

BLACKROCK MUNIYIELD QUALITY FUND III, INC.

Form N-CSRS

April 04, 2013

Table of Contents

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 52nd Street, New York, NY 10055

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

Date of fiscal year end: 07/31/2013

Date of reporting period: 01/31/2013

Table of Contents

Item 1 Report to Stockholders

Table of Contents

JANUARY 31, 2013

SEMI-ANNUAL REPORT (UNAUDITED)

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 May Lose Value No Bank Guarantee

Table of Contents

Table of Contents

	Page
<u>Dear Shareholder</u>	3
Semi-Annual Report:	
<u>The Benefits and Risks of Leveraging</u>	4
<u>Derivative Financial Instruments</u>	4
<u>Municipal Market Overview</u>	5
<u>Fund Summaries</u>	6
<u>Financial Statements:</u>	
<u>Schedules of Investments</u>	16
<u>Statements of Assets and Liabilities</u>	41
<u>Statements of Operations</u>	42
<u>Statements of Changes in Net Assets</u>	43
<u>Statements of Cash Flows</u>	45
<u>Financial Highlights</u>	46
<u>Notes to Financial Statements</u>	51
<u>Officers and Directors</u>	60
<u>Additional Information</u>	61

Table of Contents

Dear Shareholder

Financial markets have substantially improved over the past year, providing investors with considerable relief compared to where things were during the global turmoil seen in 2011. Despite a number of headwinds, higher-risk asset classes boasted strong returns as investors sought meaningful yields in the ongoing low-interest-rate environment.

Rising investor confidence drove equity markets higher in early 2012, while climbing US Treasury yields pressured higher-quality fixed income assets. The second quarter, however, brought a market reversal as Europe's debt crisis boiled over once again. Political instability in Greece and severe deficit and liquidity problems in Spain raised the specter of a euro collapse. Alongside the drama in Europe, investors were discouraged by gloomy economic reports from various parts of the world. A slowdown in China, a key powerhouse for global growth, emerged as a particular concern. But as the outlook for the global economy worsened, investors grew increasingly optimistic that the world's largest central banks would soon intervene to stimulate growth. This theme, along with the European Central Bank's (ECB's) firm commitment to preserve the euro currency bloc, drove most asset classes higher through the summer. Policy relief came in early September, when the ECB announced its decision to support the eurozone's troubled peripheral countries with unlimited purchases of short term sovereign debt. Days later, the US Federal Reserve announced its own much-anticipated stimulus package.

Although financial markets world-wide were buoyed by accommodative monetary policy, risk assets weakened in the fall. Global trade slowed as many European countries fell into recession and growth continued to decelerate in China, where a once-a-decade leadership change compounded uncertainty. In the United States, stocks slid on lackluster corporate earnings reports and market volatility rose during the lead up to the US Presidential election. In the post-election environment, investors grew increasingly concerned over automatic tax increases and spending cuts that had been scheduled to take effect at the beginning of 2013 (known as the fiscal cliff). There was widespread fear that the fiscal cliff would push the nation into recession unless politicians could agree upon alternate measures to reduce the deficit before the end of 2012. Worries that bipartisan gridlock would preclude a timely budget deal triggered higher levels of volatility in financial markets around the world in the months leading up to the last day of the year. Ultimately, the United States averted the worst of the fiscal cliff with a last-minute tax deal; however, decisions relating to spending cuts and the debt ceiling continue to weigh on investors' minds.

Investors shook off the nerve-racking finale to 2012 and began the New Year with a powerful equity rally. Key indicators signaled broad-based improvements in the world's major economies, particularly China. In the United States, economic data was mixed, but pointed to a continued recovery. The risk of inflation remained low and the US Federal Reserve showed no signs of curtailing its stimulus programs. Additionally, January saw the return of funds that investors had pulled out of the market in late 2012 amid uncertainty about tax-rate increases ahead of the fiscal cliff deadline. In fixed income markets, rising US Treasuries yields dragged down higher-quality asset classes, while high yield bonds continued to benefit from investor demand for yield in the low-rate environment.

