

PIMCO MUNICIPAL INCOME FUND III
Form N-Q
August 25, 2009

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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, 2009

Date of Reporting Period: June 30, 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**

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value* |
|--|---|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 93.5% | | | |
| Alabama 0.9% | | | |
| \$ 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 | \$ 3,725,750 |
| 1,500 | Colbert Cnty. Northwest Health Care Facs. Auth. Rev., 5.75%, 6/1/27 | Baa3/NR | 1,284,285 |
| | | | 5,010,035 |
| Alaska 1.2% | | | |
| 3,100 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 1,679,084 |
| 3,900 | State Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,750,981 |
| 1,000 | 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA | 979,080 |
| | | | 6,409,145 |
| Arizona 4.9% | | | |
| 1,250 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/A+ | 1,141,550 |
| 900 | 5.50%, 1/1/38, Ser. D | NR/A+ | 874,116 |
| 2,250 | Beatitudes Campus Project, 5.20%, 10/1/37 | NR/NR | 1,381,860 |
| 1,500 | Maricopa Cnty. Pollution Control Corp. Rev., Palo Verde Project, 5.05%, 5/1/29, Ser. A (AMBAC) | Baa2/A | 1,216,020 |
| 13,000 | Pima Cnty. Industrial Dev. Auth. Rev., Correctional Facs., 5.00%, 9/1/39 | Aa2/AA | 11,984,700 |
| 5,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 5.00%, 1/1/39, Ser. A (i) | Aa1/AA | 4,969,400 |
| 5,600 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 4,136,664 |
| | | | 25,704,310 |
| California 5.6% | | | |
| 2,500 | Health Facs. Financing Auth. Rev., Catholic Healthcare West, 6.00%, 7/1/39, Ser. A | A2/A | 2,421,475 |

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| | | | |
|--------|--|---------|------------|
| | State, GO, | | |
| 250 | 5.00%, 11/1/37 | A2/A | 209,983 |
| 5,300 | 5.00%, 12/1/37 | A2/A | 4,451,152 |
| 6,000 | 6.00%, 4/1/38 | A2/A | 6,008,100 |
| 3,060 | Statewide Communities Dev. Auth. Rev., Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(c) Methodist Hospital Project, (FHA), | NR/NR | 2,553,325 |
| 2,900 | 6.625%, 8/1/29 | Aa2/AA | 3,123,967 |
| 10,300 | 6.75%, 2/1/38 | Aa2/AA | 11,021,618 |
| | | | 29,789,620 |
| | Colorado 3.0% | | |
| 9,955 | Colorado Springs Rev., 5.00%, 11/15/30, Ser. B (i) | Aa2/AA | 10,073,962 |
| 500 | Confluence Metropolitan Dist. Rev., 5.45%, 12/1/34 | NR/NR | 312,195 |
| 500 | Health Facs. Auth. Rev., Evangelical Lutheran, 6.125%, 6/1/38, Ser. A | A3/A- | 494,290 |
| 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(c) | NR/BB | 953,385 |
| 500 | Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38 | A2/A | 474,915 |
| 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31, (Radian) | NR/BBB- | 3,418,600 |
| | | | 15,727,347 |
| | District of Columbia 1.9% | | |
| 10,000 | Dist. of Columbia Water & Sewer Auth. Rev., 5.50%, 10/1/39, Ser. A (i) | Aa3/AA | 10,320,600 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value* |
|---------------------------|---|--------------------------------|--------------|
| Florida 4.9% | | | |
| \$ 3,480 | Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 5.00%, 4/1/34 | A3/A- | \$ 2,771,019 |
| 4,500 | Broward Cnty. Water & Sewer Utility Rev., 5.25%, 10/1/34, Ser. A (i) | Aa3/AA | 4,502,880 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital Project, 5.25%, 10/1/34, Ser. B | A3/NR | 2,076,675 |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special Assessment, 5.00%, 5/1/29, (NPFGC) | Baa1/A | 1,156,340 |
| 1,000 | Miami-Dade Cnty. Rev., 5.50%, 10/1/36, Ser. A | A2/A- | 955,130 |
| 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45 | NR/NR | 2,672,710 |
| 4,200 | State Board of Education, GO, 5.00%, 6/1/38, Ser. D (i) | Aa1/AAA | 4,168,038 |
| 6,900 | State Board of Governors Rev., Florida Univ., 6.50%, 7/1/33 | Aa2/AA | 7,565,229 |
| | | | 25,868,021 |
| Georgia 0.2% | | | |
| 1,750 | Fulton Cnty. Residential Care Facs. Rev., Lenbrook Project, 5.125%, 7/1/42, Ser. A | NR/NR | 1,050,892 |
| 400 | Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37 | NR/NR | 273,204 |
| | | | 1,324,096 |
| Idaho 1.2% | | | |
| 1,000 | State Building Auth. Building Rev., Ser. A (XLCA), 5.00%, 9/1/33 | NR/AA- | 977,980 |
| 5,750 | 5.00%, 9/1/43 | NR/AA- | 5,452,668 |
| | | | 6,430,648 |
| Illinois 8.1% | | | |
| 500 | Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC-NPFGC) | A1/AA- | 151,480 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) | A1/AA+ | 6,820,590 |
| 500 | 5.00%, 1/1/38, Ser. A | Aa2/AAA | 491,055 |
| 720 | Chicago, GO, 5.00%, 1/1/31, Ser. A (NPFGC) | Aa3/AA- | 706,975 |

