

BLACKROCK MUNIYIELD QUALITY FUND III, INC  
Form N-CSR  
October 07, 2011  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-06540

Name of Fund: BlackRock MuniYield Quality Fund III, Inc. (MYI)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock MuniYield Quality Fund III, Inc., 55 East 52<sup>nd</sup> Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 07/31/2011

Date of reporting period: 07/31/2011

Item 1 – Report to Stockholders

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July 31, 2011

## Annual Report

BlackRock MuniHoldings Quality Fund II, Inc. (MUE)

BlackRock MuniYield California Quality Fund, Inc. (MCA)

BlackRock MuniYield Michigan Quality Fund II, Inc. (MYM)

BlackRock MuniYield New York Quality Fund, Inc. (MYN)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

**Not FDIC Insured § No Bank Guarantee § May Lose Value**

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## Dear Shareholder

Financial markets have been extremely volatile in the wake of the Standard & Poor's downgrade of US Treasury debt. While the August 5 announcement was the catalyst for the market turmoil, weaker-than-expected economic data and Europe's deepening financial crisis further compounded investor uncertainty as the future direction of the global economy became increasingly questionable. Although markets remain highly volatile and conditions are highly uncertain, BlackRock remains focused on finding opportunities in this environment.

The pages that follow reflect your mutual fund's reporting period ended July 31, 2011. Accordingly, the below discussion is intended to provide you with additional perspective on the performance of your investments during that period.

During the summer of 2010, investors were in risk-off mode as the global economy was sputtering and the sovereign debt crisis was spreading across Europe. But markets were revived toward the end of the summer on positive economic news and robust corporate earnings. The global economy had finally gained traction and fear turned to optimism with the anticipation of a second round of quantitative easing (QE2) from the US Federal Reserve (the Fed). Stock markets rallied even though the European debt crisis continued and inflationary pressures loomed over emerging markets. Fixed income markets, however, saw yields move sharply upward (pushing prices down) especially on the long end of the historically steep yield curve. While high yield bonds benefited from the risk rally, most fixed income sectors declined in the fourth quarter. The tax-exempt municipal market faced additional headwinds as it became evident that the Build America Bond program would not be extended and municipal finance troubles abounded.

The new year brought spikes of volatility as political turmoil swept across the Middle East/North Africa region and as prices of oil and other commodities soared. Natural disasters in Japan disrupted industrial supply chains and concerns mounted over US debt and deficit issues. Equities quickly rebounded as investors chose to focus on the continuing stream of strong corporate earnings and positive economic data. Credit markets were surprisingly resilient in this environment and yields regained relative stability in 2011. The tax-exempt market saw relief from its headwinds and steadily recovered from its fourth-quarter lows. Equities, commodities and high yield bonds outpaced higher-quality assets as investors increased their risk tolerance.

However, longer-term headwinds had been brewing. Inflationary pressures intensified in emerging economies, many of which were overheating, and the European debt crisis continued to escalate. Markets were met with a sharp reversal in May when political unrest in Greece pushed the nation closer to defaulting on its debt. This development rekindled fears about the broader debt crisis and its further contagion among peripheral European countries. Concurrently, it became evident that the pace of global economic growth had slowed. Higher oil prices and supply chain disruptions finally showed up in economic data. In the final month of the reporting period, the prolonged debt ceiling debate in Washington, DC led to a loss of confidence in policymakers. Stocks generally declined from May through the end of the period, but 6- and 12-month returns through the end of July remained in positive territory. In bond markets, yields were volatile but generally moved lower for the period as a whole (pushing prices up). Continued low short-term interest rates kept yields on money market securities near their all-time lows.

Sincerely,

**Rob Kapito**  
President, BlackRock Advisors, LLC

*Although markets remain highly volatile and conditions are highly uncertain, BlackRock remains focused on finding opportunities in this environment.*

**Rob Kapito**  
President, BlackRock Advisors, LLC

### Total Returns as of July 31, 2011

	6-month	12-month
US large cap equities (S&P 500® Index)	1.46%	19.65%
US small cap equities	2.63	23.92

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(Russell 2000® Index)		
International equities (MSCI Europe, Australasia, Far East Index)	0.93	17.17
Emerging market equities (MSCI Emerging Markets Index)	3.23	17.45
3-month Treasury bill (BofA Merrill Lynch 3-Month Treasury Bill Index)	0.07	0.14
US Treasury securities (BofA Merrill Lynch 10- Year US Treasury Index)	6.93	4.53
US investment grade bonds (Barclays Capital US Aggregate Bond Index)	4.23	4.44
Tax-exempt municipal bonds (Barclays Capital Municipal Bond Index)	6.27	3.24
US high yield bonds (Barclays Capital US Corporate High Yield 2% Issuer Capped Index)	3.90	12.89

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

THIS PAGE NOT PART OF YOUR FUND REPORT

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## Municipal Market Overview

