

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**

<b>Investment Company Act File Number:</b>	<b>811-21187</b>
<b>Registrant Name:</b>	<b>PIMCO Municipal Income Fund III</b>
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*
<b>MUNICIPAL BONDS &amp; NOTES 97.3%</b>			
<b>Alabama 1.1%</b>			
\$ 5,000	Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	Baa2/NR	\$ 4,134,750
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
<b>Alaska 1.3%</b>			
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
<b>Arizona 5.1%</b>			
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
<b>California 5.9%</b>			
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
	<b>Colorado 3.0%</b>		
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

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	<b>District of Columbia 2.0%</b>		
\$ 10,000	Dist. of Columbia Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (h)	Aa3/AA	\$ 10,858,000
	<b>Florida 5.2%</b>		
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
	<b>Georgia 0.3%</b>		
1,750	Fulton Cnty. Residential Care Facs. for the Elderly Auth. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A	NR/NR	1,135,050
400	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	NR/NR	307,552
			1,442,602
	<b>Idaho 1.2%</b>		
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
	<b>Illinois 8.1%</b>		
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

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Amount (000s)		Credit Rating (Moody s/S&P)	Value*
	<b>Indiana 1.4%</b>		
\$ 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
	<b>Iowa 1.8%</b>		
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
	<b>Kentucky 0.6%</b>		
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
	<b>Louisiana 0.5%</b>		
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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<b>Maryland 0.3%</b>			
1,500	Health & Higher Educational Facs. Auth. Rev., Calvert Health System, 5.50%, 7/1/36	A2/NR	1,517,190
<b>Massachusetts 1.3%</b>			
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
<b>Michigan 14.7%</b>			
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

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<b>Michigan (continued)</b>			
\$ 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
<b>Mississippi 0.8%</b>			
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
<b>Missouri 0.3%</b>			
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
<b>Montana 1.7%</b>			
9,500	Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31, Ser. A (AMBAC)	Baa1/A-	9,104,515
<b>Nevada 0.7%</b>			
4,000	Clark Cnty., GO, 4.75%, 6/1/30 (FSA)	Aa1/AAA	4,004,200
<b>New Hampshire 0.4%</b>			
2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39	Baa1/BBB+	1,963,540

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<b>New Jersey 4.5%</b>			
1,000	Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A	Baa3/BBB	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
<b>New Mexico 0.2%</b>			
1,000	Farmington Pollution Control Rev., 5.80%, 4/1/22, Ser. A	Baa3/BB+	1,000,480

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<b>New York 4.6%</b>			
\$ 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
<b>North Carolina 1.1%</b>			
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
<b>Ohio 4.2%</b>			
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
<b>Pennsylvania 2.6%</b>			
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
	<b>South Carolina 1.1%</b>		
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

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	<b>Tennessee 0.5%</b>		
\$ 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
	<b>Texas 10.5%</b>		
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
	<b>Virginia 0.3%</b>		
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A	Aa2/AA+	1,048,370
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
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## Principal

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	<b>Texas 1.3%</b>		
\$ 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
<b>SHORT-TERM INVESTMENTS (g) 1.1%</b>			
	<b>Corporate Notes 1.1%</b>		
	<b>Financial Services 1.1%</b>		
	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
	<b>Total Investments (cost \$541,527,105) 100.0%</b>		<b>\$ 547,390,085</b>

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**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
<b>Investments in Securities Assets</b>				
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
<b>Total Investments</b>		\$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