

PIMCO MUNICIPAL INCOME FUND III
Form N-Q
February 15, 2006

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION
Washington, DC 20549**

FORM N-Q

OMB APPROVAL

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**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY**

Investment Company Act File Number: 811-21187

Registrant Name: PIMCO MUNICIPAL INCOME FUND III

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

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

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

Date of Fiscal Year End: September 30, 2006

Date of Reporting Period: December 31, 2005

Form N-Q is to be used by the registered management investment company, other than a small business investment company registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b 1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments

PIMCO Municipal Income Fund III

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Schedule of Investments
December 31, 2005 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|--|--|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES—89.8% | | | |
| Alabama—1.4% | | | |
| | Birmingham, GO, Ser. B (AMBAC), | | |
| \$1,000 | 5.00%, 12/1/27 | Aaa/AAA | \$ 1,034,150 |
| 2,560 | 5.00%, 12/1/32 | Aaa/AAA | 2,638,208 |
| 5,000 | Birmingham Baptist Medical Center Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/30, Ser. A | Baa1/NR | 4,874,650 |
| 1,500 | Colbert Cnty, Northwest Health Care Auth., Health Care Facs. Rev., 5.75%, 6/1/27 | Baa3/NR | 1,512,825 |
| | | | 10,059,833 |
| Alaska—0.7% | | | |
| | State Housing Finance Corp., Rev., | | |
| 3,900 | 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,968,874 |
| 1,000 | 5.25%, 6/1/32, Ser. C (MBIA) | Aaa/AAA | 1,012,880 |
| | | | 4,981,754 |
| Arizona—0.6% | | | |
| 2,200 | Health Facs. Auth. John C. Lincoln Health Network Rev., 7.00%, 12/1/25 (Pre-refunded @ \$102, 12/01/10) (a) | NR/BBB | 2,573,714 |
| 1,500 | Maricopa Cnty. Pollution Control Corp., Pollution Control Rev., 5.05%, 5/1/29 (AMBAC) | Aaa/AAA | 1,562,220 |
| | | | 4,135,934 |
| California—7.8% | | | |
| 1,000 | Alameda Public Financing Auth. Rev., 7.00%, 6/1/09 | NR/NR | 1,006,560 |
| 2,000 | Chula Vista Community Fac. Dist., Special Tax, 5.25%, 9/1/30 | NR/NR | 2,012,300 |
| | Golden State Tobacco Securitization Corp., Tobacco Settlement Rev., Ser. 2003-A-1, | | |
| 27,585 | 6.25%, 6/1/33 | Baa3/BBB | 30,033,720 |
| 21,000 | 6.75%, 6/1/39 | Baa3/BBB | 23,511,810 |
| | | | 56,564,390 |
| Colorado—2.7% | | | |
| | El Paso Cnty., CP (AMBAC), | | |
| 1,735 | 5.00%, 12/1/23, Ser. A | Aaa/AAA | 1,814,220 |
| 1,725 | 5.00%, 12/1/23, Ser. B | Aaa/AAA | 1,803,763 |
| 2,820 | 5.00%, 12/1/27, Ser. A | Aaa/AAA | 2,933,336 |
| 1,500 | 5.00%, 12/1/27, Ser. B | Aaa/AAA | 1,560,285 |
| 1,500 | Garfield Cnty. School Dist. Re-2, GO, 5.00%, 12/1/25 (FSA) | Aaa/NR | 1,563,915 |

