

PIMCO MUNICIPAL INCOME FUND III
Form N-Q
August 28, 2007

OMB APPROVAL

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

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, 2007

Date of Reporting Period: June 30, 2007

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
 Schedule of Investments
 June 30, 2007 (unaudited)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|-------------------------------|---|--------------------------------|--------------|
| MUNICIPAL BONDS & NOTES—97.8% | | | |
| | Alabama—1.1% | | |
| \$ 1,000 | Birmingham, GO, Ser. B (AMBAC) (a), 5.00%, 12/1/27, (Pre-refunded @ \$100, 12/1/12) | Aaa/AAA | \$ 1,046,160 |
| 2,560 | 5.00%, 12/1/32, (Pre-refunded @ \$100, 8/15/12) | Aaa/AAA | 2,678,170 |
| 5,000 | Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/30, Ser. A | Baa1/NR | 4,986,050 |
| 1,500 | Colbert Cnty., Northwest Health Care Auth., Health Care Facs. Rev., 5.75%, 6/1/27 | Baa3/NR | 1,528,980 |
| | | | 10,239,360 |
| | Alaska—0.5% | | |
| 3,900 | State Housing Finance Corp. Rev., 5.00%, 12/1/33, Ser. A | Aaa/AAA | 3,941,964 |
| 1,000 | 5.25%, 6/1/32, Ser. C (MBIA) | Aaa/AAA | 1,008,090 |
| | | | 4,950,054 |
| | Arizona—2.8% | | |
| 2,200 | Health Facs. Auth. Rev., John C. Lincoln Health Network, 7.00%, 12/1/25, (Pre-refunded @ \$102, 12/1/10) (a) | NR/BBB | 2,449,502 |
| 1,500 | Maricopa Cnty. Pollution Control Corp., Pollution Control Rev., 5.05%, 5/1/29 (AMBAC) | Aaa/AAA | 1,542,135 |
| | Salt River Project Agricultural Improvement & Power Dist. Rev, Ser. A (h) | | |
| 5,000 | 5.00%, 1/1/35 | Aa1/AA | 5,171,200 |
| 16,000 | 5.00%, 1/1/37 | Aa1/AA | 16,536,320 |
| | | | 25,699,157 |
| | Arkansas—0.1% | | |
| 7,000 | Arkansas Dev. Finance Auth. Rev., zero coupon, 7/1/46 (AMBAC) | Aaa/NR | 997,640 |
| | California—7.3% | | |
| 1,000 | Alameda Public Financing Auth. Rev., 7.00%, 6/1/09 | NR/NR | 999,750 |
| 2,000 | Chula Vista Community Facs. Dist., Special Tax, | NR/NR | 2,004,580 |

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| | | | |
|--------|--|----------|------------|
| | 5.25%, 9/1/30 | | |
| | Golden State Tobacco Securitization Corp., Tobacco Settlement Rev., | | |
| 8,000 | 5.00%, 6/1/33, Ser. A-1 | Baa3/BBB | 7,762,240 |
| 27,585 | 6.25%, 6/1/33, Ser. 2003-A-1 | Aaa/AAA | 30,035,100 |
| 21,000 | 6.75%, 6/1/39, Ser. 2003-A-1, (Pre-refunded @ \$100, 6/1/13) (a) | Aaa/AAA | 24,009,930 |
| 3,060 | Statewide Community Dev. Auth. Rev., Baptist Univ., | | |
| | 9.00%, 11/1/17, Ser. B (b) | NR/NR | 3,079,706 |
| | | | 67,891,306 |
| | Colorado-3.2% | | |
| 1,000 | Aurora Single Tree Metropolitan Dist., GO, 5.50%, 11/15/31 | NR/NR | 978,780 |
| 9,955 | Colorado Springs Rev., 5.00%, 11/15/30, Ser. B (h) | Aa2/AA | 10,194,020 |
| 1,735 | El Paso Cnty., CP (AMBAC), 5.00%, 12/1/23, Ser. A, (Pre-refunded @ \$100, 12/1/12) (a) | Aaa/AAA | 1,819,390 |
| 1,725 | 5.00%, 12/1/23, Ser. B | Aaa/AAA | 1,778,423 |
| 2,820 | 5.00%, 12/1/27, Ser. A, (Pre-refunded @ \$100, 12/1/12) (a) | Aaa/AAA | 2,957,165 |
| 1,500 | 5.00%, 12/1/27, Ser. B | Aaa/AAA | 1,541,370 |
| 1,500 | Garfield Cnty. School Dist. Re-2, GO, 5.00%, 12/1/25 (FSA) | Aaa/NR | 1,544,280 |