### For the 12-Month Period Ended July 31, 2011

At the outset of the 12-month period, investor concerns were focused on the possibility of deflation and a double-dip in the US economy thus leading to a flatter municipal yield curve at that time as compared to July 31, 2011. From July through September 2010, rates moved lower (and prices higher) across the curve, reaching historic lows in August when the yield on 5-year issues touched 1.06%, the 10-year reached 2.18%, and the 30-year closed at 3.67%. However, the market took a turn in October amid a "perfect storm" of events that ultimately resulted in the worst quarterly performance for municipals since the Fed tightening cycle of 1994. Treasury yields lost support due to concerns over the US deficit and municipal valuations suffered a quick and severe setback as it became evident that the Build America Bond (BAB) program would expire at the end of 2010. The BAB program opened the taxable market to municipal issuers, which had successfully alleviated supply pressure in the traditional tax-exempt marketplace, bringing down yields in that space.

Towards the end of the fourth quarter 2010, news about municipal finance troubles mounted and damaged confidence among retail investors. From mid-November through year end, weekly outflows from municipal mutual funds averaged over \$2.5 billion. Political uncertainty surrounding the midterm elections and tax policies along with the expiration of the BAB program exacerbated the situation. These conditions combined with seasonal illiquidity sapped willful market participation from the trading community. December brought declining demand with no comparable reduction in supply as issuers rushed their deals to market before the BAB program was retired. This supply-demand imbalance led to wider quality spreads and higher yields.

Demand is usually strong at the beginning of a new year, but retail investors continued to move away from municipal mutual funds in 2011. From mid-November, outflows persisted for 29 consecutive weeks, totaling \$35.1 billion before the trend finally broke in June. Weak demand has been counterbalanced by lower supply in 2011. According to Thomson Reuters, year-to-date through July, new issuance was down 40% compared to the same period last year. Issuers have been reluctant to bring new deals to the market due to higher interest rates, fiscal policy changes and a reduced need for municipal borrowing. In this positive technical environment, the S&P/InvestorTools Main Municipal Bond Index gained 4.22% for the second quarter of 2011, its best second-quarter performance since 1992, and municipals outperformed most other fixed income asset classes for the quarter.

Municipals displayed an impressive degree of resiliency throughout the month of July as Moody's Investors Service signaled that its potential downgrade of US government debt could also result in downgrades of a number of triple A-rated states and nearly 200 local general obligation issues. July also brought weaker US economic data. The housing market remained sluggish, fewer jobs were created and consumer confidence declined. US Treasury yields moved lower, dragging municipal yields down, which pushed bond prices up.

Overall, the municipal yield curve steepened during the period from July 31, 2010 to July 31, 2011. As measured by Thomson Municipal Market Data, yields on AAA quality-rated 30-year municipals rose 38 basis points (bps) to 4.35%, while yields for 5-year maturities rallied by 13 bps to 1.16%, and 10-year maturities increased by 10 bps to 2.67%. With the exception of the 2- to 5-year range, the yield spread between maturities increased over the past year, with the greatest increase seen in the 5- to 30-year range, where the spread widened by 51 bps, while overall the slope between 2- and 30-year maturities increased by 35 bps to 3.95%.

The fundamental picture for municipalities is improving as most states began their new fiscal year with a balanced budget. Austerity is the general theme across the country, while a small number of states continue to rely on the "kick the can" approach, using aggressive revenue projections and accounting gimmicks to close their shortfalls. As long as economic growth stays positive, tax receipts for states should continue to rise and lead to better credit fundamentals. BlackRock maintains a constructive view of the municipal market, recognizing that careful credit research and security selection remain imperative amid uncertainty in the economic environment.

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

## Fund Summary as of July 31, 2011

BlackRock MuniHoldings Quality Fund II, Inc.

**Fund Overview**

Effective November 9, 2010, BlackRock MuniHoldings Insured Fund II, Inc. changed its name to BlackRock MuniHoldings Quality Fund II, Inc.

**BlackRock MuniHoldings Quality Fund II, Inc. s (MUE) (the Fund )** investment objective is to provide shareholders with current income exempt from federal income taxes. The Fund seeks to achieve its investment objective by investing primarily in long-term, investment grade municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax). Under normal market conditions, the Fund invests at least 80% of its assets in municipal obligations with remaining maturities of one year or more at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