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| | | | |
|--------|---|---------|------------|
| 5,000 | 5.00%, 1/1/34, Ser. C (i) Educational Facs. Auth. Rev., Univ. of Chicago, Ser. A | Aa3/AA- | 4,835,500 |
| 4,780 | 5.00%, 7/1/33 | Aa1/AA | 4,802,227 |
| 165 | 5.25%, 7/1/41 Finance Auth. Rev., Leafs Hockey Club Project, Ser. A | Aa1/AA | 166,175 |
| 1,000 | 5.875%, 3/1/27 | NR/NR | 400,010 |
| 625 | 6.00%, 3/1/37 (e) | NR/NR | 249,631 |
| 400 | OSF Healthcare Systems, 7.125%, 11/15/37, Ser. A | A2/A | 417,648 |
| 12,795 | Peoples Gas Light & Coke, 5.00%, 2/1/33, (AMBAC) | A2/A- | 12,381,594 |
| 5,000 | Univ. of Chicago, 5.50%, 7/1/37, Ser. B (i) | Aa1/AA | 5,182,800 |
| 1,175 | Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | Baa1/NR | 1,054,210 |
| 5,000 | State Toll Highway Auth. Rev., 5.50%, 1/1/33, Ser. B | Aa3/AA- | 5,178,100 |
| | | | 42,837,995 |
| | Indiana 2.1% | | |
| 1,375 | Fort Wayne Pollution Control Rev., General Motors Corp. Project, 6.20%, 10/15/25 (e) | Caa3/D | 294,580 |
| 5,000 | Indianapolis Local Public Improvement Board, Tax Allocation, 5.00%, 2/1/29, Ser. G (NPFGC) | Baa1/AA | 5,046,950 |
| 1,000 | Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22, (AMBAC) | NR/A | 1,015,200 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value* |
|----------------------------|---|--------------------------------|------------|
| Indiana (continued) | | | |
| | Portage Industrial Economic Dev. Rev., Ameriplex Project, Tax Allocation, | | |
| \$ 1,000 | 5.00%, 7/15/23 | NR/BBB+ | \$ 823,900 |
| 775 | 5.00%, 1/15/27 | NR/BBB+ | 607,383 |
| 3,500 | State Dev. Finance Auth. Pollution Control Rev., 5.00%, 3/1/30, Ser. B (AMBAC) | Aaa/A | 3,124,870 |
| | | | 10,912,883 |
| Iowa 1.5% | | | |
| | Finance Auth. Rev., Deerfield Retirement Community, Inc., Ser. A, | | |
| 120 | 5.50%, 11/15/27 | NR/NR | 74,494 |
| 575 | 5.50%, 11/15/37 | NR/NR | 320,879 |
| 11,010 | Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B | Baa3/BBB | 7,393,435 |
| | | | 7,788,808 |
| Kentucky 0.6% | | | |
| | Economic Dev. Finance Auth. Hospital Facs. Rev., Baptist Healthcare System, Ser. A, | | |
| 1,000 | 5.375%, 8/15/24 | Aa3/NR | 1,045,570 |
| 1,300 | 5.625%, 8/15/27 | Aa3/NR | 1,340,872 |
| 1,000 | Catholic Healthcare Partners, 5.25%, 10/1/30 | A1/AA- | 916,980 |
| | | | 3,303,422 |
| Louisiana 0.5% | | | |
| 1,700 | Public Facs. Auth. Rev., Ochsner Clinic Foundation Project, 5.50%, 5/15/47, Ser. B | A3/NR | 1,330,590 |
| 1,595 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser.2001- B | Baa3/BBB | 1,255,169 |
| | | | 2,585,759 |
| Maryland 0.3% | | | |
| 1,500 | | A2/NR | 1,366,485 |