On the whole, riskier asset classes outperformed lower-risk investments for the 6- and 12-month periods ended January 31, 2013. International equities were the strongest performers. US stocks and high yield bonds also generated significant returns. Emerging market equities were particularly volatile, but still posted gains for both the 6- and 12-month periods. US Treasury yields remained low, but experienced increasing volatility in recent months. Rising yields near the end of the period resulted in negative returns for Treasuries and investment-grade bonds for the 6-month period. Tax-exempt municipal bonds, however, benefited from favorable supply-and-demand dynamics. Near-zero short term interest rates continued to keep yields on money market securities near their all-time lows.

While investors continue to face a host of unknowns, we believe new opportunities abound. BlackRock was built to provide the global market insight, breadth of capabilities, unbiased investment advice and deep risk management expertise these times require. We encourage you to visit www.blackrock.com/newworld for more information.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

Despite a number of headwinds, higher-risk asset classes boasted strong returns as investors sought meaningful yields in the ongoing low-interest-rate environment.

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of January 31, 2013

	6-month	12-month
US large cap equities (S&P 500® Index)	9.91%	16.78%
US small cap equities (Russell 2000® Index)	15.51	15.47
International equities (MSCI Europe, Australasia, Far East Index)	18.61	17.25
Emerging market equities (MSCI Emerging Markets Index)	13.11	7.64
3-month Treasury bill (BofA Merrill Lynch 3-Month US Treasury Bill Index)	0.07	0.11
US Treasury securities (BofA Merrill Lynch 10-Year US Treasury Index)	(2.90)	1.28
US investment grade bonds (Barclays US Aggregate Bond Index)	(0.29)	2.59
Tax-exempt municipal bonds (S&P Municipal Bond Index)	2.21	5.50
US high yield bonds (Barclays US Corporate High Yield 2% Issuer Capped Index)	7.37	13.87

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

3

Table of Contents

The Benefits and Risks of Leveraging

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

To obtain leverage, the Funds issue Variable Rate Demand Preferred Shares (VRDP Shares) or Variable Rate Muni Term Preferred Shares (VMTP Shares) (VRDP Shares and VMTP Shares are collectively referred to as Preferred Shares). Preferred Shares pay dividends at prevailing short-term interest rates, and the Funds 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 shareholders will benefit from the incremental net income.

The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV. However, in order to benefit shareholders, the yield curve must be positively sloped; that is, short-term interest rates must be lower than long-term interest rates. If the yield curve becomes negatively sloped, meaning short-term interest rates exceed long-term interest rates, income to shareholders will be lower than if the Funds had not used leverage.

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 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 holders of Common Shares (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 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 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 ' NAVs 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 tender option bond trusts (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, the Funds ' 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 rating agencies that rate the 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.

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

Under the Investment Company Act of 1940, as amended (the "1940 Act"), the Funds are permitted to issue senior securities in the form of equity securities (e.g., Preferred Shares) up to 50% of their total managed assets (each Fund's total assets less the sum of its accrued liabilities). In addition, each Fund voluntarily limits its economic leverage to 45% of its total managed assets. As of January 31, 2013, the Funds had economic leverage from Preferred Shares and/or TOBs as a percentage of their total managed assets as follows:

	Percent of Economic Leverage
MUE	39%
MCA	39%
MYM	36%
MYN	38%
MYI	37%

Derivative Financial Instruments

The Funds may invest in various derivative financial instruments, including financial futures contracts and options, 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 security, index and/or 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.

Table of Contents**Municipal Market Overview****For the Reporting Period Ended January 31, 2013**

Municipal bonds delivered strong performance during the reporting period ended January 31, 2013. Market conditions remained favorable even though supply picked up considerably in 2012. As the fiscal situation for municipalities continued to improve, the rate of new issuance came back in line with historical averages. Total new issuance for 2012 was \$373 billion, nearly 30% greater than the \$288 billion issued in 2011. In the first month of 2013, issuance exceeded market expectations at \$26.5 billion, which is roughly 50% higher than January 2012. It is important to note that refunding activity has accounted for a large portion of supply during this period as issuers refinanced their debt at lower interest rates. Refunding issues are easily absorbed by the market because when seasoned bonds are refinanced, issuers re-enter the market via cheaper and predominantly shorter-maturity financing. Investors, in turn, support these new issues with the proceeds from bond maturities or coupon payments.