**Performance**

Effective November 9, 2010, the Fund s investment policy was changed by the removal of the insurance investment policy that required at least 80% of Fund assets to be invested in insured municipal securities. Accordingly, the Fund was moved from the Lipper Insured Municipal Debt Funds (Leveraged) category into the Lipper General Municipal Debt Funds (Leveraged) category. During the period, Lipper combined these categories into one Lipper General & Insured Municipal Debt Funds (Leveraged) category. For the 12 months ended July 31, 2011, the Fund returned (6.38)% based on market price and 3.19% based on net asset value ( NAV ). For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of (2.24)% based on market price and 4.19% based on NAV. All returns reflect reinvestment of dividends. The Fund moved from a premium to NAV to a discount by period end, which accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Fund s holdings in spread sectors, including housing and health care bonds, enhanced performance as these sectors provided a relatively high degree of incremental income in the low interest rate environment. In addition, the Fund s holdings of premium coupon bonds (6% or higher) and shorter-duration bonds (bonds with lower sensitivity to interest rate movements) performed well as long-term interest rates climbed toward the end of 2010 and into the early part of 2011. Conversely, the Fund s exposure to bonds with longer duration (greater sensitivity to interest rate movements) and bonds with longer-dated maturities detracted from performance as the municipal yield curve steepened over the 12-month period. The surprise non-extension of the BAB program at the end of 2010 put additional upward pressure on the long end of the yield curve, where most of the BAB supply was issued.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on New York Stock Exchange ( NYSE )	MUE
Initial Offering Date	February 26, 1999
Yield on Closing Market Price as of July 31, 2011 (\$12.46) <sup>1</sup>	7.08%
Tax Equivalent Yield <sup>2</sup>	10.89%
Current Monthly Distribution per Common Share <sup>3</sup>	\$0.0735
Current Annualized Distribution per Common Share <sup>3</sup>	\$0.8820
Leverage as of July 31, 2011 <sup>4</sup>	40%

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

<sup>2</sup> Tax equivalent yield assumes the maximum federal tax rate of 35%.

<sup>3</sup> The distribution rate is not constant and is subject to change.

<sup>4</sup>

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Represents Auction Market Preferred Shares ( AMPS ) and tender option bond trusts ( TOBs ) as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to AMPS and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 10.

The table below summarizes the changes in the Fund's market price and NAV per share:

	7/31/11	7/31/10	Change	High	Low
Market Price	\$ 12.46	\$ 14.26	(12.62)%	\$ 14.63	\$ 10.87
Net Asset Value	\$ 13.07	\$ 13.57	(3.68)%	\$ 14.04	\$ 11.62

The following charts show the sector and credit quality allocations of the Fund's long-term investments:

### Sector Allocations

	7/31/11	7/31/10
County/City/Special District/School District	26%	28%
Utilities	23	23
Transportation	19	23
Health	9	9
Corporate	9	1
State	9	11
Housing	2	5
Education	2	
Tobacco	1	

### Credit Quality Allocations<sup>5</sup>

	7/31/11	7/31/10
AAA/Aaa	16%	54%
AA/Aa	62	24
A	18	20
BBB/Baa	3	1
BB/Ba	1	
Not Rated		16

<sup>5</sup> Using the higher of Standard & Poor's ( S&P's ) or Moody's Investors Service ( Moody's ) ratings.

<sup>6</sup> The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of July 31, 2010, the market value of these securities was \$3,925,265, representing 1% of the Fund's long-term investments.



## Fund Summary as of July 31, 2011

BlackRock MuniYield California Quality Fund, Inc.

**Fund Overview**

Effective November 9, 2010, BlackRock MuniYield California Insured Fund, Inc. changed its name to BlackRock MuniYield California Quality Fund, Inc.

**BlackRock MuniYield California Quality Fund, Inc. s (MCA) (the Fund )** investment objective is to provide shareholders with as high a level of current income exempt from federal and California income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax) and California income taxes. Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

**Performance**

Effective November 9, 2010, the Fund s investment policy was changed by the removal of the insurance investment policy that required at least 80% of Fund assets to be invested in insured municipal securities. Accordingly, the Fund was moved from the Lipper Single-State Insured Municipal Debt Funds category into the Lipper California Municipal Debt Funds category. For the 12 months ended July 31, 2011, the Fund returned (1.01)% based on market price and 4.21% based on NAV. For the same period, the closed-end Lipper California Municipal Debt Funds category posted an average return of (1.84)% based on market price and 3.16% based on NAV, while the closed-end Lipper Single-State Insured Municipal Debt Funds category posted an average return of (1.22)% based on market price and 3.22% based on NAV. All returns reflect reinvestment of dividends. The Fund s discount to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Fund s slightly long duration posture benefited performance as bonds with longer maturities experienced the greatest price appreciation as the yield curve flattened amid the investor flight-to-quality in the latter half of the period. Increased exposure to inverse floating rate instruments (tender option bonds) while the municipal yield curve was historically steep boosted the Fund s income accrual. Holdings of higher quality essential service revenue bonds had a positive impact on performance as investors favored these securities versus general obligation bonds and school district credits, which lagged due to budget concerns in California. Additionally, the Fund benefited from holding insured credits with relatively strong underlying issuers when monoline insurance company policies were losing their value to the retail marketplace. Conversely, some widening of credit spreads, especially among California school district and health care issues, had a negative impact on returns. In addition, the Fund s cash reserves detracted as cash underperformed longer maturity coupon bonds as yields fell and spreads tightened. The Fund held short-call, high-coupon bonds, which have good defensive characteristics, but proved a drag on returns when rates fell.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on NYSE	MCA
Initial Offering Date	October 30, 1992
Yield on Closing Market Price as of July 31, 2011 (\$13.00) <sup>1</sup>	6.78%
Tax Equivalent Yield <sup>2</sup>	10.43%
Current Monthly Distribution per Common Share <sup>3</sup>	\$0.0735
Current Annualized Distribution per Common Share <sup>3</sup>	\$0.8820
Leverage as of July 31, 2011 <sup>4</sup>	41%

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

<sup>2</sup> Tax equivalent yield assumes the maximum federal tax rate of 35%.