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Health & Higher Educational Facs. Auth. Rev., Calvert Health Systems, 5.50%, 7/1/36

Massachusetts 1.3%

| | | | |
|-------|--|---------|-----------|
| 750 | Dev. Finance Agcy. Rev., Linden Ponds, Inc., 5.75%, 11/15/35, Ser. A | NR/NR | 453,660 |
| 1,600 | State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A | A1/A+ | 1,641,376 |
| 4,910 | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,722,880 |
| | | | 6,817,916 |

Michigan 14.2%

| | | | |
|--------|---|---------|------------|
| 500 | Conner Creek Academy East Rev., 5.25%, 11/1/36 | NR/BB+ | 327,300 |
| 9,320 | Detroit Sewer Disposal System Rev., 5.00%, 7/1/32, Ser. A (FSA) | Aa3/AAA | 8,673,938 |
| 30,000 | Detroit Water Supply System Rev., (NPFGC), 5.00%, 7/1/34, Ser. A | A2/A+ | 26,458,200 |
| 7,555 | 5.00%, 7/1/34, Ser. B | A3/A | 6,591,284 |
| 1,500 | Royal Oak Hospital Finance Auth. Rev., William Beaumont Hospital, 8.25%, 9/1/39 | A1/A | 1,698,690 |
| 175 | State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23, Ser. A | Ba3/BB- | 132,167 |
| 5,405 | Oakwood Group, Ser. A, 5.75%, 4/1/32 | A2/A | 4,643,057 |
| 575 | 6.00%, 4/1/22 | A2/A | 548,567 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30, Ser. C | Aa2/AA | 19,686,600 |
| 10,000 | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BBB | 5,967,100 |
| | | | 74,726,903 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value* |
|---------------------------|--|--------------------------------|--------------|
| | Mississippi 0.7% | | |
| | Business Finance Corp. Pollution Control Rev., System Energy Resources, Inc. Project, | | |
| \$ 3,000 | 5.875%, 4/1/22 | Ba1/BBB | \$ 2,763,270 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,140,650 |
| | | | 3,903,920 |
| | Missouri 0.3% | | |
| 1,350 | St. Louis Cnty. Industrial Dev. Auth. Housing Dev. Rev., 5.20%, 1/20/36, Ser. A (GNMA) | NR/AAA | 1,327,077 |
| 250 | Township of Jennings Rev., Northland Redev. Area Project, 5.00%, 11/1/23 | NR/NR | 186,190 |
| | | | 1,513,267 |
| | Montana 1.6% | | |
| 11,250 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31, Ser. A (AMBAC) | Baa2/A- | 8,622,225 |
| | Nevada 0.7% | | |
| 4,000 | Clark Cnty., GO, 4.75%, 6/1/30, (FSA) | Aa1/AAA | 3,582,840 |
| | New Jersey 3.9% | | |
| 1,000 | Camden Cnty. Improvement Auth. Rev., Cooper Health Systems Group, 5.00%, 2/15/35, Ser. A | Baa3/BBB | 681,680 |
| 4,500 | Economic Dev. Auth. Rev., Kapkowski Road Landfill Project, Special Assessment, 6.50%, 4/1/28 | Baa3/NR | 3,803,580 |
| 300 | Newark Airport, 7.00%, 10/1/14 | Ba1/NR | 290,328 |
| 1,085 | Health Care Facs. Financing Auth. Rev., Pascack Valley Hospital Assoc., 6.625%, 7/1/36 (e) | NR/D | 27,113 |
| 1,000 | St. Peters Univ. Hospital, 5.75%, 7/1/37 | Baa2/BBB- | 819,250 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 854,232 |
| 2,000 | State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E | A3/A+ | 2,001,460 |
| 22,645 | Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1A | Baa3/BBB | 12,270,646 |