PIMCO Municipal Income Fund III
Schedule of Investments
June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|--|--------------------------------|--------------|
| | Colorado-(continued) | | |
| \$ 2,000 | La Plata Cnty. School Dist. No. 9-R, Durango, GO, 5.25%, 11/1/25, (Pre-refunded @ \$100, 11/1/12) (MBIA) (a) | Aaa/NR | \$ 2,119,640 |
| 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian) | NR/AA | 4,073,520 |
| 2,500 | School Mines Auxiliary Facs. Rev., 5.00%, 12/1/37 (AMBAC) | Aaa/AAA | 2,549,675 |
| | | | 29,556,263 |
| | Florida-5.4% | | |
| 3,480 | Brevard Cnty. Health Facs. Auth. Rev., 5.00%, 4/1/34 | A2/A | 3,482,158 |
| 8,000 | Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System, 5.25%, 11/15/23, Ser. | A1/A+ | 8,422,640 |

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| | | | |
|--------|--|---------|------------|
| | B, (Pre-refunded @ \$100, 11/15/12) (a) | | |
| 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital, 5.25%, 10/1/34, Ser. B | A3/NR | 2,526,275 |
| 1,485 | Julington Creek Plantation Community Dev. Dist., Special Assessment, 5.00%, 5/1/29 (MBIA) | Aaa/AAA | 1,524,857 |
| 1,000 | Orange Cnty. Housing Finance Auth., Multifamily Rev., Palm Grove Gardens, 5.25%, 1/1/28, Ser. G | Aaa/NR | 1,021,480 |
| 15,000 | Pinellas Cnty. Health Fac. Auth. Rev., Baycare Health, 5.50%, 11/15/33, (Pre-refunded @ \$100, 5/15/13) (a) | Aa3/NR | 16,115,850 |
| 3,895 | Sarasota Cnty. Health Fac. Auth. Rev., 5.75%, 7/1/45 (c) | NR/NR | 3,778,150 |
| 7,500 | South Miami Health Facs. Auth., Hospital Rev., Baptist Health, 5.25%, 11/15/33, (Pre-refunded @ \$100, 2/1/13) (a) | Aaa/AA- | 7,921,725 |
| 5,615 | Tampa, Water & Sewer Rev., 5.00%, 10/1/26, Ser. A | Aa2/AA | 5,749,592 |
| | | | 50,542,727 |
| | Georgia-0.6% | | |
| 1,750 | Fulton Cnty. Rev., 5.125%, 7/1/42, Ser. A | NR/NR | 1,715,123 |
| 4,000 | Griffin Combined Public Utility Rev., 5.00%, 1/1/32 (AMBAC) | Aaa/AAA | 4,136,200 |
| | | | 5,851,323 |
| | Idaho-0.7% | | |
| | State Building Auth., Building Rev., Ser. A (XLCA), | | |
| 1,000 | 5.00%, 9/1/33 | Aaa/AAA | 1,025,170 |
| 5,750 | 5.00%, 9/1/43 | Aaa/AAA | 5,865,920 |
| | | | 6,891,090 |
| | Illinois-8.6% | | |
| 2,250 | Chicago, GO, 5.00%, 1/1/31, Ser. A (MBIA) | Aaa/AAA | 2,290,680 |
| 1,600 | Chicago, Lake Shore East, Special Assessment, 6.625%, 12/1/22 | NR/NR | 1,715,504 |
| 3,456 | 6.75%, 12/1/32 | NR/NR | 3,706,975 |
| 5,000 | Chicago Board of Education, GO, 5.00%, 12/1/31, Ser. C, (Pre-refunded @ \$100,12/1/11) (FSA) (a) | Aaa/AAA | 5,208,150 |
| 500 | Chicago Board of Education School Reform, GO, zero coupon, 12/1/28, Ser. A (FGIC) | Aaa/AAA | 179,635 |
| 3,000 | Chicago Kingsbury Redev. Project, Tax Allocation, 6.57%, 2/15/13, Ser. A | NR/NR | 3,058,860 |
| 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A (AMBAC) | Aaa/AAA | 7,137,760 |
| 4,000 | Chicago Park Dist., GO, 5.00%, 1/1/29, Ser. D (FGIC) | Aaa/AAA | 4,072,280 |
| 2,500 | Chicago Water Rev., 5.00%, 11/1/31, (Pre-refunded @ \$100, 11/1/11) (AMBAC) (a) | Aaa/AAA | 2,602,225 |