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<sup>3</sup> The distribution rate is not constant and is subject to change.

<sup>4</sup> Represents Variable Rate Demand Preferred Shares ( VRDP Shares ) and TOBs as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 10.

The table below summarizes the changes in the Fund's market price and NAV per share:

	7/31/11	7/31/10	Change	High	Low
Market Price	\$ 13.00	\$ 14.02	(7.28)%	\$ 14.70	\$ 11.83
Net Asset Value	\$ 14.31	\$ 14.66	(2.39)%	\$ 15.22	\$ 12.62

The following charts show the sector and credit quality allocations of the Fund's long-term investments:

**Sector Allocations**

	7/31/11	7/31/10
County/City/Special District/School District	45%	55%
Utilities	28	22
Education	10	7
Transportation	8	11
Health	4	2
Corporate	4	1
State	1	2

**Credit Quality Allocations<sup>5</sup>**

	7/31/11	7/31/10
AAA/Aaa	11%	57%
AA/Aa	79	29
A	10	14

<sup>5</sup> Using the higher of S&P's or Moody's ratings.

## Fund Summary as of July 31, 2011

## BlackRock MuniYield Michigan Quality Fund II, Inc.

**Fund Overview**

Effective November 9, 2010, BlackRock MuniYield Michigan Insured Fund II, Inc. changed its name to BlackRock MuniYield Michigan Quality Fund II, Inc.

**BlackRock MuniYield Michigan Quality Fund II, Inc. s (MYM) (the Fund )** investment objective is to provide shareholders with as high a level of current income exempt from federal and Michigan income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax) and Michigan income taxes. Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

**Performance**

Effective November 9, 2010, the Fund s investment policy was changed by the removal of the insurance investment policy that required at least 80% of Fund assets to be invested in insured municipal securities. Accordingly, the Fund was moved from the Lipper Single-State Insured Municipal Debt Funds category into the Lipper Michigan Municipal Debt Funds category. For the 12 months ended July 31, 2011, the Fund returned (3.89)% based on market price and 4.74% based on NAV. For the same period, the closed-end Lipper Michigan Municipal Debt Funds category posted an average return of 0.18% based on market price and 4.12% based on NAV, while the closed-end Lipper Single-State Insured Municipal Debt Funds category posted an average return of (1.22)% based on market price and 3.22% based on NAV. All returns reflect reinvestment of dividends. The Fund s discount to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Fund s slightly long duration posture benefited performance as bonds with longer maturities experienced the greatest price appreciation as the yield curve flattened amid the investor flight-to-quality in the latter half of the period. Exposure to inverse floating rate instruments (tender option bonds) while the municipal yield curve was historically steep boosted the Fund s income accrual. The Fund s holdings of higher quality essential service revenue bonds also had a positive impact on performance. Conversely, some widening of credit spreads, especially among Michigan and health care issues, had a negative impact on returns. In addition, the Fund s cash reserves detracted as cash underperformed longer maturity coupon bonds as yields fell and spreads tightened.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on NYSE	MYM
Initial Offering Date	February 28, 1992
Yield on Closing Market Price as of July 31, 2011 (\$12.28) <sup>1</sup>	6.99%
Tax Equivalent Yield <sup>2</sup>	10.75%
Current Monthly Distribution per Common Share <sup>3</sup>	\$0.0715
Current Annualized Distribution per Common Share <sup>3</sup>	\$0.8580
Leverage as of July 31, 2011 <sup>4</sup>	37%

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

<sup>2</sup> Tax equivalent yield assumes the maximum federal tax rate of 35%.

<sup>3</sup> The distribution is not constant and is subject to change.

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<sup>4</sup> Represents VRDP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 10.

The table below summarizes the changes in the Fund's market price and NAV per share:

	7/31/11	7/31/10	Change	High	Low
Market Price	\$ 12.28	\$ 13.67	(10.17)%	\$ 13.95	\$ 11.01
Net Asset Value	\$ 13.53	\$ 13.82	(2.10)%	\$ 14.25	\$ 12.23

The following charts show the sector and credit quality allocations of the Fund's long-term investments:

### Sector Allocations

	7/31/11	7/31/10
County/City/Special District/School District	23%	26%
Utilities	17	12
Health	14	15
State	11	13
Corporate	11	12
Transportation	11	12
Education	9	8
Housing	4	2

### Credit Quality Allocations<sup>5</sup>

	7/31/11	7/31/10
AAA/Aaa	2%	40%
AA/Aa	69	27
A	24	28
BBB/Baa	3	2
Not Rated <sup>6</sup>	2	3

<sup>5</sup> Using the higher of S&P's or Moody's ratings.