**S&P Municipal
Bond Index**

Total Returns as of
January 31, 2013
6 months :
+2.21%
12 months :
+5.50%

Increased supply was met with strong demand during the period as investors were starved for yield in a low-rate environment. Investors poured into municipal bond mutual funds, particularly those with long-duration and high-yield investment mandates as they tend to provide higher levels of income. For the 12 months ended January 31, 2013, municipal bond fund inflows totaled \$51.75 billion (according to the Investment Company Institute). Considering the extensive period of significant outflows from late 2010 through mid-2011, these robust inflows are telling of the complete turnaround in confidence and investors' avid search for yield and income.

Municipal market supply-and-demand technicals typically strengthen considerably upon the conclusion of tax season as net negative supply takes hold (i.e., more bonds are being called and maturing than being issued) and this theme remained intact for 2012. In the spring, a resurgence of concerns about Europe's financial crisis and weakening US economic data drove municipal bond yields lower and prices higher. In addition to income and capital preservation, investors were drawn to the asset class for its relatively low volatility. As global sentiment improved over the summer, municipal bonds outperformed the more volatile US Treasury market. The months of October and November, typically a period of waning demand and weaker performance, were positive for the municipal market in 2012 as supply-and-demand technicals continued to be strong going into the fourth quarter. Additionally, the perception of higher taxes given the outcome of the US Presidential election provided further support to municipal bond prices in November.

Seasonal year-end selling pressure typically results in elevated volatility in the final month of the year; however, December of 2012 was more volatile than the historical norm due to a partial unwinding of November's rally coupled with uncertainty around the fiscal cliff (i.e., automatic tax increases and spending cuts that had been scheduled to take effect at the beginning of 2013 unless politicians could agree upon alternate measures to reduce the deficit before the end of 2012). Positive performance in January 2013 was the product of renewed demand in an asset class known for its lower volatility and preservation of earnings as tax rates rise. For the month, municipal bonds significantly outperformed the US Treasury market, where yields rose on an uptick in US economic data. As the period drew to a close, municipal market participants were focused on Washington and the scheduled spending cuts as well as the upcoming tax season.

From January 31, 2012 to January 31, 2013, yields declined by 28 basis points (bps) to 2.86% on AAA-rated 30-year municipal bonds, but rose 14 bps to 1.82% on 10-year bonds and 8 bps to 0.79% on 5-year bonds (as measured by Thomson Municipal Market Data). Overall, the municipal yield curve remained relatively steep, but flattened over the 12-month time period as the spread between 2- and 30-year maturities tightened by 29 bps, while the spread widened in the 2- to 10-year range 13 bps.

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

The fundamental picture for municipalities continues to improve. Austerity and de-leveraging have been the general themes across the country as states set their budgets, although a small number of states continue to rely on a "kick-the-can" approach to close their budget gaps, using aggressive revenue projections and accounting gimmicks. It has been over two years since the fiscal problems plaguing state and local governments first became highly publicized and the prophecy of widespread defaults across the municipal market has not materialized. BlackRock maintains the view that municipal bond defaults will be minimal and remain in the periphery and the overall market is fundamentally sound. We continue to recognize that careful credit research and security selection remain imperative amid uncertainty in this 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.

SEMI-ANNUAL REPORT

JANUARY 31, 2013

5

Table of Contents**Fund Summary** as of January 31, 2013**BlackRock MuniHoldings Quality Fund II,
Inc.****Fund Overview**

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

For the six-month period ended January 31, 2013, the Fund returned 1.96% based on market price and 4.04% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 3.22% based on market price and 4.25% based on NAV. All returns reflect reinvestment of dividends. The Fund's premium to NAV, which narrowed 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 holdings in the health and transportation sectors contributed positively to performance for the period. Holdings of lower-quality credits in those sectors were the strongest contributors due to strong demand from investors seeking higher-yielding investments in the low interest rate environment. Conversely, exposure to Puerto Rico sales tax bonds had a negative impact on performance as the continued decline of Puerto Rico's economy and concerns about credit rating agency downgrades resulted in falling prices across all Puerto Rico securities.

