

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

OMB Number:  
3235-0578  
Expires: February 28,  
2006  
Estimated average burden  
hours per response: 20.0

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.

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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*
<b>MUNICIPAL BONDS &amp; NOTES—89.8%</b>			
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

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Schedule of Investments

December 31, 2005 (unaudited) (continued)

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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

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PIMCO Municipal Income Fund III

Schedule of Investments

December 31, 2005 (unaudited) (continued)

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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
3,000	Health Care Facs. Financing Auth. Rev., 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