<sup>6</sup> The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of July 31, 2011 and July 31, 2010, the market value of these securities was \$5,295,911 and \$4,382,645, each representing 2%, respectively, of the Fund's long-term investments.

## Fund Summary as of July 31, 2011

BlackRock MuniYield New York Quality Fund, Inc.

**Fund Overview**

Effective November 9, 2010, BlackRock MuniYield New York Insured Fund, Inc. changed its name to BlackRock MuniYield New York Quality Fund, Inc.

**BlackRock MuniYield New York Quality Fund, Inc. s (MYN) (the Fund )** investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes and New York State and New York City personal income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax) and New York State and New York City personal income taxes. Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

**Performance**

Effective November 9, 2010, the Fund s investment policy was changed by the removal of the insurance investment policy that required at least 80% of Fund assets to be invested in insured municipal securities. Accordingly, the Fund was moved from the Lipper Single-State Insured Municipal Debt Funds category into the Lipper New York Municipal Debt Funds category. For the 12 months ended July 31, 2011, the Fund returned (0.81)% based on market price and 3.36% based on NAV. For the same period, the closed-end Lipper New York Municipal Debt Funds category posted an average return of (0.55)% based on market price and 3.05% based on NAV, while the closed-end Lipper Single-State Insured Municipal Debt Funds category posted an average return of (1.22)% based on market price and 3.22% based on NAV. All returns reflect reinvestment of dividends. The Fund s discount to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. Yields on the long end of the municipal yield curve were ultimately higher at the close of the period than where they started. Therefore, positive performance came mostly from the Fund s exposure to higher-yielding sectors including housing, health care and corporate/industrial development bonds, which provided incremental income. The Fund also benefited from its exposure to lower-quality bonds, which, in addition to offering higher embedded yields, experienced some price appreciation due to spread compression during the period. The Fund was most heavily invested in tax-backed credits, where performance was moderately positive during the period. Low exposure to the short end of the yield curve and high-quality pre-refunded bonds proved beneficial as performance was weak in those issues. Detracting from performance was the Fund s allocation to Puerto Rico credits, which underperformed New York issues during the period. Low exposure to tobacco, the strongest performing sector, was a disadvantage. The Fund s holdings of higher education bonds hindered returns; however, we increased exposure to the sector despite its recent underperformance as these holdings help diversify the portfolio and we believe they will benefit the Fund during periods of scarce new-issue supply. For most of the period, the Fund maintained a slightly long duration bias and exposure to the long end of the yield curve, which also detracted from performance.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on NYSE	MYN
Initial Offering Date	February 28, 1992
Yield on Closing Market Price as of July 31, 2011 (\$12.60) <sup>1</sup>	6.76%
Tax Equivalent Yield <sup>2</sup>	10.40%
Current Monthly Distribution per Common Share <sup>3</sup>	\$0.071
Current Annualized Distribution per Common Share <sup>3</sup>	\$0.852
Leverage as of July 31, 2011 <sup>4</sup>	38%

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- <sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.
- <sup>2</sup> Tax equivalent yield assumes the maximum federal tax rate of 35%.
- <sup>3</sup> The distribution rate is not constant and is subject to change.
- <sup>4</sup> Represents VRDP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 10.

The table below summarizes the changes in the Fund's market price and NAV per share:

	7/31/11	7/31/10	Change	High	Low
Market Price	\$ 12.60	\$ 13.57	(7.15)%	\$ 14.40	\$ 11.60
Net Asset Value	\$ 13.44	\$ 13.89	(3.24)%	\$ 14.37	\$ 12.11

The following charts show the sector and credit quality allocations of the Fund's long-term investments:

### Sector Allocations

	7/31/11	7/31/10
Transportation	29%	31%
County/City/Special District/School District	28	29
Education	11	7
State	11	11
Utilities	8	10
Health	5	4
Corporate	4	5
Housing	3	2
Tobacco	1	1

### Credit Quality Allocations<sup>5</sup>

	7/31/11	7/31/10
AAA/Aaa	12%	44%
AA/Aa	54	17
A	21	34
BBB/Baa	10	2
BB/Ba	2	3
Not Rated	1 <sup>6</sup>	

- <sup>5</sup> Using the higher of S&P's or Moody's ratings.
- <sup>6</sup> The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of July 31, 2011, the market value of these securities was \$3,909,236, representing 1% of the Fund's long-term investments.

## Fund Summary as of July 31, 2011

BlackRock MuniYield Quality Fund III, Inc.