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| | | | |
|-------|---|---------|------------|
| | La Plata Cnty. School Dist. No. 9-R, Durango, GO (MBIA) (Pre-refunded @ \$100, 11/1/12) (a), | | |
| 1,000 | 5.25%, 11/1/23 | Aaa/NR | 1,096,440 |
| 2,000 | 5.25%, 11/1/25 | Aaa/NR | 2,192,880 |
| 4,000 | Saddle Rock Met. Dist., GO, 5.35%, 12/1/31 (Radian) | NR/AA | 4,122,160 |
| 2,500 | School Mines Auxiliary Facs. Rev., 5.00%, 12/1/37 (AMBAC) | Aaa/AAA | 2,579,375 |
| | | | 19,666,374 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|---|--------------------------------|-------------|
| | Florida—6.5% | | |
| \$3,480 | Brevard Cnty. Health Facs. Auth. Rev., 5.00%, 4/1/34 | A2/A | \$3,504,708 |
| 8,000 | Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System, 5.25%, 11/15/23, Ser. B | A2/A+ | 8,360,000 |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital, 5.25%, 10/1/34, Ser. B | A3/NR | 2,586,525 |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special Assessment Rev., 5.00%, 5/1/29 (MBIA) | Aaa/AAA | 1,553,414 |
| 1,000 | Orange Cnty. Housing Finance Auth. Multifamily Rev., Palm Grove Gardens, 5.25%, 1/1/28, Ser. G | Aaa/NR | 1,028,840 |
| 15,000 | Pinellas Cnty. Health Facs. Auth. Rev., Baycare Health, 5.50%, 11/15/33 | A1/NR | 15,824,400 |
| 7,500 | South Miami Health Facs. Auth., Hospital Rev., Baptist Health, 5.25%, 11/15/33 | Aa3/AA- | 7,782,000 |
| 5,615 | Tampa, Water & Sewer Rev., 5.00%, 10/1/26, Ser. A | Aa2/AA | 5,845,833 |
| | | | 46,485,720 |
| | Georgia—0.6% | | |
| 4,000 | Griffin Combined Public Utility Rev., 5.00%, 1/1/32 (AMBAC) | Aaa/AAA | 4,188,680 |
| | Idaho—1.0% | | |
| | State Building Auth. Building Rev., Ser. A (XLCA) | | |
| 1,000 | 5.00%, 9/1/33 | Aaa/AAA | 1,036,430 |
| 5,750 | 5.00%, 9/1/43 | Aaa/AAA | 5,948,778 |
| | | | 6,985,208 |
| | Illinois—8.2% | | |

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| | | | |
|-------|---|---------|-----------|
| 2,250 | Chicago, GO, 5.00%, 1/1/31, Ser. A (MBIA) Chicago, Lake Shore East, Special Assessment, | Aaa/AAA | 2,321,573 |
| 1,600 | 6.625%, 12/1/22 | NR/NR | 1,734,752 |
| 3,456 | 6.75%, 12/1/32 | NR/NR | 3,750,797 |
| 5,000 | Chicago Board of Education, GO, 5.00%, 12/1/31, Ser. C (FSA) (Pre-refunded @ \$100,12/1/11) (a) | Aaa/AAA | 5,383,050 |
| 500 | Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC) | Aaa/AAA | 166,080 |
| 3,000 | Chicago Kingsbury Redev. Project, Tax Allocation, 6.57%, 2/15/13, Ser. A | NR/NR | 3,120,570 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) | Aaa/AAA | 7,242,900 |
| 4,000 | Chicago Park Dist., GO, 5.00%, 1/1/29, Ser. D (FGIC) | Aaa/AAA | 4,117,840 |
| 2,500 | Chicago Water Rev., 5.00%, 11/1/31 (AMBAC) (Pre-refunded @ \$100, 11/1/11) (a) | Aaa/AAA | 2,682,250 |
| 4,780 | 5.00%, 7/1/33 | Aa1/AA | 4,955,092 |
| 220 | 5.00%, 7/1/33 (Pre-refunded @ \$100, 7/1/13) (a) | Aa1/AA | 238,856 |
| 165 | 5.25%, 7/1/41 | Aa1/AA | 174,080 |
| 4,160 | 5.25%, 7/1/41 (Pre-refunded @ \$101, 7/1/11) (a) | Aa1/AA | 4,539,978 |
| 9,045 | Metropolitan Pier & Exposition Auth., Dedicated State Tax Rev., McCormick Place Expansion, 5.25%, 6/15/42 (MBIA) | Aaa/AAA | 9,545,912 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|--|--------------------------------|-------------|
| | Illinois (continued) | | |
| \$4,300 | Round Lake, Special Tax Rev., 6.70%, 3/1/33 | NR/NR | \$4,558,946 |
| 1,175 | State Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | A2/NR | 1,237,592 |
| 3,050 | University of Illinois Rev., 5.00%, 4/1/30, Ser. A (AMBAC) | Aaa/AAA | 3,137,474 |
| | Indiana—3.8% | | 58,907,742 |
| 7,535 | Bond Bank Rev., 5.00%, 2/1/33, Ser. A (FSA) | Aaa/AAA | 7,774,236 |
| 3,000 | Brownsburg 1999 School Building Corp. Rev., 5.25%, 3/15/25, Ser. A (FSA) (Pre-refunded @ \$100, 9/15/13) (a) | Aaa/AAA | 3,312,960 |