PIMCO Municipal Income Fund III
Schedule of Investments
June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|---------------------------|--|--------------------------------|--------------|
| | Illinois--(continued) | | |
| \$ 1,500 | Dev. Finance Auth. Rev., 5.50%, 5/15/37 | NR/NR | \$ 1,501,590 |
| 2,000 | 5.75%, 5/15/31, Ser. A | NR/NR | 2,025,360 |
| 1,000 | 5.875%, 3/1/27, Ser. A (c) | NR/NR | 1,002,460 |
| 1,050 | People's Gas, 5.00%, 2/1/33 (AMBAC) (h) | Aaa/AAA | 12,999,592 |
| 12,795 | Three Crowns Park Plaza, 5.875%, 2/15/38 | NR/NR | 1,082,896 |
| 4,780 | Educational Facs. Auth. Rev., Univ. of Chicago, 5.00%, 7/1/33 | Aa1/AA | 4,886,594 |
| 220 | 5.00%, 7/1/33, (Pre-refunded @ \$100, 7/1/13) (a) | Aa1/AA | 231,134 |
| 165 | 5.25%, 7/1/41 | Aa1/AA | 170,922 |
| 4,160 | 5.25%, 7/1/41, (Pre-refunded @ \$101, 7/1/11) (a) | Aa1/AA | 4,388,683 |
| 1,175 | Health Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | A2/NR | 1,222,317 |
| 9,045 | Metropolitan Pier & Exposition Auth., Dedicated State Tax Rev., McCormick Place Expansion, 5.25%, 6/15/42 (MBIA) | Aaa/AAA | 9,395,132 |
| 4,283 | Round Lake, Special Tax Rev., 6.70%, 3/1/33, (Pre-refunded @ \$102, 3/1/13) (a) | NR/NR | 4,821,330 |
| 2,935 | Springfield Rev., 5.00%, 3/1/35 (MBIA) | Aaa/AAA | 3,019,998 |
| 3,050 | Univ. Rev., 5.00%, 4/1/30, Ser. A (AMBAC) | Aaa/AAA | 3,095,445 |
| | | | 79,815,522 |
| | Indiana--3.0% | | |
| 7,535 | Bond Bank Rev., 5.00%, 2/1/33, Ser. A (FSA) | Aaa/AAA | 7,712,901 |
| 3,000 | Brownsburg 1999 School Building Corp. Rev., 5.25%, 3/15/25, Ser. A, (Pre-refunded @ \$100, 9/15/13) (FSA) (a) | Aaa/AAA | 3,202,080 |
| 1,375 | Fort Wayne Pollution Control Rev., 6.20%, 10/15/25 | Caa1/B- | 1,417,323 |
| 5,000 | Indianapolis Local Public Improvement Board, Tax Allocation, 5.00%, 2/1/29, Ser. G (MBIA) | Aaa/AAA | 5,119,350 |
| 2,500 | Michigan City Area Wide School Building Corp., Rev. (FGIC), zero coupon, 1/15/21 | Aaa/AAA | 1,342,400 |
| 1,000 | zero coupon, 7/15/21 | Aaa/AAA | 524,750 |
| 1,000 | zero coupon, 1/15/22 | Aaa/AAA | 510,650 |
| 1,000 | Plainfield Parks Facs. Corp. Lease Rent Rev., 5.00%, 1/15/22, (AMBAC) | Aaa/AAA | 1,028,740 |
| 1,000 | Portage Industrial Economic Dev. Rev., 5.00%, 7/15/23 | NR/BBB+ | 1,011,580 |