**Fund Overview**

Effective November 9, 2010, BlackRock MuniYield Insured Fund, Inc. changed its name to BlackRock MuniYield Quality Fund III, Inc.

**BlackRock MuniYield Quality Fund III, Inc. s (MYI) (the Fund )** investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax). Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

**Performance**

Effective November 9, 2010, the Fund s investment policy was changed by the removal of the insurance investment policy that required at least 80% of Fund assets to be invested in insured municipal securities. Accordingly, the Fund was moved from the Lipper Insured Municipal Debt Funds (Leveraged) category into the Lipper General Municipal Debt Funds (Leveraged) category. During the period, Lipper combined these categories into one Lipper General & Insured Municipal Debt Funds (Leveraged) category. For the 12 months ended July 31, 2011, the Fund returned (8.12)% based on market price and 3.22% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of (2.24)% based on market price and 4.19% based on NAV. All returns reflect reinvestment of dividends. The Fund moved from a premium to NAV to a discount by period end, which accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Fund s exposure to bonds with shorter maturities and shorter durations (lower sensitivity to interest rate movements) contributed positively to performance as yields on the short and intermediate parts of the municipal curve increased to a smaller degree than on the long end. Holdings of premium coupon bonds, which tend to be less sensitive to changes in interest rates, also had a positive impact. Conversely, the Fund s overall long duration stance detracted from performance as interest rates increased for the period as a whole. Further, the Fund s exposure to longer maturity bonds had a negative impact as the long end of the yield curve steepened during the period (i.e., long-term interest rates increased more than short and intermediate rates).

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on NYSE	MYI
Initial Offering Date	March 27, 1992
Yield on Closing Market Price as of July 31, 2011 (\$12.17) <sup>1</sup>	7.10%
Tax Equivalent Yield <sup>2</sup>	10.92%
Current Monthly Distribution per Common Share <sup>3</sup>	\$0.072
Current Annualized Distribution per Common Share <sup>3</sup>	\$0.864
Leverage as of July 31, 2011 <sup>4</sup>	39%

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

<sup>2</sup> Tax equivalent yield assumes the maximum federal tax rate of 35%.

<sup>3</sup> The distribution rate is not constant and is subject to change.

<sup>4</sup> Represents VRDP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 10.

The table below summarizes the changes in the Fund's market price and NAV per share:

	7/31/11	7/31/10	Change	High	Low
Market Price	\$ 12.17	\$ 14.17	(14.11%)	\$ 14.56	\$ 11.21
Net Asset Value	\$ 13.19	\$ 13.67	(3.51%)	\$ 14.17	\$ 11.71

The following charts show the sector and credit quality allocations of the Fund's long-term investments:

#### Sector Allocations

	7/31/11	7/31/10
Transportation	27%	27%
County/City/Special District/School District	24	21
Utilities	17	17
State	10	8
Education	9	8
Health	7	7
Housing	5	6
Corporate	1	6

#### Credit Quality Allocations<sup>5</sup>

	7/31/11	7/31/10
AAA/Aaa	7%	46%
AA/Aa	65	29
A	21	20
BBB/Baa	3	5
Not Rated	4 <sup>6</sup>	

<sup>5</sup> Using the higher of S&P's or Moody's ratings.

<sup>6</sup> The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of July 31, 2011, the market value of these securities was \$20,992,023, representing 1% of the Fund's long-term investments.



## The Benefits and Risks of Leveraging

The Funds may utilize leverage to seek to enhance the yield and NAV of their common shares ( Common Shares ). However, these objectives cannot be achieved in all interest rate environments.

To leverage, the Funds issue AMPS or VRDP Shares (collectively, Preferred Shares ) which pay dividends at prevailing short-term interest rates, and invest the proceeds in long-term municipal bonds. In general, the concept of leveraging is based on the premise that the financing cost of assets to be obtained from leverage, which will be based on short-term interest rates, will normally be lower than the income earned by each Fund on its longer-term portfolio investments. To the extent that the total assets of each Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, each Fund's holders of Common Shares ( Common Shareholders ) will benefit from the incremental net income.

To illustrate these concepts, assume a Fund's Common Shares capitalization is \$100 million and it issues Preferred Shares for an additional \$50 million, creating a total value of \$150 million available for investment in long-term municipal bonds. If prevailing short-term interest rates are 3% and long-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Fund pays dividends on the \$50 million of Preferred Shares based on the lower short-term interest rates. At the same time, the securities purchased by the Fund with assets received from the Preferred Shares issuance earn income based on long-term interest rates. In this case, the dividends paid to holders of Preferred Shares ( Preferred Shareholders ) are significantly lower than the income earned on the Fund's long-term investments, and therefore the Common Shareholders are the beneficiaries of the incremental net income.

If short-term interest rates rise, narrowing the differential between short-term and long-term interest rates, the incremental net income pickup on the Common Shares will be reduced or eliminated completely. Furthermore, if prevailing short-term interest rates rise above long-term interest rates, the yield curve has a negative slope. In this case, the Fund pays dividends to Preferred Shareholders on the higher short-term interest rates whereas the Fund's total portfolio earns income based on lower long-term interest rates.

