

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

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

**Investment Company Act File Number:** 811-21188

**Registrant Name:** PIMCO California Municipal Income Fund III

Address of Principal Executive Offices: 1345 Avenue of the Americas,  
New York, NY 10105

Name and Address of Agent for Service: Lawrence G. Altadonna  
1345 Avenue of the Americas,  
New York, NY 10105

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

Date of Fiscal Year End: September 30, 2011

Date of Reporting Period: December 31, 2010

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

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



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

December 31, 2010 (unaudited)

## Principal

Amount (000s)		Credit Rating (Moody's/S&P)	Value*
<b>CALIFORNIA MUNICIPAL BONDS &amp; NOTES 93.1%</b>			
	Assoc. of Bay Area Gov't Finance Auth. for Nonprofit Corps. Rev., Odd Fellows Home of California, Ser. A (CA Mtg. Ins.), 5.20%, 11/15/22	NR/A-	\$ 1,002,220
\$ 1,000			
11,725	5.35%, 11/15/32	NR/A-	10,625,547
1,000	Cathedral City Public Financing Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (NPFGC)	Baa1/A	863,500
1,150	Ceres Redev. Agcy., Tax Allocation, Project Area No. 1, 5.00%, 11/1/33 (NPFGC)	Baa1/A-	901,416
2,000	Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B	Aa3/A+	2,195,000
550	City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, Ser. A	A1/AA-	541,200
1,415	Contra Costa Cnty. Public Financing Auth., Tax Allocation, 5.625%, 8/1/33, Ser. A	NR/BBB	1,289,617
3,775	Cucamonga School Dist., CP, 5.20%, 6/1/27 Educational Facs. Auth. Rev.,	NR/AA-	3,750,123
9,800	Claremont McKenna College, 5.00%, 1/1/39 (e)	Aa2/NR	9,264,332
3,300	Pepperdine Univ., 5.00%, 9/1/33, Ser. A (FGIC-NPFGC)	Aa3/BBB	3,309,141
10,000	Univ. of Southern California, 5.00%, 10/1/39, Ser. A (e)	Aa1/AA+	9,953,900
1,695	El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A (AGC)	Aa3/AA+	1,734,375
11,000	Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/45 (AMBAC-TCRS)	A2/BBB+	9,271,570
4,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS)	A2/A-	3,371,480
13,865	5.75%, 6/1/47, Ser. A-1	Baa3/BB+	9,352,497
500	Hartnell Community College Dist., GO, zero coupon, 8/1/34, Ser. 2002-D (f)	Aa2/AA-	234,340
	Health Facs. Financing Auth. Rev., Adventist Health System, Ser. A, 5.00%, 3/1/33	NR/A	433,365
500			
4,000	5.75%, 9/1/39	NR/A	3,895,600
	Catholic Healthcare West, Ser. A, 6.00%, 7/1/34	A2/A	1,954,331
1,935			
4,000	6.00%, 7/1/39	A2/A	4,074,440
450	Children's Hospital of Los Angeles, 5.25%, 7/1/38 (AGM)	Aa3/AA+	406,669
500	Children's Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A	NR/A	518,610
6,000	Cottage Health System, 5.00%, 11/1/33, Ser. B (NPFGC)	Baa1/A+	5,099,160
1,550	Paradise VY Estates, 5.25%, 1/1/26 (CA Mtg. Ins.)	NR/A-	1,532,578

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1,300	Scripps Health, 5.00%, 11/15/36, Ser. A	A1/AA-	1,179,711
500	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	Aa3/BBB	435,955
	Infrastructure & Economic Dev. Bank Rev., Kaiser Hospital Assistance,		
3,000	5.50%, 8/1/31, Ser. B	WR/A	2,956,290
8,000	5.55%, 8/1/31, Ser. A	NR/A+	7,931,840
20	Lancaster Financing Auth., Tax Allocation, 4.75%, 2/1/34 (NPFGC)	Baa1/BBB+	16,247
150	Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35	NR/A	143,749
500	Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39	NR/A	532,400
5,600	Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A	A2/A	5,263,720
5,000	Long Beach Unified School Dist., GO, 5.75%, 8/1/33, Ser. A	Aa2/AA-	5,216,150
	Los Angeles Department of Water & Power Rev. (e),		
6,000	4.75%, 7/1/30, Ser. A-2 (AGM)	Aa3/AA+	5,785,560
10,000	5.00%, 7/1/39, Ser. A	Aa3/AA-	9,733,400

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

December 31, 2010 (unaudited)