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| | | | |
|--------|--|----------|------------|
| 1,375 | Fort Wayne Pollution Control Rev., 6.20%, 10/15/25 | B1/B | 1,017,967 |
| 5,000 | Indianapolis Local Public Improvement Board, Tax Allocation, 5.00%, 2/1/29, Ser. G (MBIA) | Aaa/AAA | 5,174,350 |
| 2,500 | Michigan City Area Wide School Building Corp., Rev. (FGIC), zero coupon, 1/15/21 | Aaa/AAA | 1,265,900 |
| 1,000 | zero coupon, 7/15/21 | Aaa/AAA | 495,020 |
| 1,000 | zero coupon, 1/15/22 | Aaa/AAA | 480,920 |
| 1,000 | Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22 (AMBAC) | Aaa/AAA | 1,043,470 |
| 3,500 | State Dev. Finance Auth. Pollution Control Rev., 5.00%, 3/1/30 (AMBAC) | Aaa/AAA | 3,502,730 |
| 3,455 | Valparaiso, Middle Schools Building Corp. Rev., 5.00%, 7/15/24 (MBIA) | Aaa/AAA | 3,596,068 |
| | Iowa-1.5% | | 27,663,621 |
| 1,000 | Tobacco Settlement Auth., Tobacco Settlement Rev., 5.60%, 6/1/35, Ser. B (Pre-refunded @ \$101, 6/1/11) (a) | Baa3/AAA | 1,099,450 |
| 11,010 | Tobacco Settlement Auth. of Iowa Rev., zero coupon, 6/1/34, Ser. B | Baa3/BBB | 10,001,264 |
| | Kentucky-0.9% | | 11,100,714 |
| 1,000 | Economic Dev. Finance Auth. Hospital Facs. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30 | Aa3/AA- | 1,038,400 |
| 4,600 | St. Luke's Hospital, 6.00%, 10/1/19 | A3/A | 5,181,164 |
| | Louisiana-0.9% | | 6,219,564 |
| 5,000 | Public Facs. Auth. Rev., Ochsner Clinic Foundation, 5.50%, 5/15/32, Ser. B | A3/NR | 5,066,000 |
| 1,595 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | 1,673,681 |
| | Maryland-0.2% | | 6,739,681 |
| 1,500 | State Health & Higher Educational Facs. Auth. Rev., Calvert Health Systems, 5.50%, 7/1/36 | A2/NR | 1,590,735 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

Value*

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| Principal Amount (000) | | Credit Rating (Moody's/S&P) | |
|------------------------|---|-----------------------------|-------------|
| | Massachusetts—3.4% | | |
| \$1,000 | State Dev. Finance Agcy. Rev., 5.75%, 7/1/33, Ser. C | Baa1/BBB | \$1,063,440 |
| 7,000 | State Health & Educational Facs. Auth. Rev., Harvard Univ., 5.125%, 7/15/37, Ser. FF | Aaa/AAA | 7,317,450 |
| 4,910 | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,993,666 |
| 3,225 | State Water Pollution Abatement Trust, 5.00%, 8/1/32, Ser. 8 | Aaa/AAA | 3,351,065 |
| 7,555 | State Water Resources Auth. Rev., 5.00%, 8/1/32, Ser. J (FSA) | Aaa/AAA | 7,793,663 |
| | | | 24,519,284 |
| | Michigan—7.0% | | |
| 12,240 | Detroit Water Supply System, 5.00%, 7/1/34, Ser. B (MBIA) | Aaa/AAA | 12,743,798 |
| 5,000 | State Building Auth. Rev., 5.00%, 10/15/26, Ser. III (FSA) | Aaa/AAA | 5,212,550 |
| 175 | State Hospital Finance Auth. Rev., Detroit Medical Center, 5.25%, 8/15/23 | Ba3/BB- | 161,732 |
| 4,000 | Henry Ford Health System, 5.00%, 3/1/17 | A1/A | 4,158,160 |
| 5,405 | Oakwood Group, 5.75%, 4/1/32, Ser. A | A2/A | 5,708,653 |
| 575 | Oakwood Group, 6.00%, 4/1/22, Ser. A | A2/A | 626,255 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30 | Aa3/AA- | 21,040,200 |
| 1,000 | State Technical Univ., 5.00%, 10/1/33 (XLCA) | Aaa/AAA | 1,033,650 |
| | | | 50,684,998 |
| | Minnesota—0.3% | | |
| 2,400 | Upsala Independent School Dist. No. 487, GO, 5.00%, 2/1/28 (FGIC) | Aaa/AAA | 2,510,376 |
| | Mississippi—0.6% | | |
| 3,000 | Business Finance Corp., Pollution Control Rev., 5.875%, 4/1/22 | Ba1/BBB- | 3,046,500 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB- | 1,271,388 |
| | | | 4,317,888 |
| | Missouri—3.0% | | |
| 4,000 | Bi-State Dev. Agcy. Rev., Missouri Illinois Met. Dist., 5.00%, 10/1/32 (FSA) | Aaa/AAA | 4,161,040 |
| 1,350 | St. Louis Cnty. Industrial Dev. Auth., Housing Dev. Rev., 5.20%, 1/20/36 (GNMA) | NR/AAA | 1,380,226 |
| 1,500 | St. Louis Industrial Dev. Auth. Rev. (GNMA) 5.125%, 12/20/29 | NR/AAA | 1,542,360 |
| 1,500 | 5.125%, 12/20/30 | NR/AAA | 1,533,405 |
| 4,365 | State Environmental Impt. & Energy Resources Auth., Water Pollution Control Rev., 5.00%, 7/1/23, Ser. B | Aaa/NR | 4,604,333 |
| 7,500 | | A2/A | 8,478,000 |