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|--------|--|----------|------------|
| 775 | 5.00%, 1/15/27 | NR/BBB+ | 777,278 |
| 3,500 | State Dev. Finance Auth., Pollution Control Rev., 5.00%, 3/1/30 (AMBAC) | Aaa/AAA | 3,502,170 |
| 2,000 | Vigo Cnty. Hospital Auth. Rev., 5.70%, 9/1/37 (b)(c) | NR/NR | 2,016,700 |
| | | | 28,165,922 |
| | Iowa-1.4% | | |
| 1,000 | Coralville, CP, 5.25%, 6/1/26, Ser. D | A2/B+ | 1,030,060 |
| 11,010 | Tobacco Settlement Auth. of Iowa Rev., Ser. B, zero coupon, 6/1/34 | Baa3/BBB | 11,232,402 |
| 1,000 | 5.60%, 6/1/35, (Pre-refunded @ \$101, 6/1/11) (a) | NR/AAA | 1,065,850 |
| | | | 13,328,312 |

PIMCO Municipal Income Fund III
Schedule of Investments
June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------------|---|--------------------------------|--------------|
| | Kentucky-0.2% | | |
| | Economic Dev. Finance Auth., Hospital Facs. Rev., | | |
| \$ 1,000 | Catholic Healthcare Partners, 5.25%, 10/1/30 | Aa3/AA- | \$ 1,026,140 |
| 1,140 | St. Luke's Hospital, 6.00%, 10/1/19, Ser. B | A3/A | 1,239,362 |
| | | | 2,265,502 |
| | Louisiana-0.7% | | |
| 5,000 | Public Facs. Auth. Rev., Ochsner Clinic Foundation, 5.50%, 5/15/32, Ser. B | A3/NR | 5,158,600 |
| 1,595 | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | 1,698,101 |
| | | | 6,856,701 |
| | Maryland-0.2% | | |
| | State Health & Higher Educational Facs. Auth. Rev., | | |
| 1,500 | Calvert Health Systems, 5.50%, 7/1/36 | A2/NR | 1,568,955 |
| 500 | King Farm Presbyterian, 5.30%, 1/1/37 | NR/NR | 504,450 |
| | | | 2,073,405 |
| | Massachusetts-2.6% | | |
| 1,000 | State Dev. Finance Agcy. Rev., 5.75%, 7/1/33, Ser. C | A3/BBB+ | 1,057,050 |
| 7,000 | State Health & Educational Facs. Auth. Rev., Harvard Univ., 5.125%, 7/15/37, Ser. FF | Aaa/AAA | 7,239,330 |
| 4,910 | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H | Aa3/AA- | 4,963,764 |
| 3,225 | State Water Pollution Abatement Trust Rev., 5.00%, 8/1/32, Ser. 8 | Aaa/AAA | 3,306,109 |