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| | | | |
|--------|--|-----------|------------|
| | | | 20,748,289 |
| | New Mexico 0.2% | | |
| 1,000 | Farmington Pollution Control Rev., 5.80%, 4/1/22 | Baa3/BB+ | 925,190 |
| | New York 4.5% | | |
| 1,700 | Liberty Dev. Corp. Rev., Goldman Sachs Headquarters, 5.50%, 10/1/37 | A1/A | 1,600,227 |
| 1,250 | Metropolitan Transportation Auth. Rev., 5.00%, 11/15/34, Ser. B | NR/AA | 1,228,750 |
| 1,150 | Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A | NR/NR | 872,459 |
| 10,450 | New York City Industrial Dev. Agcy. Rev., Yankee Stadium, 7.00%, 3/1/49 | Aa2/AAA | 11,333,756 |
| 4,900 | New York City Municipal Water Finance Auth. Rev. (i), 5.00%, 6/15/37, Ser. D | Aa2/AAA | 4,848,893 |
| 4,000 | Second Gen. Resolution, 4.75%, 6/15/35, Ser. DD | Aa3/AA+ | 3,777,720 |
| | | | 23,661,805 |
| | North Carolina 1.7% | | |
| 2,000 | Eastern Municipal Power Agcy. Power System Rev., 5.125%, 1/1/23, Ser. D | Baa1/BBB+ | 2,007,260 |
| 2,000 | 5.125%, 1/1/26, Ser. D | Baa1/BBB+ | 1,959,680 |
| 3,795 | 5.375%, 1/1/17, Ser. C | Baa1/BBB+ | 3,953,176 |
| 1,500 | Medical Care Commission Rev., Cleveland Cnty. Healthcare, 5.00%, 7/1/35, Ser. A (AMBAC) | NR/A | 1,168,170 |
| | | | 9,088,286 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|----------------------------|---|-----------------------------|---------------|
| Ohio 3.9% | | | |
| \$ 15,375 | Air Quality Dev. Auth. Pollution Control Rev., Dayton Power, 4.80%, 1/1/34, Ser. B (FGIC) | A2/A | \$ 14,106,255 |
| 5,000 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BBB | 2,828,750 |
| 500 | Cnty. of Montgomery Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A | Aa3/AA- | 518,860 |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,347,700 |
| 500 | State Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. A | A2/A | 525,000 |
| | | | 20,326,565 |
| Pennsylvania 2.0% | | | |
| 1,000 | Allegheny Cnty. Hospital Dev. Auth. Rev., Univ. of Pittsburgh Medical Center, 5.625%, 8/15/39 | Aa3/A+ | 977,100 |
| 750 | Cumberland Cnty. Auth. Retirement Community Rev., Messiah Village Project, Ser. A, 5.625%, 7/1/28 | NR/BBB- | 576,345 |
| 670 | 6.00%, 7/1/35 | NR/BBB- | 516,583 |
| 1,000 | Dauphin Cnty. General Auth. Rev., Pinnacle Health Systems Project, 6.00%, 6/1/36, Ser. A | A2/A | 960,740 |
| 1,250 | Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B | NR/NR | 1,014,150 |
| 6,200 | Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A | Baa3/BBB | 5,958,324 |
| 500 | Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A | A3/A | 484,700 |
| | | | 10,487,942 |
| South Carolina 0.9% | | | |
| 5,305 | Jobs-Economic Dev. Auth. Rev., Bon Secours, 5.625%, 11/15/30, Ser. B | A3/A- | 4,849,778 |
| Tennessee 0.3% | | | |
| 1,200 | State Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/21 | Ba1/BBB | 1,043,772 |
| 365 | 5.25%, 9/1/22 | Ba1/BBB | 312,258 |
| | | | 1,356,030 |
| Texas 9.9% | | | |
| 6,810 | Crowley Independent School Dist., GO, 4.75%, 8/1/35, (PSF-GTD) | Aaa/AAA | 6,630,965 |
| 1,300 | Dallas Water Rev., 5.25%, 8/15/38 | Aa2/AAA | 1,284,634 |
| 10,115 | Denton Independent School Dist., GO, 5.00%, 8/15/33, (PSF-GTD) (i) | Aaa/AA | 10,186,816 |