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 January 31, 2013 (\$15.42) ¹	5.49%
Tax Equivalent Yield ²	9.70%
Current Monthly Distribution per Common Share ³	\$0.0705
Current Annualized Distribution per Common Share ³	\$0.8460
Economic Leverage as of January 31, 2013 ⁴	39%

¹ 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.

² Tax equivalent yield assumes the maximum marginal federal tax rate of 43.4%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

³ The distribution rate is not constant and is subject to change.

⁴ Represents VMTP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VMTP 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 4.

Table of Contents**BlackRock MuniHoldings Quality Fund II, Inc.****Market Price and Net Asset Value**

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

	1/31/13	7/31/12	Change	High	Low
Market Price	\$ 15.42	\$ 15.55	(0.84)%	\$ 16.22	\$ 14.70
Net Asset Value	\$ 15.36	\$ 15.18	1.19%	\$ 15.89	\$ 14.95

The following charts show the sector allocation, credit quality allocation and call/maturity structure of the Fund's long-term investments:

Sector Allocation

	1/31/13	7/31/12
County/City/Special District/School District	28%	28%
Transportation	27	21
Utilities	15	17
State	10	15
Health	10	10
Education	8	6
Housing	1	2
Tobacco	1	1

Call/Maturity Structure²

Calendar Year Ended December 31,

2013	
2014	5%
2015	2
2016	2
2017	4

² Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

Credit Quality Allocation¹

	1/31/13	7/31/12
AAA/Aaa	12%	16%
AA/Aa	62	63
A	26	20
BBB/Baa		1

¹ Using the higher of Standard & Poor's (S&P's) or Moody's Investors Service (Moody's) ratings.

Table of Contents**Fund Summary** as of January 31, 2013**BlackRock MuniYield California Quality Fund, Inc.****Fund Overview**

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

For the six-month period ended January 31, 2013, the Fund returned 2.52% based on market price and 3.82% based on NAV. For the same period, the closed-end Lipper California Municipal Debt Funds category posted an average return of 4.12% based on market price and 4.74% 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 concentration of holdings within the 20- to 25-year maturity range contributed positively to performance, as rates declined in that segment of the municipal yield curve. Investments in the health, education, transportation and utilities sectors were strong contributors as these segments outperformed the broader tax-exempt market during the period. Positive results also came from purchases of zero-coupon bonds that Fund management had identified as undervalued. In addition, exposure to higher-quality essential service revenue bonds enhanced performance. The Fund did not, however, hold exposure to the tobacco sector, which posted exceptional gains during the period.

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 January 31, 2013 (\$16.55) ¹	5.51%
Tax Equivalent Yield ²	9.73%
Current Monthly Distribution per Common Share ³	\$0.076
Current Annualized Distribution per Common Share ³	\$0.912
Economic Leverage as of January 31, 2013 ⁴	39%

¹ 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.

² Tax equivalent yield assumes the maximum marginal federal tax rate of 43.4%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

³ The distribution rate is not constant and is subject to change.

⁴ 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 4.

Table of Contents**BlackRock MuniYield California Quality Fund, Inc.****Market Price and Net Asset Value**

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

	1/31/13	7/31/12	Change	High	Low
Market Price	\$ 16.55	\$ 16.59	(0.24)%	\$ 17.19	\$ 15.76
Net Asset Value	\$ 16.77	\$ 16.60	1.02%	\$ 17.18	\$ 16.36

The following charts show the sector allocation, credit quality allocation and call/maturity structure of the Fund's long-term investments:

Sector Allocation

	1/31/13	7/31/12
County/City/Special District/School District	38%	42%
Utilities	25	26
Education	12	10
Transportation	10	8
Health	10	10
State	4	4
Corporate	1	

Call/Maturity Structure²

Calendar Year Ended December 31,

2013	4%
2014	1
2015	17
2016	9
2017	16

² Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

Credit Quality Allocation¹

	1/31/13	7/31/12
AAA/Aaa	12%	11%
AA/Aa	72	76
A	16	13

¹ Using the higher of S&P's or Moody's ratings.

