.00%, 5/1/29 (NPFGC) | Baa1/A | 1,382,164 |
| 1,000 | Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A | A2/A- | 1,016,490 |
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45 | NR/NR | 2,964,874 |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (h) | Aa1/AAA | 4,330,116 |
| 6,900 | State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33 | Aa2/AA | 7,911,747 |
| | | | 28,340,187 |
| | Georgia 0.3% | | |
| 1,750 | Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | NR/NR | 1,135,050 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | NR/NR | 307,552 |
| | | | 1,442,602 |
| | Idaho 1.2% | | |
| 1,000 | State Building Auth. Rev., Ser. A (XLCA), 5.00%, 9/1/33 | NR/AA- | 1,012,430 |
| 5,750 | 5.00%, 9/1/43 | NR/AA- | 5,786,282 |
| | | | 6,798,712 |
| | Illinois 8.1% | | |
| 500 | Chicago Board of Education School Reform, GO, | | |

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| | | | |
|--------|--|---------|------------|
| | zero coupon, 12/1/28, Ser. A (FGIC-NPFGC) Chicago, GO, | A1/AA- | 186,695 |
| 720 | 5.00%, 1/1/31, Ser. A (NPFGC) | Aa3/AA- | 732,370 |
| 5,000 | 5.00%, 1/1/34, Ser. C (h) Chicago Motor Fuel Tax Rev., Ser. A, | Aa3/AA- | 5,043,200 |
| 7,000 | 5.00%, 1/1/33 (AMBAC) | A1/AA+ | 7,089,180 |
| 500 | 5.00%, 1/1/38 Educational Facs. Auth. Rev., Univ. of Chicago, Ser. A, | Aa3/AAA | 514,245 |
| 4,780 | 5.00%, 7/1/33 | Aa1/AA | 4,867,092 |
| 165 | 5.25%, 7/1/41 Finance Auth. Rev., Leafs Hockey Club Project, Ser. A (b), | Aa1/AA | 168,112 |
| 1,000 | 5.875%, 3/1/27 | NR/NR | 304,000 |
| 625 | 6.00%, 3/1/37 | NR/NR | 189,156 |
| 400 | OSF Healthcare System, 7.125%, 11/15/37, Ser. A | A2/A | 444,540 |
| 12,795 | Peoples Gas Light & Coke Co., 5.00%, 2/1/33 (AMBAC) | A2/A- | 12,921,287 |
| 5,000 | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (h) | Aa1/AA | 5,538,950 |
| 1,175 | Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | Baa1/NR | 1,147,810 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | Aa3/AA- | 5,377,400 |
| | | | 44,524,037 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

| Principal | | Credit Rating | Value* |
|------------------|---|------------------|--------------|
| Amount (000s) | | (Moody s/S&P) | |
| | Indiana 1.4% | | |
| \$ 3,500 | Dev. Finance Auth. Rev., 5.00%, 3/1/30, Ser. B (AMBAC) | A2/A | \$ 3,430,105 |
| 1,375 | Fort Wayne Pollution Control Rev., General Motors Corp. Project, 6.20%, 10/15/25 (d) | NR/NR | 261,250 |
| 1,250 | Indianapolis Local Public Improvement Bond Bank, Tax Allocation, 5.00%, 2/1/29, Ser. G (NPFGC) | Baa1/AA | 1,260,200 |
| 1,000 | Plainfield Parks Facs. Corp. Rev., 5.00%, 1/15/22 (AMBAC) | NR/A | 1,014,980 |
| 1,000 | Portage, Tax Allocation, Ameriplex Project, 5.00%, 7/15/23 | NR/BBB+ | 915,170 |
| 775 | 5.00%, 1/15/27 | NR/BBB+ | 680,248 |
| | | | 7,561,953 |
| | Iowa 1.8% | | |
| 120 | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, 5.50%, 11/15/27 | NR/NR | 86,863 |
| 575 | 5.50%, 11/15/37 | NR/NR | 381,869 |
| 11,010 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 9,446,250 |
| | | | 9,914,982 |
| | Kentucky 0.6% | | |
| 1,000 | Economic Dev. Finance Auth. Rev., Baptist Healthcare Systems, Ser. A, 5.375%, 8/15/24 | Aa3/NR | 1,103,720 |
| 1,300 | 5.625%, 8/15/27 | Aa3/NR | 1,414,062 |
| 1,000 | Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA- | 998,660 |
| | | | 3,516,442 |
| | Louisiana 0.5% | | |
| 1,700 | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B | Baa1/NR | 1,561,994 |
| 1,595 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | 1,464,928 |
| | | | 3,026,922 |