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| | | | |
|--------|---|----------|------------|
| 465 | Judson Independent School Dist., GO, 5.00%, 2/1/30, (PSF-GTD) | Aaa/NR | 467,911 |
| | Municipal Gas Acquisition & Supply Corp. I Rev., | | |
| 150 | 5.25%, 12/15/26, Ser. A | A2/A | 123,425 |
| 8,100 | 6.25%, 12/15/26, Ser. D | A2/A | 7,601,445 |
| | North Harris Cnty. Regional Water Auth. Rev., | | |
| 5,500 | 5.25%, 12/15/33 | A3/A+ | 5,238,145 |
| 5,500 | 5.50%, 12/15/38 | A3/A+ | 5,351,335 |
| | North Texas Tollway Auth. Rev., | | |
| 10,800 | 5.625%, 1/1/33, Ser. A | A2/A- | 10,545,552 |
| 700 | 5.75%, 1/1/33, Ser. F | A3/BBB+ | 681,534 |
| 2,000 | Sabine River Auth. Rev., 5.20%, 5/1/28, Ser. C | Caa2/CCC | 983,040 |
| 3,000 | Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev., Baylor Health Care Systems | | |
| | Project, 6.25%, 11/15/29 | Aa2/AA- | 3,223,710 |
| | | | 52,318,512 |