Table of Contents**Fund Summary** as of January 31, 2013**BlackRock MuniYield Michigan Quality
Fund II, Inc.****Fund Overview**

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

For the six-month period ended January 31, 2013, the Fund returned 4.09% based on market price and 3.29% based on NAV. For the same period, the closed-end Lipper Michigan Municipal Debt Funds category posted an average return of 5.47% based on market price and 3.27% based on NAV. All returns reflect reinvestment of dividends. The Fund's discount to NAV, which narrowed 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 positive performance was derived largely from income accrual as well as spread compression (price appreciation) in certain sectors, most notably in health, education and school districts. Fund performance was negatively impacted by rising interest rates during the period (bond prices fall as rates rise). Exposure to Puerto Rico debt detracted from performance as concerns about credit rating agency downgrades resulted in wider credit spreads (falling prices) for Puerto Rico municipal securities broadly.

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 January 31, 2013 (\$14.70) ¹	5.63%
Tax Equivalent Yield ²	9.95%
Current Monthly Distribution per Common Share ³	\$0.069
Current Annualized Distribution per Common Share ³	\$0.828
Economic Leverage as of January 31, 2013 ⁴	36%

¹ 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.

² Tax equivalent yield assumes the maximum marginal federal tax rate of 43.4%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

³ The distribution rate is not constant and is subject to change.

⁴ 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 4.

Table of Contents**BlackRock MuniYield Michigan Quality Fund II, Inc.****Market Price and Net Asset Value**

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

	1/31/13	7/31/12	Change	High	Low
Market Price	\$ 14.70	\$ 14.52	1.24%	\$ 15.74	\$ 14.10
Net Asset Value	\$ 15.21	\$ 15.14	0.46%	\$ 15.63	\$ 14.88

The following charts show the sector allocation, credit quality allocation and call/maturity structure of the Fund's long-term investments:

Sector Allocation

	1/31/13	7/31/12
County/City/Special District/School District	27%	27%
Health	16	18
Utilities	15	14
State	15	14
Education	10	12
Transportation	8	8
Housing	6	4
Corporate	3	3

Call/Maturity Structure³

Calendar Year Ended December 31,

2013	6%
2014	10
2015	10
2016	5
2017	8

³ Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

Credit Quality Allocation¹

	1/31/13	7/31/12
AAA/Aaa	1%	1%
AA/Aa	76	74
A	21	20
BBB/Baa	2	4
Not Rated	2	1

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

¹ Using the higher of S&P's or Moody's ratings.

² The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of January 31, 2013, the market value of these securities was \$168,343, representing less than 1% of the Fund's long-term investments.

SEMI-ANNUAL REPORT

JANUARY 31, 2013

11

Table of Contents**Fund Summary** as of January 31, 2013**BlackRock MuniYield New York Quality Fund, Inc.****Fund Overview**

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

For the six-month period ended January 31, 2013, the Fund returned 2.92% based on market price and 2.51% based on NAV. For the same period, the closed-end Lipper New York Municipal Debt Funds category posted an average return of 2.41% based on market price and 2.78% based on NAV. All returns reflect reinvestment of dividends. The Fund s premium 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 benefited from its exposure to higher-yielding sectors and lower-quality bonds, which performed well due to strong demand from investors seeking higher-yielding investments in the low interest rate environment. The Fund s heavy exposures to transportation and education boosted returns as these sectors performed well during the period. Holdings in the health sector also contributed positively. Additionally, the Fund benefited from the roll-down effect, whereby effective maturities become shorter with the passing of the year and therefore bonds are evaluated against lower yield levels, which, in a steep yield curve environment, results in higher prices. Detracting from performance was the Fund s long duration posture (higher sensitivity to interest rates) as municipal bond yields moved slightly higher in most maturities, while remaining unchanged or moving slightly lower in the 20- to 25-year range. Also having a negative impact on results was the Fund s exposure to the tax-backed sector (the Fund s most significant credit exposure), which was one of the weaker performing sectors for the period. The strongest performing sector during the period was tobacco, in which the Fund held limited exposure. Exposure to Puerto Rico debt detracted from performance as concerns about credit rating agency downgrades resulted in wider credit spreads (falling prices) for Puerto Rico municipal securities broadly.