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| | | | |
|---------------------------|--|---------|------------|
| Maryland 0.3% | | | |
| 1,500 | Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36 | A2/NR | 1,517,190 |
| Massachusetts 1.3% | | | |
| 750 | Dev. Finance Agcy. Rev., Linden Ponds, Inc. Fac., Ser. A, 5.75%, 11/15/35 | NR/NR | 548,865 |
| 4,910 | Housing Finance Agcy. Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,918,249 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | Aa3/AA- | 1,720,592 |
| | | | 7,187,706 |
| Michigan 14.7% | | | |
| 500 | Conner Creek Academy East Rev., 5.25%, 11/1/36 | NR/BB+ | 357,480 |
| 9,320 | Detroit Sewer Rev., 5.00%, 7/1/32, Ser. A (FSA) | Aa3/AAA | 9,122,882 |
| 30,000 | Detroit Water Rev. (NPFGC), 5.00%, 7/1/34, Ser. A | A2/A+ | 27,994,800 |
| 7,555 | 5.00%, 7/1/34, Ser. B | A3/A | 7,147,105 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | A1/A | 1,774,005 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|-------------------------------|--|-----------------------------------|------------|
| | Michigan (continued) | | |
| \$ 175 | State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23, Ser. A Oakwood Group, Ser. A, | Ba3/BB- | \$ 138,094 |
| 5,405 | 5.75%, 4/1/32 | A2/A | 5,261,876 |
| 575 | 6.00%, 4/1/22 | A2/A | 581,492 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30, Ser. C | Aa2/AA | 20,226,200 |
| 10,000 | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BBB | 7,622,000 |
| | | | 80,225,934 |
| | Mississippi 0.8% | | |
| 3,000 | Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.875%, 4/1/22 | Ba1/BBB | 2,999,670 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,250,162 |
| | | | 4,249,832 |
| | Missouri 0.3% | | |
| 1,350 | St. Louis Cnty. Industrial Dev. Auth. Rev., Southfield & Oak Apartments, 5.20%, 1/20/36, Ser. A (GNMA) | NR/AAA | 1,360,220 |
| 250 | Township of Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | NR/NR | 211,217 |
| | | | 1,571,437 |
| | Montana 1.7% | | |
| 9,500 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31, Ser. A (AMBAC) | Baa1/A- | 9,104,515 |
| | Nevada 0.7% | | |
| 4,000 | Clark Cnty., GO, 4.75%, 6/1/30 (FSA) | Aa1/AAA | 4,004,200 |
| | New Hampshire 0.4% | | |
| 2,000 | Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39 | Baa1/BBB+ | 1,963,540 |

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| New Jersey 4.5% | | | |
|------------------------|--|-----------|------------|
| 1,000 | Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A | Baa3/BBB | 783,610 |
| 300 | Economic Dev. Auth. Rev., Newark Airport Marriott Hotel, 7.00%, 10/1/14 | Ba1/NR | 300,672 |
| 4,500 | Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project, 6.50%, 4/1/28 | Baa3/NR | 4,023,270 |
| 1,075 | Health Care Facs. Financing Auth. Rev., Pascack Valley Hospital Assoc., 6.625%, 7/1/36 (d) | NR/D | 16,131 |
| 1,000 | St. Peters Univ. Hospital, 5.75%, 7/1/37 | Baa2/BBB- | 979,710 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 954,465 |
| 2,000 | State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E | A3/A+ | 2,062,100 |
| 22,645 | Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A | Baa3/BBB | 15,640,902 |
| | | | 24,760,860 |
| New Mexico 0.2% | | | |
| 1,000 | Farmington Pollution Control Rev., 5.80%, 4/1/22, Ser. A | Baa3/BB+ | 1,000,480 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

Principal

| Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|------------------|---|-----------------------------------|--------------|
| | New York 4.6% | | |
| \$ 1,700 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | A1/A | \$ 1,731,535 |
| 1,250 | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/34, Ser. B | NR/AA | 1,294,213 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 1,010,528 |
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 | Aa3/AAA | 12,178,012 |
| 4,900 | New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (h) | Aa2/AAA | 5,021,716 |
| 4,000 | Second Generation Resolutions, 4.75%, 6/15/35, Ser. DD (h) | Aa3/AA+ | 4,024,800 |
| | | | 25,260,804 |
| | North Carolina 1.1% | | |
| 2,000 | Eastern Municipal Power Agcy. Rev., 5.125%, 1/1/23, Ser. D | Baa1/A- | 2,039,580 |
| 2,000 | 5.125%, 1/1/26, Ser. D | Baa1/A- | 2,027,860 |
| 795 | 5.375%, 1/1/17, Ser. C | Baa1/A- | 841,770 |
| 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | NR/A | 1,319,250 |
| | | | 6,228,460 |
| | Ohio 4.2% | | |
| 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC) | Aa3/A | 15,619,309 |
| 5,000 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BBB | 3,765,200 |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,500,725 |
| 500 | Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A | Aa3/NR | 521,155 |
| 500 | State Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. A | A2/A | 531,155 |
| | | | 22,937,544 |
| | Pennsylvania 2.6% | | |
| 1,000 | | Aa3/A+ | 1,009,910 |