Furthermore, the value of the Funds' portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the redemption value of the Funds' Preferred Shares does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Funds' NAV positively or negatively in addition to the impact on Fund performance from leverage from Preferred Shares discussed above.

The Funds may also leverage their assets through the use of TOBs, as described in Note 1 of the Notes to Financial Statements. TOB investments generally will provide the Funds with economic benefits in periods of declining short-term interest rates, but expose the Funds to risks during periods of rising short-term interest rates similar to those associated with Preferred Shares issued by the Funds, as described above. Additionally, fluctuations in the market value of municipal bonds deposited into the TOB trust may adversely affect each Fund's NAV per share.

The use of leverage may enhance opportunities for increased income to the Funds and Common Shareholders, but as described above, it also creates risks as short- or long-term interest rates fluctuate. Leverage also will generally cause greater changes in the Funds' NAVs, market prices and dividend rates than comparable portfolios without leverage. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, each Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, each Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Shareholders will be reduced. Each Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause a Fund to incur losses. The use of leverage may limit each Fund's ability to invest in certain types of securities or use certain types of hedging strategies, such as in the case of certain restrictions imposed by ratings agencies that rate Preferred Shares issued by the Funds. Each Fund will incur expenses in connection with the use of leverage, all of which are borne by Common Shareholders and may reduce income to the Common Shares.

Under the Investment Company Act of 1940, the Funds are permitted to issue Preferred Shares in an amount of up to 50% of their total managed assets at the time of issuance. Under normal circumstances, each Fund anticipates that the total economic leverage from Preferred Shares and/or TOBs will not exceed 50% of its total managed assets at the time such leverage is incurred. As of July 31, 2011, the Funds had economic leverage from Preferred Shares and/or TOBs as a percentage of their total managed assets as follows:

	<b>Percent of Leverage</b>
MUE	40%

MCA	41%
MYM	37%
MYN	38%
MYI	39%

## Derivative Financial Instruments

The Funds may invest in various derivative financial instruments, including financial futures contracts as specified in Note 2 of the Notes to Financial Statements, which may constitute forms of economic leverage. Such derivative financial instruments are used to obtain exposure to a market without owning or taking physical custody of securities or to hedge market and/or interest rate risks. Derivative financial instruments involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the derivative financial instrument. The Funds' ability to use a derivative financial instrument successfully depends on the investment advisor's ability to predict pertinent market movements accurately, which cannot be assured. The use of derivative financial instruments may result in losses greater than if they had not been used, may require a Fund to sell or purchase portfolio investments at inopportune times or for distressed values, may limit the amount of appreciation a Fund can realize on an investment, may result in lower dividends paid to shareholders or may cause a Fund to hold an investment that it might otherwise sell. The Funds' investments in these instruments are discussed in detail in the Notes to Financial Statements.

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Schedule of Investments July 31, 2011

**BlackRock MuniHoldings Quality Fund II, Inc. (MUE)**  
(Percentages shown are based on Net Assets)

	Par (000)	Value
<b>Municipal Bonds</b>		
<b>Alabama 3.0%</b>		
Birmingham Special Care Facilities Financing Authority, RB, Children's Hospital (AGC), 6.00%, 6/01/39	\$ 5,225	\$ 5,590,071
County of Jefferson Alabama, RB, Series A, 5.50%, 1/01/22	3,580	3,242,513
		8,832,584
<b>Arizona 0.4%</b>		
State of Arizona, COP, Department of Administration, Series A (AGM), 5.25%, 10/01/28	1,175	1,229,720
<b>Arkansas 3.8%</b>		
Arkansas Development Finance Authority, Refunding RB, Series C (NPFGC): 5.35%, 12/01/35	9,555	9,602,011
5.35%, 12/01/11 (a)	1,560	1,602,276
		11,204,287
<b>California 17.5%</b>		
California Educational Facilities Authority, RB, University of Southern California, Series A, 5.25%, 10/01/38	5,050	5,304,924
California Health Facilities Financing Authority, Refunding RB, Sutter Health, Series B, 6.00%, 8/15/42	2,865	3,052,027
City of San Jose CA, AMT, 5.50%, 3/01/30	4,045	4,035,454
City of Sunnyvale California, Refunding RB, 5.25%, 4/01/40	2,800	2,912,504
City of Vista California, COP, Refunding, Community Projects (NPFGC), 5.00%, 5/01/37	2,995	2,789,783
County of Sacramento California, RB, Senior Series A (AGC), 5.50%, 7/01/41	3,500	3,558,205
Emery Unified School District, GO, Election of 2010, Series A (AGM), 5.50%, 8/01/35	1,875	1,943,606
Los Angeles Community College District California, GO: Election of 2001, Series A (NPFGC), 5.00%, 8/01/32	5,000	5,119,700
Election of 2008, Series C, 5.25%, 8/01/39	2,500	2,628,125
Oceanside Unified School District California, GO, Series A (AGC), 5.25%, 8/01/33	3,175	3,253,454
Port of Oakland, Refunding RB, Series M, AMT (NPFGC), 5.38%, 11/01/27	2,220	2,223,929
<b>Municipal Bonds</b>		
<b>California (concluded)</b>		
Redondo Beach Unified School District, GO, Election of 2008, Series E, 5.50%, 8/01/34	\$ 2,670	\$ 2,823,632
Roseville Joint Union High School District California, GO, Election of 2004, Series A (NPFGC), 5.00%, 8/01/29	2,985	3,025,686
San Bernardino Community College District, GO, Election of 2002, Series A, 6.25%, 8/01/33	2,165	2,416,660
	1,250	1,252,475