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|--------|--|---------|------------|
| | State Health & Educational Facs. Auth., Health Facs., St. Anthony's Medical Center, 6.25%, 12/1/30 (Pre-refunded @ \$101, 12/1/10) (a) | | 21,699,364 |
| 11,250 | Montana-1.6% Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31 (AMBAC) | Aaa/AAA | 11,739,038 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|---------------------------|--|--------------------------------|------------------------|
| | Nevada-0.6% | | |
| \$3,355 | Henderson Health Care Fac. Rev., Catholic Healthcare West, 5.125%, 7/1/28 | A3/A- | \$3,374,325 |
| 980 | Henderson Local Impt. Dists., Special Assessment, 5.80%, 3/1/23 | NR/NR | 1,010,478 4,384,803 |
| | New Hampshire-0.7% | | |
| 1,500 | Manchester Water Works Rev. (FGIC), 5.00%, 12/1/28 | Aaa/AAA | 1,567,635 |
| 3,250 | 5.00%, 12/1/34 | Aaa/AAA | 3,376,685 4,944,320 |
| | New Jersey-4.7% | | |
| 1,000 | Camden Cnty., Improvement Auth., 5.00%, 2/15/35, Ser. A | Baa3/BBB | 986,360 |
| 1,540 | Camden Cnty., Improvement Auth. Rev., 6.00%, 2/15/27 (Pre-refunded @ 102, 2/15/07) (a) | Baa3/BBB | 1,612,904 |
| 4,500 | Economic Dev. Auth., Economic Dev. Rev., Kapkowski Rd. Landfill, 6.50%, 4/1/28 | Baa3/NR | 5,237,010 |
| 300 | Economic Dev. Auth., Industrial Dev. Rev., Newark Airport, 7.00%, 10/1/14 | Ba3/NR | 308,460 |
| | Health Care Facs. Financing Auth. Rev., | | |
| 3,000 | Pascack Valley Hospital, 6.625%, 7/1/36 | NR/B+ | 2,967,030 |
| 2,000 | Somerset Medical Center, 5.50%, 7/1/33 | Baa3/NR | 2,031,860 |
| 2,500 | Middlesex Cnty. Pollution Control Auth., Rev., 5.75%, 9/15/32 | Ba1/BBB- | 2,623,750 |
| 2,000 | South Port Corp., Rev., 5.10%, 1/1/33 | NR/A | 2,071,020 |
| 1,500 | State Educational Fac. Auth. Rev., Fairleigh Dickinson Univ., | NR/NR | 1,601,415 |