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| 7,555 | State Water Res. Auth. Rev., 5.00%, 8/1/32, Ser. J (FSA) | Aaa/AAA | 7,707,158 |
| | | | 24,273,411 |
| | Michigan-12.9% | | |
| 500 | Corner Creek Academy East Rev., 5.25%, 11/1/36 | A1/BB+ | 488,265 |
| 250 | Crescent Academy, CP, 5.75%, 12/1/36 | NR/NR | 252,400 |
| 33,040 | Detroit Water Supply System Rev., 5.00%, 7/1/32, Ser. A (FSA) (h) | Aaa/AAA | 33,776,792 |
| 35,000 | 5.00%, 7/1/34, Ser. A (MBIA) (h) | Aaa/AAA | 35,928,200 |
| 7,555 | 5.00%, 7/1/34, Ser. B (MBIA) | Aaa/AAA | 7,755,358 |
| 3,685 | 5.00%, 7/1/34, Ser. B (MBIA), (Pre-refunded @ \$100, 7/1/13) (a) | Aaa/AAA | 3,871,498 |
| 5,000 | State Building Auth. Rev., 5.00%, 10/15/26, Ser. III, (Pre-refunded @ \$100, 10/15/12) (FSA) (a) | Aaa/AAA | 5,230,650 |
| | State Hospital Finance Auth. Rev., | | |
| 175 | Detroit Medical Center, 5.25%, 8/15/23 | Ba3/BB- | 168,903 |
| 4,000 | Henry Ford Health System, 5.00%, 3/1/17, (Pre-refunded @ \$100, 3/1/13) (a) | A1/A | 4,177,800 |
| | Oakwood Group, Ser. A, | | |
| 5,405 | 5.75%, 4/1/32 | A2/A | 5,631,956 |
| 575 | 6.00%, 4/1/22 | A2/A | 612,467 |
| 20,000 | Trinity Health Credit, 5.375%, 12/1/30 | Aa2/AA- | 20,743,200 |
| 1,000 | State Technical Univ. Rev., 5.00%, 10/1/33 (XLCA) | Aaa/AAA | 1,023,450 |
| | | | 119,660,939 |

PIMCO Municipal Income Fund III
 Schedule of Investments
 June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------|--|-----------------------------|------------|
| | Minnesota-0.3% | | |
| \$ 750 | Cottage Grove Rev., 5.00%, 12/1/31 | NR/NR | \$ 724,328 |
| 2,400 | Upsala Independent School Dist. No. 487, GO, 5.00%, 2/1/28 (FGIC) | Aaa/AAA | 2,505,336 |
| | | | 3,229,664 |
| | Mississippi-0.5% | | |
| 3,000 | Business Finance Corp., Pollution Control Rev., 5.875%, 4/1/22 | Ba1/BBB | 3,005,160 |
| 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,253,075 |
| | | | 4,258,235 |
| | Missouri-2.4% | | |
| 4,000 | Bi-State Dev. Agcy. Rev., Missouri Illinois Metropolitan Dist., 5.00%, 10/1/32 (FSA) | Aaa/AAA | 4,114,040 |