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| | | | |
|-------|---|----------|------------|
| | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39 | | |
| | Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A, | | |
| 750 | 5.625%, 7/1/28 | NR/BBB- | 633,000 |
| 670 | 6.00%, 7/1/35 | NR/BBB- | 574,659 |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health System Project, 6.00%, 6/1/36, Ser. A | A2/A | 1,023,730 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B | NR/NR | 1,086,362 |
| 100 | Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39 | A2/A | 101,751 |
| 6,200 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A | Baa3/BBB | 6,203,348 |
| 500 | Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A | A3/A | 505,710 |
| 3,000 | Turnpike Commission Rev., 5.125%, 12/1/40, Ser. D | A2/A- | 3,010,260 |
| | | | 14,148,730 |
| | South Carolina 1.1% | | |
| 1,000 | Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39 | A2/A | 980,270 |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30, Ser. B | A3/A- | 5,218,263 |
| | | | 6,198,533 |

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

Principal

| Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|------------------|---|-----------------------------------|--------------|
| | Tennessee 0.5% | | |
| \$ 1,250 | Claiborne Cnty. Industrial Dev. Rev., Board Lincoln Memorial Univ., 6.625%, 10/1/39 | NR/NR | \$ 1,223,625 |
| 1,200 | Tennessee Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21 | Ba3/BB+ | 1,211,376 |
| 365 | 5.25%, 9/1/22 | Ba3/BB+ | 366,650 |
| | | | 2,801,651 |
| | Texas 10.5% | | |
| 6,810 | Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD) | Aaa/AAA | 6,909,562 |
| 1,300 | Dallas Civic Center Rev., 5.25%, 8/15/38 | Aa3/AAA | 1,327,469 |
| 10,115 | Denton Independent School Dist., GO, 5%, 8/15/33 (PSF-GTD) (h) | Aaa/AAA | 10,347,645 |
| 465 | Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD) | Aaa/NR | 470,292 |
| | Municipal Gas Acquisition & Supply Corp. I Rev., 5.25%, 12/15/26, Ser. A | A2/A | 144,774 |
| 150 | 5.25%, 12/15/26, Ser. A | A2/A | 144,774 |
| 8,100 | 6.25%, 12/15/26, Ser. D | A2/A | 8,745,003 |
| | North Harris Cnty. Regional Water Auth. Rev., 5.25%, 12/15/33 | A3/A+ | 5,613,905 |
| 5,500 | 5.50%, 12/15/38 | A3/A+ | 5,648,280 |
| | North Texas Tollway Auth. Rev., 5.625%, 1/1/33, Ser. A | A2/A- | 11,089,656 |
| 10,800 | 5.75%, 1/1/33, Ser. F | A3/BBB+ | 717,542 |
| 700 | 6.25%, 1/1/39, Ser. A | A2/A- | 2,122,680 |
| 2,000 | Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C | Caa3/CCC | 1,069,900 |
| 2,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems Project, 6.25%, 11/15/29 | Aa2/AA- | 3,214,500 |
| 3,000 | | | |
| | | | 57,421,208 |
| | Virginia 0.3% | | |
| 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A | Aa2/AA+ | 1,048,370 |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A | NR/NR | 565,700 |
| | | | 1,614,070 |

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Washington 7.8%

| | | | |
|--------|--|----------|------------|
| 6,375 | Chelan Cnty. Public Utility Dist. No. 1 Rev., Chelan Hyrdo Systems, 5.125%, 7/1/33, Ser. C (AMBAC) | Aa2/AA | 6,508,237 |
| 1,000 | Health Care Facs. Auth. Rev., Seattle Cancer Care Alliance, 7.375%, 3/1/38 | A3/NR | 1,104,550 |
| 15,000 | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (FSA) (h) | Aa3/AAA | 15,203,400 |
| 20,005 | Tobacco Settlement Auth. Rev., 6.50%, 6/1/26 | Baa3/BBB | 20,124,230 |
| | | | 42,940,417 |

Wisconsin 2.2%

| | | | |
|--------|--|--------|------------|
| 1,000 | Health & Educational Facs. Auth. Rev., Prohealth Care, Inc., 6.625%, 2/15/39 | A1/A+ | 1,071,540 |
| 10,000 | State Rev., 6.00%, 5/1/36, Ser. A | A1/AA- | 11,090,600 |
| | | | 12,162,140 |

Total Municipal Bonds & Notes (cost \$527,389,560) 532,418,501

VARIABLE RATE NOTES (a)(c)(f) 1.6%

California 0.3%

| | | | |
|-------|--|-------|-----------|
| 1,675 | Los Angeles Community College Dist., GO, 13.56%, 8/1/33, Ser. 3096 (e) | NR/AA | 1,719,555 |
|-------|--|-------|-----------|