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San Francisco City & County Airports Commission, RB, Specialty Facility Lease, SFO Fuel, Series A, AMT (AGM), 6.10%, 1/01/20		
State of California, GO, Refunding, Veterans, Series BZ, AMT (NPFGC), 5.35%, 12/01/21	10	10,008
Stockton Public Financing Authority California, RB, Redevelopment Projects, Series A (Radian), 5.25%, 9/01/34	2,430	1,705,714
Ventura County Community College District, GO, Election of 2002, Series C, 5.50%, 8/01/33	3,175	3,371,786
		51,427,672
<b>Colorado 1.6%</b>		
Colorado Health Facilities Authority, RB, Hospital, NCMC, Inc. Project, Series B (AGM), 6.00%, 5/15/26	3,300	3,660,129
Colorado Housing & Finance Authority, Refunding RB, S/F Program, Senior Series A-2, AMT, 7.50%, 4/01/31	125	128,991
Regional Transportation District, COP, Series A, 5.00%, 6/01/25	765	793,726
		4,582,846
<b>District of Columbia 0.9%</b>		
District of Columbia, RB, Deed Tax, Housing Production Trust Fund, Series A (NPFGC), 5.00%, 6/01/32	2,500	2,502,350
<b>Florida 13.1%</b>		
City of Jacksonville, RB, Series A, 5.25%, 10/01/26	2,000	2,170,540
County of Miami-Dade Florida, RB: CAB, Sub-Series A (NPFGC), 5.00%, 10/01/37 (b)	275	44,831
Miami International Airport, Series A, AMT (AGM), 5.25%, 10/01/41	7,880	7,360,629
Miami International Airport, Series A, AMT (AGM), 5.50%, 10/01/41	6,195	6,008,283
Series A, AMT (AGM), 5.00%, 10/01/33	4,220	3,992,584

**Portfolio Abbreviations**

To simplify the listings of portfolio holdings in the Schedules of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

<b>ACA</b>	ACA Financial Guaranty Corp.
<b>AGC</b>	Assured Guaranty Corp.
<b>AGM</b>	Assured Guaranty Municipal Corp.
<b>AMBAC</b>	American Municipal Bond Assurance Corp.
<b>AMT</b>	Alternative Minimum Tax (subject to)
<b>ARB</b>	Airport Revenue Bonds
<b>BHAC</b>	Berkshire Hathaway Assurance Corp.
<b>BOCES</b>	Board of Cooperative Educational Services
<b>CAB</b>	Capital Appreciation Bonds
<b>COP</b>	Certificates of Participation
<b>EDA</b>	Economic Development Authority
<b>EDC</b>	Economic Development Corp.
<b>ERB</b>	Education Revenue Bonds
<b>FGIC</b>	Financial Guaranty Insurance Co.
<b>FHA</b>	Federal Housing Administration
<b>GAB</b>	Grant Anticipation Bonds
<b>GO</b>	General Obligation Bonds
<b>HDA</b>	Housing Development Authority
<b>HFA</b>	Housing Finance Agency
<b>HRB</b>	Housing Revenue Bonds
<b>IDRB</b>	Industrial Development Revenue Bonds
<b>ISD</b>	Independent School District

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<b>LOC</b>	Letter of Credit
<b>LRB</b>	Lease Revenue Bonds
<b>MRB</b>	Mortgage Revenue Bonds
<b>NPFGC</b>	National Public Finance Guarantee Corp.
<b>PILOT</b>	Payment in Lieu of Taxes
<b>PSF-GTD</b>	Public School Fund-Guaranteed
<b>Q-SBLF</b>	Qualified School Bond Loan Fund
<b>RB</b>	Revenue Bonds
<b>SONYMA</b>	State of New York Mortgage Agency
<b>S/F</b>	Single-Family
<b>Syncora</b>	Syncora Guarantee
<b>VRDN</b>	Variable Rate Demand Notes

See Notes to Financial Statements.

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Schedule of Investments  
(continued)

**BlackRock MuniHoldings Quality Fund II, Inc. (MUE)**  
(Percentages shown are based on Net Assets)