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| 1,350 | St. Louis Cnty. Industrial Dev. Auth., Housing Dev. Rev., 5.20%, 1/20/36 (GNMA) | NR/AAA | 1,371,654 |
| 1,500 | St. Louis Industrial Dev. Auth. Rev. (GNMA), 5.125%, 12/20/29 | NR/AAA | 1,531,425 |
| 1,500 | 5.125%, 12/20/30 | NR/AAA | 1,524,210 |
| 4,365 | State Environmental Improvement & Energy Res. Auth., Water Pollution Control Rev., 5.00%, 7/1/23, Ser. B | Aaa/NR | 4,510,791 |
| 7,500 | State Health & Educational Facs. Auth., Health Facs. Rev., St. Anthony's Medical Center, 6.25%, 12/1/30, (Pre-refunded @ \$101, 12/1/10) (a) | A2/A | 8,119,950 |
| 250 | Township of Jennings Rev., 5.00%, 11/1/23 | NR/NR | 245,660 |
| 500 | Univ. Place Transportation Dev. Dist., Special Assessment, 5.00%, 3/1/32 (c) | NR/NR | 492,305 |
| | Montana-1.3% | | 21,910,035 |
| 11,250 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31 (AMBAC) | Aaa/AAA | 11,602,350 |
| | Nevada-0.5% | | |
| 3,355 | Henderson Health Care Fac. Rev., Catholic Healthcare West, 5.125%, 7/1/28, (Pre-refunded @ \$101, 7/1/08) (a) | A2/A | 3,430,722 |
| 855 | Henderson Local Improvement Dist., Special Assessment, 5.80%, 3/1/23 | NR/NR | 881,693 |
| | New Hampshire-0.5% | | 4,312,415 |
| 1,500 | Manchester Water Works Rev. (FGIC), 5.00%, 12/1/28 | Aaa/AAA | 1,548,015 |
| 3,250 | 5.00%, 12/1/34 | Aaa/AAA | 3,341,260 |
| | New Jersey-3.6% | | 4,889,275 |
| 1,000 | Camden Cnty., Improvement Auth. Rev., Cooper Health System, 5.00%, 2/15/35, Ser. A | Baa3/BBB | 998,460 |

PIMCO Municipal Income Fund III
 Schedule of Investments
 June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------|------------------------|-----------------------------|--------|
| | New Jersey-(continued) | | |

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| | Economic Dev. Auth., | | |
| \$ 4,500 | Kapkowski Road Landfill, Special Assessment, 6.50%, 4/1/28 | Baa3/NR | \$ 5,368,905 |
| 300 | Newark Airport Rev., 7.00%, 10/1/14 | Ba1/NR | 305,229 |
| 2,500 | Health Care Facs. Financing Auth. Rev., Middlesex Cnty. Pollution Control Auth., 5.75%, 9/15/32 | Baa3/BBB- | 2,645,500 |
| 3,000 | Pascack Valley Hospital, 6.625%, 7/1/36 | Caa1/CCC | 2,827,200 |
| 2,000 | Somerset Medical Center, 5.50%, 7/1/33 | Ba1/NR | 2,044,960 |
| 2,000 | South Port Corp., 5.10%, 1/1/33 | NR/A | 2,042,960 |
| 1,150 | Trinitas Hospital, 5.25%, 7/1/30, Ser. A | Baa3/BBB- | 1,160,408 |
| 1,500 | State Educational Facs. Auth. Rev., 6.00%, 7/1/25, Ser. D | NR/NR | 1,616,970 |
| 525 | Tobacco Settlement Financing Corp. Rev., 6.00%, 6/1/37, (Pre-refunded @ \$100, 6/1/12) (a) | Aaa/AAA | 571,084 |
| 1,000 | 6.125%, 6/1/24 | Aaa/AAA | 1,059,790 |
| 230 | 6.125%, 6/1/42, (Pre-refunded @ \$100, 6/1/12) (a) | Aaa/AAA | 251,673 |
| 350 | 6.25%, 6/1/43, (Pre-refunded @ \$100, 6/1/13) (a) | Aaa/AAA | 390,456 |
| 10,750 | 6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (a) | Aaa/AAA | 12,272,630 |
| | | | 33,556,225 |
| | New Mexico-0.1% | | |
| 1,000 | Farmington Pollution Control Rev., 5.80%, 4/1/22 | Baa2/BBB | 1,007,450 |
| | New York-4.7% | | |
| 10,000 | Metropolitan Transportation Auth. Rev., 5.25%, 11/15/32, Ser. B, (Pre-refunded @ \$100, 11/15/13) (a) | A2/AAA | 10,718,600 |
| | New York City Municipal Water Finance Auth., Water & Sewer System Rev., | | |
| 5,000 | 5.00%, 6/15/35, Ser. C | Aa2/AA+ | 5,126,550 |
| 8,180 | 5.00%, 6/15/37, Ser. D (h) | Aa2/AA+ | 8,406,422 |
| 1,500 | 5.00%, 6/15/39, Ser. A | Aa2/AA+ | 1,535,280 |
| | State Dormitory Auth. Rev., | | |
| 11,590 | Sloan-Kettering Center Memorial, 5.00%, 7/1/34, Ser. 1 | Aa2/AA | 11,848,457 |
| 3,800 | State Personal Income Tax, 5.00%, 3/15/32, (Pre-refunded @ \$100, 3/15/13) (a) | Aa3/AAA | 3,999,500 |
| 2,000 | State Environmental Facs. Corp. Rev., 5.00%, 6/15/28 | Aaa/AAA | 2,068,460 |
| | | | 43,703,269 |
| | North Carolina-1.3% | | |
| 2,000 | Charlotte-Mecklenburg Hospital Auth., Healthcare System Rev., 5.00%, 1/15/33, Ser. A | Aa3/AA | 2,035,700 |
| | Eastern Municipal Power Agcy., Power System Rev., | | |
| 2,000 | 5.125%, 1/1/23, Ser. D | Baa2/BBB | 2,044,580 |
| 2,000 | 5.125%, 1/1/26, Ser. D | Baa2/BBB | 2,039,720 |
| 3,795 | 5.375%, 1/1/17, Ser. C | Baa2/BBB | 3,973,669 |
| 1,500 | Medical Care Commission, Health Care Facs. Rev., Cleveland Cnty., 5.00%, 7/1/35 (AMBAC) | Aaa/AAA | 1,535,505 |