PIMCO Municipal Income Fund III Schedule of Investments

December 31, 2009 (unaudited)

Principal

| Amount (000s) | | Credit Rating (Moody s/S&P) | Value* |
|--|--|-----------------------------------|-----------------------|
| | Texas 1.3% | | |
| \$ 6,500 | JPMorgan Chase Putters/Drivers Trust, GO, 9.227%, 2/1/17, Ser. 3480 | NR/AA+ | \$ 7,079,605 |
| | Total Variable Rate Notes (cost \$8,138,648) | | 8,799,160 |
| SHORT-TERM INVESTMENTS (g) 1.1% | | | |
| | Corporate Notes 1.1% | | |
| | Financial Services 1.1% | | |
| | International Lease Finance Corp., FRN, | | |
| 700 | 0.482%, 5/24/10 | B1/BBB+ | 680,569 |
| 600 | 0.684%, 1/15/10 | B1/BBB+ | 598,445 |
| 5,000 | SLM Corp., 0.442%, 7/26/10, FRN | Ba1/BBB- | 4,893,410 |
| | Total Corporate Notes (cost \$5,998,897) | | 6,172,424 |
| | Total Investments (cost \$541,527,105) 100.0% | | \$ 547,390,085 |

Notes to Schedule of Investments:

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

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The 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 for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics.

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

The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and these differences could be material. The Fund's net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

- (a) Private Placement Restricted as to resale and may not

have a readily available market. Securities with an aggregate value of \$12,144,859, representing 2.2% of total investments.

- (b) Illiquid.
- (c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (d) In default.
- (e) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on December 31, 2009.
- (f) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on December 31, 2009.

- (g) All or partial amount segregated as collateral for reverse repurchase agreements.
- (h) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.

Glossary:

AMBAC insured by American Municipal Bond Assurance Corp.

CP Certificates of Participation

FGIC insured by Financial Guaranty Insurance Co.

FHA insured by Federal Housing Administration

FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on December 31, 2009.

FSA insured by Financial Security Assurance, Inc.

GNMA insured by Government National Mortgage Association

GO General Obligation Bond

GTD Guaranteed

NPFGC insured by National Public Finance Guarantee Corporation

NR Not Rated

PSF Public School Fund

Radian insured by Radian Guaranty, Inc.

XLCA insured by XL Capital Assurance

Open reverse repurchase agreements at December 31, 2009:

| Counterparty | Rate | Trade Date | Maturity Date | Principal & Interest | Principal |
|----------------------------|-------|------------|---------------|----------------------|-------------|
| Barclays Bank | 0.65% | 12/4/09 | 1/7/10 | \$ 4,605,327 | \$4,603,000 |
| Credit Suisse First Boston | 0.55% | 12/7/09 | 1/12/10 | 1,175,448 | 1,175,000 |
| | | | | | \$5,778,000 |

The weighted average daily balance of reverse repurchase agreements outstanding during the three months ended December 31, 2009 was \$5,483,033 at a weighted average interest rate of 0.64%. The total market value of underlying collateral (refer to the Schedule of Investments for positions segregated as collateral for reverse repurchase agreements) for open reverse repurchase agreements at December 31, 2009 was \$6,172,424.

Fair Value Measurements

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

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

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

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

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

The valuation techniques used by the Fund to measure fair value during the three months ended December 31, 2009 maximized the use of observable inputs and minimized the use of unobservable inputs.

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

A summary of the inputs used at December 31, 2009 in valuing the Fund's assets and liabilities is listed below:

| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Value at 12/31/09 |
|---|-------------------------------|--|--|----------------------|
| Investments in Securities Assets | | | | |
| Municipal Bonds & Notes | | \$532,418,501 | | \$532,418,501 |
| Variable Rate Notes | | 8,799,160 | | 8,799,160 |
| Short Term Investments | | 6,172,424 | | 6,172,424 |
| Total Investments | | \$547,390,085 | | \$547,390,085 |

Item 2. Controls and Procedures

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

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

Item 3. Exhibits

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

SIGNATURES

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

Registrant: PIMCO Municipal Income Fund III

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 23, 2010

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting
Officer

Date: February 23, 2010

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

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 23, 2010

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting
Officer

Date: February 23, 2010

CERTIFICATIONS

I, Brian S. Shlissel, certify that:

1. I have reviewed this report on Form N-Q of PIMCO Municipal Income Fund III;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the schedules of investments included in this report fairly present in all material respects the investments of the registrant as of the end of the fiscal quarter for which the report is filed;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2010

Signature & Title: /s/ Brian S. Shlissel

Brian S. Shlissel, President & Chief Executive Officer