## Principal

Amount (000s)		Credit Rating (Moody s/S&P)	Value*
\$ 9,580	Los Angeles Unified School Dist., GO, 4.75%, 1/1/28, Ser. A (NPFGC)	Aa2/AA-	\$ 8,745,199
10,000	5.00%, 1/1/34, Ser. I (e)	Aa2/AA-	9,414,100
550	Malibu, City Hall Project, CP, 5.00%, 7/1/39, Ser. A	NR/AA+	523,550
1,000	Manteca Financing Auth. Sewer Rev., 5.75%, 12/1/36	Aa3/NR	1,013,140
5,000	Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (e)	Aa1/AAA	5,008,200
2,980	Modesto Irrigation Dist., Capital Improvement Projects, CP, 5.00%, 7/1/33, Ser. A (NPFGC)	A1/A+	2,661,974
3,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	Aa3/AA+	2,874,600
200	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	NR/A	207,166
5,000	Oakland, GO, 5.00%, 1/15/33, Ser. A (NPFGC)	Aa2/AA-	4,825,200
5,000	Orange Cnty. Unified School Dist., CP, 4.75%, 6/1/29 (NPFGC)	Aa3/A+	4,701,400
965	Orange Cnty. Water Dist. Rev., CP, 5.00%, 8/15/34, Ser. B (NPFGC)	WR/AAA	1,007,016
1,250	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	NR/AA-	1,146,988
1,250	Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(b)	Baa2/BBB+	1,109,888
1,950	Poway Unified School Dist., Special Tax, 5.125%, 9/1/28	NR/BBB+	1,803,574
5,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC)	WR/A+	4,433,100
500	Rocklin Unified School Dist. Community Facs. Dist., Special Tax, 5.00%, 9/1/29 (NPFGC)	Baa1/A-	426,160
3,250	Sacramento Municipal Utility Dist. Rev., 5.00%, 8/15/33, Ser. R (NPFGC)	A1/A+	3,176,648
6,250	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	Aa2/AA+	5,945,875
12,075	San Diego Community College Dist., GO, 5.00%, 5/1/28, Ser. A (AGM)	Aa1/AA+	12,190,075
2,000	San Diego Public Facs. Financing Auth. Rev., 5.25%, 5/15/39, Ser. A	Aa3/A+	1,976,600
2,200	San Diego Regional Building Auth. Rev., Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A	Aa3/AA+	2,223,584
1,500	San Diego State Univ. Foundation Rev., 5.00%, 3/1/27, Ser. A (NPFGC)	Baa1/BBB	1,490,040
12,200	San Marcos Public Facs. Auth., Tax Allocation, 5.00%, 8/1/33, Ser. A (FGIC-NPFGC)	A2/A-	10,606,558
500	Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC)	A1/A+	481,990
1,200	Santa Cruz Cnty. Redev. Agcy., Tax Allocation, Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A	A1/A	1,301,028
4,425		NR/BBB+	3,910,018

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	South Tahoe JT Powers Financing Auth. Rev., South Tahoe Redev. Project, 5.45%, 10/1/33, Ser. 1-A		
7,300	State, GO, 6.00%, 4/1/38	A1/A-	7,446,438
4,095	State Department Veteran Affairs Rev., 5.35%, 12/1/27, Ser. A (AMBAC)	Aa3/AA	4,105,770
2,000	State Public Works Board Rev., California State Univ., 6.00%, 11/1/34, Ser. J	Aa3/BBB+	2,038,180
2,050	Univ. CA M.I.N.D. Inst., 5.00%, 4/1/28, Ser. A	Aa2/AA-	2,054,141
	Statewide Communities Dev. Auth. Rev., American Baptist Homes West, 6.25%, 10/1/39	NR/BBB-	475,675
500	Catholic Healthcare West, 5.50%, 7/1/31, Ser. D	A2/A	1,175,460
1,200	5.50%, 7/1/31, Ser. E	A2/A	1,175,460
1,000	Lancer Student Housing Project, 7.50%, 6/1/42	NR/NR	1,011,050
7,300	Los Angeles Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.)	NR/A-	6,343,554
15,000	Memorial Health Services, 5.50%, 10/1/33, Ser. A	WR/AA-	15,114,750
	Methodist Hospital Project (FHA), 6.625%, 8/1/29	Aa2/NR	2,190,660
2,000	6.75%, 2/1/38	Aa2/NR	7,875,072
7,200	St. Joseph, 5.75%, 7/1/47, Ser. A (FGIC)	A1/AA-	2,990,167
3,100			

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

December 31, 2010 (unaudited)