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| | | | |
|--------|--|----------|------------|
| | 6.00%, 7/1/25, Ser. D | | |
| | Tobacco Settlement Financing Corp. Rev., | | |
| 525 | 6.00%, 6/1/37 | Baa3/BBB | 544,136 |
| 1,000 | 6.125%, 6/1/24 | Baa3/BBB | 1,087,550 |
| 230 | 6.125%, 6/1/42 | Baa3/BBB | 241,196 |
| 350 | 6.25%, 6/1/43 | Baa3/BBB | 379,936 |
| 10,750 | 6.75%, 6/1/39 | Baa3/BBB | 12,000,332 |
| | | | 33,692,959 |
| | New Mexico—0.1% | | |
| 1,000 | Farmington Pollution Control Rev., 5.80%, 4/1/22 | Baa2/BBB | 1,012,710 |
| | New York—5.5% | | |
| 10,000 | Metropolitan Transportation Auth. Rev., 5.25%, 11/15/32, Ser. B | A2/A | 10,600,100 |
| | New York City Municipal Water Finance Auth., Water & Sewer System Rev., | | |
| 5,000 | 5.00%, 6/15/35, Ser. C | Aa2/AA+ | 5,188,150 |
| 1,500 | 5.00%, 6/15/39, Ser. A | Aa2/AA+ | 1,551,105 |
| | State Dormitory Auth. Rev., | | |
| 11,590 | Memorial Sloan-Kettering Center, 5.00%, 7/1/34, Ser. 1 | Aa2/AA | 11,932,600 |
| 4,000 | Saint Barnabas Hospital, 5.125%, 2/1/22, Ser. A (AMBAC-FHA) | Aaa/AAA | 4,238,720 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|--|--------------------------------|-------------|
| | New York (continued) | | |
| \$3,800 | State Personal Income Tax, 5.00%, 3/15/32 (Pre-refunded @ \$100, 3/15/13) (a) | A1/AA | \$4,121,822 |
| 2,000 | State Environmental Facs. Corp. Rev., 5.00%, 6/15/28 | Aaa/AAA | 2,093,520 |
| | | | 39,726,017 |
| | North Carolina—1.6% | | |
| 2,000 | Charlotte-Mecklenburg Hospital Auth., Healthcare System Rev., 5.00%, 1/15/33, Ser. A | Aa3/AA | 2,056,020 |
| | Eastern Municipal Power Agcy, Power System Rev., | | |
| 2,000 | 5.125%, 1/1/23, Ser. D | Baa2/BBB | 2,069,380 |
| 2,000 | 5.125%, 1/1/26, Ser. D | Baa2/BBB | 2,056,120 |
| 3,795 | 5.375%, 1/1/17, Ser. C | Baa2/BBB | 4,034,275 |
| 1,500 | Medical Care Commission, Health Care Facs. Rev., Cleveland Cnty., 5.00%, 7/1/35 (AMBAC) | Aaa/AAA | 1,553,490 |

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| | | | |
|-------|---|----------|-------------------------|
| | | | 11,769,285 |
| | Ohio–0.4% | | |
| 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | Aa3/AA– | 2,606,575 |
| | Oklahoma–0.5% | | |
| 3,500 | Tulsa Cnty. Industrial Auth. Rev., Legacy Apartments, 4.90%, 11/20/46 (FHA-GNMA) | Aaa/NR | 3,534,965 |
| | Pennsylvania–3.8% | | |
| 4,350 | Allegheny Cnty. Hospital Dev. Auth. Rev., 9.25%, 11/15/30, Ser. B | Ba3/B+ | 5,158,882 |
| 1,500 | Cumberland Cnty. Auth. Retirement Community Rev., Wesley Affiliated Services, 7.25%, 1/1/35, Ser. A | NR/NR | 1,613,190 |
| 3,250 | Delaware River Joint Toll Bridge, Commission Bridge Rev., 5.00%, 7/1/28 | A2/A– | 3,377,465 |
| 3,000 | Lehigh Cnty. General Purpose Auth. Rev., St. Luke's Bethlehem Hospital, 5.375%, 8/15/33 | Baa1/BBB | 3,089,460 |
| 5,000 | Philadelphia School Dist., GO, 5.125%, 6/1/34, Ser. D (FGIC) | Aaa/AAA | 5,273,750 |
| 2,500 | Radnor Township School Dist., GO, 5.00%, 2/15/35, Ser. B (FSA) | Aaa/NR | 2,618,425 |
| 6,300 | St. Mary Hospital Auth., Bucks Cnty. Rev., 5.00%, 12/1/28 (Partially pre-refunded 6/1/08 @ \$101) (a) | Aa2/NR | 6,318,207 27,449,379 |
| | Puerto Rico–0.3% | | |
| 2,200 | Electric Power Auth., Power Rev., 5.125%, 7/1/29, Ser. NN | A3/A– | 2,266,836 |
| | South Carolina–2.1% | | |
| 7,500 | Florence Cnty. Rev., McLeod Regional Medical Center, 11/1/31, Ser. A (FSA) | Aaa/AAA | 7,814,475 |
| 6,700 | Jobs Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30 | A3/A– | 6,971,819 14,786,294 |
| | Tennessee–0.2% | | |
| 1,250 | Knox Cnty. Health Educational & Housing Facs. Board Hospital Facs. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30 | Aa3/AA– | 1,300,938 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