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 January 31, 2013 (\$15.12) ¹	5.63%
Tax Equivalent Yield ²	9.95%
Current Monthly Distribution per Common Share ³	\$0.071
Current Annualized Distribution per Common Share ³	\$0.852
Economic Leverage as of January 31, 2013 ⁴	38%

¹ 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.

² Tax equivalent yield assumes the maximum marginal federal tax rate of 43.4%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

³ The distribution rate is not constant and is subject to change.

⁴ 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 4.

12

SEMI-ANNUAL REPORT

JANUARY 31, 2013

Table of Contents**BlackRock MuniYield New York Quality Fund, Inc.****Market Price and Net Asset Value**

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

	1/31/13	7/31/12	Change	High	Low
Market Price	\$ 15.12	\$ 15.11	0.07%	\$ 16.30	\$ 14.63
Net Asset Value	\$ 15.02	\$ 15.07	(0.33)%	\$ 15.50	\$ 14.81

The following charts show the sector allocation, credit quality allocation and call/maturity structure of the Fund's long-term investments:

Sector Allocation

	1/31/13	7/31/12
County/City/Special District/School District	28%	30%
Transportation	25	26
Education	14	13
State	13	10
Utilities	9	9
Health	6	6
Housing	3	3
Corporate	2	2
Tobacco		1

Call/Maturity Structure³

Calendar Year Ended December 31,

2013	7%
2014	9
2015	14
2016	5
2017	10

³ Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

Credit Quality Allocation¹

	1/31/13	7/31/12
AAA/Aaa	13%	13%
AA/Aa	49	48
A	27	29
BBB/Baa	8	9
BB/Ba	1	1
Not Rated ²	2	

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

¹ Using the higher of S&P's or Moody's ratings.

² The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of January 31, 2013 and July 31, 2012, the market value of these securities was \$10,262,109, representing 1%, and \$3,070,810, representing less than 1%, respectively, of the Fund's long-term investments.

SEMI-ANNUAL REPORT

JANUARY 31, 2013

13

Table of Contents**Fund Summary** as of January 31, 2013**BlackRock MuniYield Quality Fund III, Inc.****Fund Overview**

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

For the six-month period ended January 31, 2013, the Fund returned 1.86% based on market price and 3.98% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 3.22% based on market price and 4.25% based on NAV. All returns reflect reinvestment of dividends. The Fund's premium to NAV, which narrowed 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 positive performance was derived largely from income accrual as well as spread compression (price appreciation) in certain sectors, most notably in health and transportation. Exposure to capital appreciation bonds (zero coupons) also had a positive impact on results as spreads generally tightened in this segment. Fund performance was negatively impacted by rising interest rates during the period (bond prices fall as rates rise). Exposure to Puerto Rico debt detracted from performance as concerns about credit rating agency downgrades resulted in wider credit spreads (falling prices) for Puerto Rico municipal securities broadly.

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 January 31, 2013 (\$15.66) ¹	5.52%
Tax Equivalent Yield ²	9.75%
Current Monthly Distribution per Common Share ³	\$0.072
Current Annualized Distribution per Common Share ³	\$0.864
Economic Leverage as of January 31, 2013 ⁴	37%

¹ 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.

² Tax equivalent yield assumes the maximum marginal federal tax rate of 43.4%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

³ The distribution rate is not constant and is subject to change.

⁴ 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 4.