Principal		Credit Rating (Moody s/S&P)	Value*
Amount (000s)			
\$ 10,000	Sutter Health, 5.50%, 8/15/34, Ser. B	Aa3/A+	\$ 9,616,200
3,505	The Internext Group, CP, 5.375%, 4/1/30	NR/BBB	2,986,365
	Tobacco Securitization Agcy. Rev., Alameda Cnty., 5.875%, 6/1/35	Baa3/NR	6,581,493
8,100		Baa3/NR	5,271,840
7,000	6.00%, 6/1/42	NR/BBB	1,504,500
2,000	Kern Cnty., 6.125%, 6/1/43, Ser. A		
5,000	Tobacco Securitization Auth. of Southern California Rev., 5.00%, 6/1/37, Ser. A-1	Baa3/BBB	3,497,650
2,950	Torrance Rev., Torrance Memorial Medical Center, 5.50%, 6/1/31, Ser. A	A2/A+	2,935,516
1,000	West Basin Municipal Water Dist., CP, 5.00%, 8/1/30, Ser. A (NPFGC)	Aa2/AA-	982,810
2,000	Western Municipal Water Dist. Facs. Auth. Rev., 5.00%, 10/1/39, Ser. B	NR/AA+	1,960,980
1,000	Westlake Village, CP, 5.00%, 6/1/39	NR/AA+	980,620
2,500	William S. Hart Union High School Dist., Special Tax, 6.00%, 9/1/33, Ser. 2002-1	NR/NR	2,316,375
2,750	Woodland Finance Auth.Rev., 5.00%, 3/1/32 (XLCA)	A1/NR	2,728,550
	Total California Municipal Bonds & Notes (cost \$319,063,109)		313,332,980
 <b>OTHER MUNICIPAL BONDS &amp; NOTES 6.6%</b>			
<b>Indiana 1.3%</b>			
5,000	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc., 5.75%, 9/1/42 (a)(b)	NR/NR	4,326,150
 <b>New Jersey 0.2%</b>			
1,000	Tobacco Settlement Financing Corp. Rev., 4.75%, 6/1/34, Ser. 1-A	Baa3/BB+	607,760
 <b>New York 1.0%</b>			
3,300	New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (e)	Aa1/AAA	3,266,472
 <b>Puerto Rico 3.7%</b>			
1,000	Electric Power Auth. Rev., 5.25%, 7/1/40, Ser. XX	A3/BBB+	932,060

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4,420	Public Buildings Auth. Gov t Facs. Rev., 5.00%, 7/1/36, Ser. I (GTD)	A3/BBB-	3,930,794
	Sales Tax Financing Corp. Rev.,		
23,200	zero coupon, 8/1/47, Ser. A (AMBAC)	Aa2/AA-	2,143,216
29,200	zero coupon, 8/1/54, Ser. A (AMBAC)	Aa2/AA-	1,469,052
26,300	zero coupon, 8/1/56, Ser. A	Aa2/AA-	1,143,524
3,000	5.25%, 8/1/41, Ser. C	A1/A+	2,813,730
			12,432,376
	<b>South Dakota 0.4%</b>		
2,000	Minnehaha Cnty. Rev., Bethany Lutheran, 5.50%, 12/1/35	NR/NR	1,583,660
	Total Other Municipal Bonds & Notes (cost \$25,576,032)		22,216,418
	<b>CALIFORNIA VARIABLE RATE NOTES (a)(b)(c)(d) 0.3%</b>		
1,000	Los Angeles Community College Dist., GO, 11.33%, 8/1/33, Ser. 3096 (cost \$996,628)	NR/AA	893,680
	<b>Total Investments (cost \$345,635,769)(g) 100.0%</b>		<b>\$ 336,443,078</b>



**Notes to Schedule of Investments:**

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

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Fund's investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and these differences could be material. The Fund's net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the 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 \$6,329,718, representing 1.9% of total investments.
- (b) **144A Exempt** from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (c) **Inverse Floater** The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on December 31, 2010.
- (d) **Variable Rate Notes** Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on December 31, 2010.
- (e) **Residual Interest Bonds held in Trust** Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
- (f) **Step Bond** Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (g) At December 31, 2010, the cost basis of investments for federal income tax purposes was \$311,986,346. Aggregate gross unrealized appreciation for securities in which there was an excess value over tax cost was \$10,500,967; aggregate gross unrealized depreciation for securities in which there was an excess of tax cost over value was \$19,718,047; and net unrealized depreciation for federal income tax purposes was \$9,217,080. The difference between book and tax cost was attributable to inverse floater transactions.

**Glossary:**

AGC insured by Assured Guaranty Corp.  
AGM insured by Assured Guaranty Municipal Corp.  
AMBAC insured by American Municipal Bond Assurance Corp.  
CA Mtg. Ins. insured by California Mortgage Insurance  
CA St. Mtg. insured by California State Mortgage  
CP Certificates of Participation  
FGIC insured by Financial Guaranty Insurance Co.  
FHA insured by Federal Housing Administration  
GO General Obligation Bond  
GTD Guaranteed  
IBC Insurance Bond Certificate  
NPFGC insured by National Public Finance Guarantee Corp.  
NR Not Rated  
TCRS Temporary Custodian Receipts  
WR Withdrawn Rating  
XLCA insured by XL Capital Assurance

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**Fair Value Measurements**

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

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

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

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

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

The valuation techniques used by the Fund to measure fair value during the three months ended December 31, 2010 maximized the use of observable inputs and minimized the use of unobservable inputs.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles.

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

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

A summary of the inputs used at December 31, 2010 in valuing the Fund's assets and liabilities is listed below:

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 12/31/10
<b>Investments in Securities Assets</b>				
California Municipal Bonds & Notes		\$313,332,980		\$313,332,980
Other Municipal Bonds & Notes		22,216,418		22,216,418
California Variable Rate Notes		893,680		893,680
<b>Total Investments</b>		<b>\$336,443,078</b>		<b>\$336,443,078</b>

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

**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

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**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 California Municipal Income Fund III

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 23, 2011

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting  
Officer

Date: February 23, 2011

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

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 23, 2011

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting  
Officer

Date: February 23, 2011