Value*

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| Principal Amount (000) | | Credit Rating (Moody's/S&P) | |
|------------------------|--|-----------------------------|-------------|
| | Texas-10.8% | | |
| \$4,135 | Canyon Independent School Dist., GO, 5.00%, 2/15/28, Ser. A (PSF-GTD) | NR/AAA | \$4,290,021 |
| 2,500 | Columbia & Brazoria Independent School Dist., GO, 5.00%, 8/1/29 (PSF-GTD) | NR/AAA | 2,595,625 |
| 1,300 | Comal Cnty. Health Facs., McKenna Memorial Hospital Project Rev., 6.25%, 2/1/32 Denton Independent School Dist., GO | Baa3/BBB- | 1,382,225 |
| 6,000 | zero coupon, 8/15/26 (PSF-GTD) | Aaa/AAA | 1,980,480 |
| 6,000 | zero coupon, 8/15/27 (PSF-GTD) | Aaa/AAA | 1,862,280 |
| 5,000 | zero coupon, 8/15/28 (PSF-GTD) | Aaa/AAA | 1,460,050 |
| 6,000 | zero coupon, 8/15/29 (PSF-GTD) | Aaa/AAA | 1,648,980 |
| 2,000 | zero coupon, 8/15/30 (PSF-GTD) | Aaa/AAA | 516,900 |
| 8,000 | zero coupon, 8/15/31 (PSF-GTD) | Aaa/AAA | 1,945,280 |
| 4,400 | Harris Cnty., GO, 5.125%, 8/15/31 (Pre-refunded @ \$100, 8/15/12) (a) | Aa1/AA+ | 4,751,164 |
| 5,000 | Harris Cnty. Health Facs. Dev. Corp. Rev., Christus Health, 5.375%, 7/1/29, Ser. A, (MBIA) (Pre-refunded @ \$101, 7/1/09) (a) | Aaa/AAA | 5,366,750 |
| 2,750 | St. Luke's Episcopal Hospital, 5.375%, 2/15/26, Ser. A (Pre-refunded @ \$100, 8/15/11) (a) | NR/AA- | 2,992,990 |
| 19,500 | Harris Cnty. Rev., 5.125%, 8/15/32 (FSA) | Aaa/AAA | 20,347,860 |
| 4,005 | Houston, GO, 5.00%, 3/1/25 (MBIA) | Aaa/AAA | 4,170,366 |
| 5,000 | Houston Water & Sewer System Rev., 5.00%, 12/1/30, Ser. A (FSA) (Pre-refunded @ \$100, 12/1/12) (a) | Aaa/AAA | 5,364,400 |
| 7,000 | Judson Independent School Dist., GO, 5.00%, 2/1/30 (PSF-GTD) | Aaa/NR | 7,195,230 |
| 415 | Leander Independent School Dist., GO, 5.00%, 8/15/32 (PSF-GTD) | NR/AAA | 428,649 |
| 3,825 | Mesquite Independent School Dist. No. 1, GO, Ser. A (PSF-GTD) zero coupon, 8/15/15 | NR/AAA | 2,541,254 |
| 1,365 | zero coupon, 8/15/16 | NR/AAA | 841,468 |
| 1,000 | zero coupon, 8/15/18 | NR/AAA | 551,070 |
| 1,000 | zero coupon, 8/15/19 | NR/AAA | 521,280 |
| 1,000 | zero coupon, 8/15/20 | NR/AAA | 493,580 |
| 2,105 | Northwest Harris Cnty. Municipal Utility Dist. No. 16, GO, 5.30%, 10/1/29 (Radian) | NR/AA | 2,170,571 |
| 2,000 | University of Texas, 5.00%, 7/1/26, Ser. B | Aaa/AAA | 2,101,580 |
| | Utah-0.8% | | 77,520,053 |
| 1,750 | County of Weber, IHC Health Services Rev., 5.00%, 8/15/30 | Aa1/AA+ | 1,784,195 |
| 4,100 | | Aaa/AAA | 4,253,135 |