Table of Contents**BlackRock MuniYield Quality Fund III, Inc.****Market Price and Net Asset Value**

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

	1/31/13	7/31/12	Change	High	Low
Market Price	\$ 15.66	\$ 15.81	(0.95)%	\$ 16.54	\$ 15.06
Net Asset Value	\$ 15.49	\$ 15.32	1.11%	\$ 15.89	\$ 15.08

The following charts show the sector allocation, credit quality allocation and call/maturity structure of the Fund's long-term investments:

Sector Allocation

	1/31/13	7/31/12
Transportation	26%	27%
State	19	23
Utilities	16	16
County/City/Special District/School District	16	12
Health	9	9
Education	9	8
Housing	4	4
Corporate	1	1

Call/Maturity Structure²

Calendar Year Ended December 31,	
2013	4%
2014	10
2015	1
2016	6
2017	18

² Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

Credit Quality Allocation¹

	1/31/13	7/31/12
AAA/Aaa	10%	11%
AA/Aa	65	64
A	23	22
BBB/Baa	2	3

¹ Using the higher of S&P's or Moody's ratings.

Table of Contents**Schedule of Investments** January 31, 2013 (Unaudited)**BlackRock MuniHoldings Quality Fund II, Inc. (MUE)**

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Alabama 2.1%		
Birmingham Special Care Facilities Financing Authority, RB, Children s Hospital (AGC), 6.00%, 6/01/39	\$ 5,225	\$ 6,112,571
Selma IDB, RB, International Paper Co. Project, Series A, 5.38%, 12/01/35	940	1,039,019
		7,151,590
Arizona 2.8%		
Arizona Board of Regents, Refunding COP, University of Arizona, Series C, 5.00%, 6/01/28	4,180	4,848,591
Arizona Board of Regents, Refunding RB, Arizona State University System, Series A: 5.00%, 6/01/42	1,705	1,950,861
5.00%, 7/01/42	2,460	2,817,487
		9,616,939
California 14.4%		
California Educational Facilities Authority, RB, University of Southern California, Series A, 5.25%, 10/01/38	5,050	5,954,657
California Health Facilities Financing Authority, RB, Sutter Health, Series B, 6.00%, 8/15/42	2,865	3,443,186
City of San Jose California, Refunding ARB, Series A-1, AMT, 5.50%, 3/01/30	4,045	4,637,754
City of Sunnyvale California, Refunding RB, 5.25%, 4/01/40	2,800	3,232,712
County of Sacramento California, ARB, Senior Series A (AGC), 5.50%, 7/01/41	3,500	4,063,395
Emery Unified School District, GO, Election of 2010, Series A (AGM), 5.50%, 8/01/35	1,875	2,205,937
Los Angeles Community College District California, GO:		
Election of 2001, Series A (NPFGC), 5.00%, 8/01/32	5,000	5,717,950
Election of 2008, Series C, 5.25%, 8/01/39	2,000	2,426,560
Oceanside Unified School District California, GO, Series A (AGC), 5.25%, 8/01/33	1,675	1,876,503
Redondo Beach Unified School District, GO, Election of 2008, Series E, 5.50%, 8/01/34	2,670	3,194,094
San Bernardino Community College District, GO, Election of 2002, Series A, 6.25%, 8/01/33	2,165	2,623,504
San Francisco City & County Airports Commission, RB, Specialty Facility Lease, SFO Fuel, Series A, AMT (AGM), 6.10%, 1/01/20	1,250	1,254,238
	Par	
Municipal Bonds		
California (concluded)		
State of California, GO, Refunding:		
Various Purpose, 5.00%, 9/01/41	\$ 4,760	\$ 5,364,234
Veterans, Series BZ, AMT (NPFGC), 5.35%, 12/01/21	10	10,018
Ventura County Community College District, GO, Election of 2002, Series C, 5.50%, 8/01/33	3,175	3,766,153
		49,770,895
Colorado 1.6%		
City & County of Denver Colorado, Refunding ARB, Series B, 5.00%, 11/15/37	1,505	1,729,696
Colorado Health Facilities Authority, RB, Hospital, NCMC, Inc. Project, Series B (AGM), 6.00%, 5/15/26	3,300	3,923,733
		5,653,429
Florida 11.6%		
City of Jacksonville Florida, RB, Series A, 5.25%, 10/01/26	2,000	2,423,160
City of Jacksonville Florida, Refunding RB, Better Jacksonville, Series A, 5.00%, 10/01/30	1,885	2,199,248
County of Lee Florida, Refunding ARB, Series A, AMT, 5.38%, 10/01/32	2,500	2,809,025
County of Miami-Dade Florida Aviation, Refunding RB, Series A, AMT: 5.00%, 10/01/31	3,500	3,890,845
Miami International Airport, (AGM) 5.25%, 10/01/41	4,610	4,972,023
Miami International Airport, (AGM) 5.50%, 10/01/41	4,180	4,567,946
Jacksonville Florida Port Authority, Refunding RB, AMT, 5.00%, 11/01/38	2,215	2,407,174