PIMCO Municipal Income Fund III
 Schedule of Investments
 June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------|--|-----------------------------|--------------|
| | Ohio-0.8% | | |
| \$ 2,500 | Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | Aa3/AA- | \$ 2,584,400 |
| 5,000 | Ohio Air Quality Dev. Auth. Rev., 4.80%, 1/1/34, Ser. B (FGIC) (h) | Aaa/AAA | 5,016,450 |
| | | | 7,600,850 |
| | Oklahoma-0.1% | | |
| 1,085 | Tulsa Cnty. Industrial Auth. Rev., Legacy Apartments, 4.90%, 11/20/46 (FHA-GNMA) | Aaa/NR | 1,079,304 |
| | Pennsylvania-3.2% | | |
| 3,500 | Allegheny Cnty. Hospital Dev. Auth. Rev., 5.375%, 11/15/40, Ser. A | Ba2/BB | 3,496,500 |
| 4,350 | 9.25%, 11/15/30, Ser. B, (Pre-refunded @ \$102, 11/15/10) (a) | Ba3/CCC+ | 5,128,302 |
| 1,500 | Cumberland Cnty. Auth., Retirement Community Rev., Wesley Affiliated Services, 7.25%, 1/1/35, Ser. A, (Pre-refunded @ \$101, 1/1/13) (a) | NR/NR | 1,735,725 |
| 3,250 | Delaware River Toll Bridge, Commission Bridge Rev., 5.00%, 7/1/28 | A2/A- | 3,327,610 |
| 1,250 | Harrisburg Auth. Rev., 6.00%, 9/1/36 | NR/NR | 1,285,300 |
| 3,000 | Lehigh Cnty. General Purpose Auth. Rev., St. Luke's Bethlehem Hospital, 5.375%, 8/15/33, (Pre-refunded @ \$100, 8/15/13) (a) | Baa1/BBB | 3,208,140 |
| 5,000 | Philadelphia School Dist., GO, 5.125%, 6/1/34, Ser. D, (Pre-refunded @ \$100, 6/1/14) (FGIC) (a) | Aaa/AAA | 5,323,900 |
| 6,300 | St. Mary Hospital Auth., Bucks Cnty. Rev., 5.00%, 12/1/28, (Partially Pre-refunded @ \$101, 6/1/08) (a) | Aa2/NR | 6,067,278 |
| | | | 29,572,755 |
| | Puerto Rico-0.3% | | |
| 2,200 | Electric Power Auth. Power Rev., 5.125%, 7/1/29, Ser. NN, (Pre-refunded @ \$100, 7/1/13) (a) | A3/BBB+ | 2,333,056 |
| | South Carolina-1.6% | | |
| 7,500 | Florence Cnty. Rev., McLeod Regional Medical Center, 5.00%, 11/1/31, Ser. A (FSA) | Aaa/AAA | 7,726,575 |
| 6,700 | Jobs Economic Dev. Auth. Rev., Bon Secours Health System, 5.625%, 11/15/30 | A3/A- | 6,964,516 |