Salt Lake Cnty. Hospital Rev., IHC Health
Services, 5.125%, 2/15/33 (AMBAC)

6,037,330

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|---|--------------------------------|-------------|
| | Washington—4.9% | | |
| \$6,375 | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aaa/AAA | \$6,629,745 |
| 3,000 | Port Seattle, Rev., 5.00%, 9/1/24 (FGIC) | Aaa/AAA | 3,123,780 |
| 23,545 | Tobacco Settlement Auth., Tobacco Settlement Rev., 6.50%, 6/1/26 | Baa3/BBB | 25,315,349 |
| | | | 35,068,874 |
| | Wisconsin—0.1% | | |
| 560 | Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17 | Baa3/BBB | 586,902 |
| | Total Municipal Bonds & Notes (cost—\$608,488,255) | | 647,449,138 |
| | VARIABLE RATE NOTES (b)(c)(d)—9.9% | | |
| | Arizona—0.2% | | |
| 1,000 | Salt River Project Agricultural Improvement & Power Dist. Rev., 9.95%, 1/1/35, Ser. 1227 | Aa2/NR | 1,252,750 |
| | Colorado—0.4% | | |
| 2,490 | City of Colorado Springs, 8.919%, 11/15/30, Ser. 457 | Aa2/NR | 2,875,751 |
| | Florida—0.4% | | |
| 2,554 | State Department of Transportation Turnpike Rev., 8.67%, 7/1/31, Ser. 1128 | Aa2/NR | 2,788,457 |
| | Illinois—0.3% | | |
| 1,990 | Dev. Finance Auth., Gas Supply Rev., 8.395%, 2/1/33 (AMBAC) | NR/NR | 2,295,564 |
| | Michigan—1.8% | | |
| | Detroit Water Supply System | | |
| 5,720 | 8.259%, 1/1/11 (MBIA) | NR/AAA | 7,069,977 |
| 4,990 | 8.580%, 7/1/11 (FSA) | NR/AAA | 6,264,346 |
| | | | 13,334,323 |
| | New York—2.8% | | |
| 7,770 | Liberty Dev. Corp. Rev., 8.20%, 10/1/35, Ser. 1183 | Aa3/NR | 10,951,349 |

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| | | | |
|-------|---|--------|------------|
| 1,636 | New York City Municipal Water Finance Auth., Water & Sewer System Rev., 9.95%, 6/15/37, Ser. 1226 | Aa2/NR | 1,954,038 |
| 6,000 | State Dormitory Auth., Univ. & College Impt., 9.95%, 3/15/35, Ser. 1216 | AA/NR | 7,117,200 |
| | Ohio—0.5% | | 20,022,587 |
| 1,000 | Ohio Air Quality Dev. Auth. (FGIC) , 8.95%, 1/1/34, Ser. 1219 | Aaa/NR | 1,068,500 |
| 2,075 | 8.95%, 1/1/34, Ser. 1223 | Aaa/NR | 2,216,972 |
| | Texas—1.9% | | 3,285,472 |
| 1,705 | Crowley Independent School Dist., GO, 7.68%, 8/1/35, Ser. 1171 (PSF-GTD) | Aaa/NR | 1,815,757 |
| 2,450 | Dallas Area Rapid Transit Rev., 7.684%, 12/1/32 (FGIC) | NR/NR | 2,869,758 |

PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (concluded)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|--|--------------------------------|-------------|
| | Texas (continued) | | |
| \$2,028 | Denton Independent School Dist., GO, 9.91%, 8/15/33, Ser. 951 (PSF-GTD) | Aaa/NR | \$2,348,453 |
| 1,870 | Mansfield Independent School Dist., GO, 8.370%, 2/15/28 (PSF-GTD) | NR/NR | 2,318,015 |
| 2,000 | Sabine River Auth. Rev., 5.20%, 5/1/28 | Baa2/BBB- | 2,015,620 |
| 2,060 | University of Texas Rev., 7.847%, 8/15/33 | NR/NR | 2,457,807 |
| | Washington—1.6% | | 13,825,410 |
| | King Cnty., Sewer Rev., | | |
| 1,520 | 8.489%, 7/1/11 (FGIC) | NR/AAA | 1,873,400 |
| 3,000 | 9.95%, 1/1/35, Ser. 1200 (FSA) | NR/NR | 3,421,500 |
| 3,655 | Port Tacoma, GO, 8.073%, 12/1/33 (AMBAC) | NR/NR | 4,424,853 |
| 1,510 | Seattle Drain & Wastewater Rev., 8.516%, 7/1/10 (FGIC) | NR/NR | 1,816,998 |
| | Total Variable Rate Notes (cost—\$65,515,839) | | 11,536,751 |
| | | | 71,217,065 |
| | | U.S. TREASURY BILLS (f)—0.3% | |
| 2,355 | 3.81%-3.88%, 3/2/06-3/16/06 (cost—\$2,336,880) | | 2,336,880 |
| | | | 721,003,083 |