Edgar Filing: BLACKROCK MUNIYIELD QUALITY FUND III, INC. - Form N-CSRS

Orange County School Board, COP, Series A (AGC), 5.50%, 8/01/34	7,600	8,792,212
Tohopekaliga Water Authority, Refunding RB, Series A, 5.25%, 10/01/36	6,965	8,129,757
		40,191,390
Idaho 0.1%		
Idaho Housing & Finance Association, RB, S/F Mortgage, Series E, AMT, 6.00%, 1/01/32	230	230,407
Illinois 14.1%		
Chicago Illinois Board of Education, GO, Refunding, Chicago School Reform Board, Series A (NPFGC), 5.50%, 12/01/26	895	1,110,077

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:

ACA	American Capital Access Corp.	HDA	Housing Development Authority
AGC	Assured Guaranty Corp.	HFA	Housing Finance Agency
AGM	Assured Guaranty Municipal Corp.	IDA	Industrial Development Authority
AMBAC	American Municipal Bond Assurance Corp.	IDB	Industrial Development Board
AMT	Alternative Minimum Tax (subject to)	IDRB	Industrial Development Revenue Bonds
ARB	Airport Revenue Bonds	ISD	Independent School District
BARB	Building Aid Revenue Bonds	LRB	Lease Revenue Bonds
BHAC	Berkshire Hathaway Assurance Corp.	MRB	Mortgage Revenue Bonds
BOCES	Board of Cooperative Educational Services	NPFGC	National Public Finance Guarantee Corp.
CAB	Capital Appreciation Bonds	PSF-GTD	Permanent School Fund Guaranteed
COP	Certificates of Participation	PILOT	Payment in Lieu of Taxes
EDA	Economic Development Authority	Q-SBLF	Qualified School Bond Loan Fund
EDC	Economic Development Corp.	RB	Revenue Bonds
ERB	Education Revenue Bonds	S/F	Single-Family
FHA	Federal Housing Administration	SONYMA	State of New York Mortgage Agency
GAB	Grant Anticipation Bonds	Syncora	Syncora Guarantee
GARB	General Airport Revenue Bonds		
GO	General Obligation Bonds		

See Notes to Financial Statements.

Table of Contents

Schedule of Investments (continued)

BlackRock MuniHoldings Quality Fund II, Inc. (MUE)

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Illinois (concluded)		
Chicago Illinois Board of Education, GO, Series A:		
5.50%, 12/01/39	\$ 3,405	\$ 3,980,479
5.00%, 12/01/42	4,710	5,165,881
Chicago Transit Authority, RB:		
Federal Transit Administration Section 5309, Series A (AGC), 6.00%, 6/01/26	3,400	3,951,038
Sales Tax Receipts, 5.25%, 12/01/36	1,060	1,223,367
Sales Tax Receipts, 5.25%, 12/01/40	3,135	3,589,638
City of Chicago Illinois, GARB, O Hare International Airport, Third Lien:		
Series A, 5.75%, 1/01/39	2,000	2,355,660
Series C, 6.50%, 1/01/41	9,085	11,748,268
City of Chicago Illinois, Refunding RB, Sales Tax Revenue, Series A, 5.25%, 1/01/38	1,310	1,511,373
Cook County Forest Preserve District, GO, Refunding:		
Limited Tax Project, Series B, 5.00%, 12/15/32	455	524,032
Unlimited Tax, Series C, 5.00%, 12/15/32	965	1,111,410
Metropolitan Pier & Exposition Authority, Refunding RB, McCormick Place Project, Series B, 5.00%, 12/15/28	3,400	3,979,122
Railsplitter Tobacco Settlement Authority, RB:		
5.50%, 6/01/23	2,350	2,795,701