PIMCO Municipal Income Fund III Schedule of Investments

June 30, 2009 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody s/S&P) | Value* |
|------------------------------|---|--------------------------------|--------------|
| | Virginia 0.3% | | |
| \$ 1,000 | Fairfax Cnty. Industrial Dev. Auth. Rev., Inova Health Systems, 5.50%, 5/15/35, Ser. A | Aa2/AA+ | \$ 1,015,130 |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A | NR/NR | 484,190 |
| | | | 1,499,320 |
| | Washington 8.0% | | |
| 6,375 | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aa2/AA | 6,428,423 |
| 1,000 | Health Care Facs. Auth. Rev., Seattle Cancer Care Alliance, 7.375%, 3/1/38 | A3/NR | 1,054,560 |
| 15,000 | King Cnty. Sewer Rev., 5.00%, 1/1/35, Ser. A (FSA) (i) | Aa3/AAA | 15,048,450 |
| 20,015 | Tobacco Settlement Auth. Rev., 6.50%, 6/1/26 | Baa3/BBB | 19,514,625 |
| | | | 42,046,058 |
| | Wisconsin 2.2% | | |
| 1,000 | Health & Educational Facs. Auth. Rev., Prohealth Care, Inc., 6.625%, 2/15/39 | A1/A+ | 1,020,910 |
| 10,000 | State Rev., 6.00%, 5/1/36, Ser. A | A1/AA- | 10,436,200 |
| | | | 11,457,110 |
| | Total Municipal Bonds & Notes (cost \$525,507,189) | | 493,311,130 |
| | CORPORATE BONDS & NOTES (h) 1.6% | | |
| 5,500 | CIT Group, Inc., 5.80%, 7/28/11 | Ba2/BB- | 4,123,636 |
| 5,000 | SLM Corp., 1.252%, 7/26/10, FRN | Ba1/BBB- | 4,538,265 |
| | Total Corporate Bonds & Notes (cost \$8,776,325) | | 8,661,901 |
| | VARIABLE RATE NOTES (a)(b)(c)(d)(f) 1.2% | | |
| | Texas 1.2% | | |
| 6,500 | JP Morgan Chase Putters/Drivers Trust, GO, 9.317%, 2/1/17, Ser. 3480 (cost \$6,467,825) | NR/AA | 6,522,620 |

SHORT-TERM INVESTMENTS 3.7%**Corporate Notes 2.9%**

| | | | |
|-------|--|-----------|------------|
| 1,900 | American General Finance Corp., 1.542%, 10/2/09, FRN (h) CIT Group, Inc. (h), | Baa2/BB+ | 1,621,445 |
| 1,200 | 0.974%, 8/17/09, FRN | Ba2/BB- | 1,166,255 |
| 5,785 | 4.125%, 11/3/09 | Ba2/BB- | 5,483,706 |
| 1,800 | Goldman Sachs Group, Inc., 0.934%, 11/16/09, FRN International Lease Finance Corp. (h), | A1/A | 1,798,360 |
| 700 | 0.881%, 5/24/10, FRN | Baa2/BBB+ | 638,432 |
| 600 | 1.531%, 1/15/10, FRN | Baa2/BBB+ | 557,456 |
| 4,000 | 4.75%, 7/1/09 | Baa2/BBB+ | 4,000,000 |
| | Total Corporate Notes (cost \$15,395,482) | | 15,265,654 |

Variable Rate Demand Notes (f)(g) 0.8%**Colorado 0.5%**

| | | | |
|-------|---|----------|-----------|
| 2,300 | Denver City & Cnty., CP, 0.20%, 7/1/09, Ser. A2 | VMIG1/NR | 2,300,000 |
|-------|---|----------|-----------|

Missouri 0.2%

| | | | |
|-------|---|-----------|-----------|
| 1,100 | State Health & Educational Facs. Auth. Rev., 0.20%, 7/1/09, Ser. B-1 | VMIG1/A-1 | 1,100,000 |
|-------|---|-----------|-----------|

New York 0.1%

| | | | |
|-----|--|------------|---------|
| 600 | New York City Transitional Finance Auth., 0.27%, 7/1/09, Ser. 1 | VMIG1/A-1+ | 600,000 |
|-----|--|------------|---------|

| | | | |
|--|---|--|-----------|
| | Total Variable Rate Demand Notes (cost \$4,000,000) | | 4,000,000 |
|--|---|--|-----------|

| | | | |
|--|--|--|------------|
| | Total Short-Term Investments (cost \$19,395,482) | | 19,265,654 |
|--|--|--|------------|

| | | | |
|--|--|--|-----------------------|
| | Total Investments (cost \$560,146,821) 100.0% | | \$ 527,761,305 |
|--|--|--|-----------------------|

Notes to Schedule of Investments:

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

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees.
The Fund s

investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean 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.