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Total Investments before options written
(cost-\$676,340,974)-100.0%

OPTIONS WRITTEN (e)-(0.0)%

Contracts

| | | |
|---|-------------------------------------|----------------------|
| Call Options-(0.0)% | | |
| U.S. Treasury Notes 10 yr. Futures, Chicago Board of Trade, | | |
| 256 | strike price \$110, expires 2/24/06 | (140,000) |
| 478 | strike price \$111, expires 2/24/06 | (119,500) |
| | | (259,500) |
| Put Options-(0.0)% | | |
| U.S. Treasury Notes 10 yr. Futures, Chicago Board of Trade, | | |
| 275 | strike price \$106, expires 2/24/06 | (21,484) |
| 478 | strike price \$107, expires 2/24/06 | (74,688) |
| | | (96,172) |
| Total Options Written (premiums received-\$482,376) | | (355,672) |
| Total Investments net of options written (cost-\$675,858,598)-100.0% | | \$720,647,411 |

Notes to the Schedule of Investments:

* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security may be fair-valued, in good faith, pursuant to guidelines established by the Board of Trustees. The Fund's investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or are valued at the last sale price on the exchange that is the primary market for such securities, or the last quoted bid price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. The independent pricing service uses information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Exchange traded options and futures are valued at the settlement price determined by the relevant exchange. Short-term investments maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold. The Fund's net asset value is determined daily at the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange on each day the exchange is open for business.

(a) Pre-refunded bonds are collateralized by U.S. Government or other eligible securities which are held in escrow and used to pay principal and interest and retire the bonds at the earliest refunding

date.

- (b) 144A Security – Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (c) Residual Interest/Tax Exempt Municipal Bonds – The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index.
- (d) Variable Rate Notes – instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on December 31, 2005.
- (e) Non-income producing.
- (f) All or partial amount segregated as initial margin on futures contracts or collateral for options written.

Glossary:

AMBAC – insured by American Municipal Bond Assurance Corp.

CP – Certificates of Participation

CR – Custodian Receipt

FGIC – insured by Financial Guaranty Insurance Co.

FHA – insured by Federal Housing Administration

FSA – insured by Financial Security Assurance, Inc.

GNMA – insured by Government National Mortgage Association

GO – General Obligation Bond

GTD – Guaranteed

MBIA – insured by Municipal Bond Investors Assurance

NR – Not Rated

PSF – Public School Fund

Radian – insured by Radian Guaranty, Inc.

XLCA – insured by XL Capital Assurance

Other Investments:

- (1) Futures contracts outstanding at December 31, 2005:

| Type | Notional Amount (000) | Expiration Date | Unrealized Appreciation (Depreciation) |
|-----------------------------------|-----------------------------|--------------------|--|
| Long: U.S. Treasury Notes 5 yr. | | | |
| Futures | \$ 99,200 | 3/22/06 | \$ 8,297 |
| Short: U.S. Treasury Bond Futures | (162,000) | 3/22/06 | (3,575,672) |
| U.S. Treasury Note 10 yr. Futures | (17,900) | 3/22/06 | (177,797) |
| | | | \$ (3,745,172) |

(2) Transactions in options written for the twelve months ended December 31, 2005:

| | Contracts | Premiums |
|---|-----------|------------|
| Options outstanding, September 30, 2005 | 2,494 | \$ 682,598 |
| Options written | 1,487 | 482,376 |
| Options expired | (2,494) | (682,598) |
| Options outstanding, December 31, 2005 | 1,487 | \$ 482,376 |

Item 2. Controls and Procedures

(a) The registrant's President and Chief Executive Officer and Principal Financial Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal controls or in factors that could affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 3. Exhibits

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

SIGNATURES

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

Registrant: PIMCO Municipal Income Fund III

By /s/ Brian S. Shlissel

President & Chief Executive Officer

Date: February 15, 2006

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: February 15, 2006

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

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date: February 15, 2006

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: February 15, 2006