Securities purchased on a when-issued or delayed-delivery basis are marked to market daily until settlement at the forward settlement value. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

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

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$10,029,330, representing 1.9% of total investments.
- (b) Illiquid security.
- (c) 144A Security 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) When-issued or delayed-delivery security. To be settled/delivered after June 30, 2009.
- (e) In default.
- (f) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on June 30, 2009.
- (g) Maturity date shown is date of next put.
- (h) All or partial amount segregated as collateral for reverse repurchase agreements.
- (i) 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 June 30, 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

Reverse Repurchase Agreements:

The weighted average daily balance of reverse repurchase agreements outstanding during the nine months ended June 30, 2009 was \$18,350,214 at a weighted average interest rate of 0.96%. 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 was \$22,129,195. Open reverse repurchase agreements at June 30, 2009:

| Counterparty | Rate | Trade Date | Maturity Date | Principal & Interest | Principal |
|----------------|-------|------------|---------------|----------------------|--------------|
| Barclays Bank: | 0.80% | 6/2/09 | 7/1/09 | \$ 3,348,082 | \$ 3,346,000 |
| | 0.80% | 6/2/09 | 7/2/09 | 7,751,820 | 7,747,000 |
| | 0.80% | 6/4/09 | 7/6/09 | 7,062,078 | 7,058,000 |
| Credit Suisse | 0.80% | 6/10/09 | 7/10/09 | 1,036,460 | 1,036,000 |
| | | | | | \$19,187,000 |

Fair Value Measurements The Fund has adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of the fair value measurements. Under this standard, 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 at the measurement date. The three levels of the fair value hierarchy under FAS 157 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)

The Fund has adopted FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly (FAS-157-4).

FAS 157-4 provides guidance on determining when there has been a significant decrease in the volume and level of activity for an asset or liability, when a transaction is not orderly, and how that information must be incorporated into a fair value measurement. FAS 157-4 emphasizes that even if there has been a significant decrease in volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same.

An investment asset 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 valuation techniques used by the Fund to measure fair value during the nine months ended June 30, 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 as of June 30, 2009, in valuing the Fund's assets and liabilities is listed below by investment type for more detail on the Total Investments in Securities, please refer to the Fund's Schedule of Investments:

| Level 1 - | Level 2 - Other Significant Observable | Level 3 - Significant Unobservable | Value at |
|-----------|--|--|----------|
|-----------|--|--|----------|

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| | Quoted Prices | Inputs | Inputs | 6/30/09 |
|--|------------------|----------------------|--------|----------------------|
| Investments in Securities Assets | | | | |
| Municipal Bonds & Notes | | \$493,311,130 | | \$493,311,130 |
| Corporate Bonds & Notes | | 8,661,901 | | 8,661,901 |
| Variable Rate Notes | | 6,522,620 | | 6,522,620 |
| Short-Term Investments | | 19,265,654 | | 19,265,654 |
| Total Investments in Securities | | \$527,761,305 | | \$527,761,305 |

A roll forward of fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2009, were as follows:

| | Beginning Balance 9/30/08 | Net Paydowns | Accrued Discounts (Premiums) | Total Realized Gain(Loss) | Total Chance in Unrealized Gain(Loss) | Transfer in and/or out of Level 3 | Ending Balance 6/30/09 |
|--|---------------------------------|-----------------|------------------------------------|---------------------------------|---|---|------------------------------|
| Investments in Securities Assets | | | | | | | |
| Municipal Bonds & Notes | \$ 149,999 | \$(74,760) | | \$ 2,337 | \$(50,463) | \$(27,113) | \$ |

Item 2. Controls and Procedures

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

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

Item 3. Exhibits

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

SIGNATURES

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

Registrant: PIMCO Municipal Income
Fund III

By /s/ Brian S. Shlissel
President & Chief Executive Officer
Date: August 25, 2009

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial &
Accounting Officer
Date: August 25, 2009

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

By /s/ Brian S. Shlissel
President & Chief Executive Officer
Date: August 25, 2009

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting
Officer
Date: August 25, 2009