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| | | | |
|-------|--|-----------|------------|
| | | | 14,691,091 |
| | South Dakota-0.2% | | |
| 1,705 | Minnehaha Cnty. Health Facs. Rev., Bethany Lutheran, 5.375%, 12/1/27 (c)(d) | NR/NR | 1,705,580 |
| | Tennessee-0.1% | | |
| 1,250 | Knox Cnty. Health Educational & Housing Facs., Board Hospital Facs. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30 | Aa3/AA- | 1,285,013 |
| | Texas-14.6% | | |
| 4,135 | Canyon Independent School Dist., GO, 5.00%, 2/15/28, Ser. A, (Pre-refunded @ \$100, 2/15/13) (PSF-GTD) (a) | NR/AAA | 4,332,364 |
| 2,500 | Columbia & Brazoria Independent School Dist., GO, 5.00%, 8/1/29 (PSF-GTD) | NR/AAA | 2,555,025 |
| 1,300 | Comal Cnty. Health Facs. Dev., McKenna Memorial Hospital Project Rev., 6.25%, 2/1/32 | Baa2/BBB- | 1,402,336 |

PIMCO Municipal Income Fund III
 Schedule of Investments
 June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------|---|-----------------------------|--------------|
| | Texas-(continued) | | |
| \$ 6,810 | Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD) (h) | Aaa/AAA | \$ 6,767,982 |
| 12,975 | Dallas Area Rapid Transit Rev., 5.00%, 12/1/32, (Pre-refunded @ \$100, 12/1/12) (FGIC) (a)(h) | Aaa/AAA | 13,586,771 |
| | Denton Independent School Dist., GO (PSF-GTD), | | |
| 255 | zero coupon, 8/15/26 | Aaa/AAA | 90,267 |
| 5,745 | zero coupon, 8/15/26, (Pre-refunded @ \$44.73, 8/15/12) (a) | Aaa/AAA | 2,075,841 |
| 255 | zero coupon, 8/15/27 | Aaa/AAA | 85,017 |
| 5,745 | zero coupon, 8/15/27, (Pre-refunded @ \$42.17, 8/15/12) (a) | Aaa/AAA | 1,957,034 |
| 215 | zero coupon, 8/15/28 | Aaa/AAA | 67,532 |
| 4,785 | zero coupon, 8/15/28, (Pre-refunded @ \$39.75, 8/15/12) (a) | Aaa/AAA | 1,536,463 |
| 255 | zero coupon, 8/15/29 | Aaa/AAA | 75,409 |
| 5,745 | zero coupon, 8/15/29, (Pre-refunded @ \$37.46, 8/15/12) (a) | Aaa/AAA | 1,738,437 |
| 85 | zero coupon, 8/15/30 | Aaa/AAA | 23,672 |
| 1,915 | zero coupon, 8/15/30, (Pre-refunded @ \$35.30, 8/15/12) (a) | Aaa/AAA | 546,005 |

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| | | | |
|--------|---|---------|-------------|
| 340 | zero coupon, 8/15/31 | Aaa/AAA | 89,155 |
| 7,660 | zero coupon, 8/15/31, (Pre-refunded @ \$33.25, 8/15/12) (a) | Aaa/AAA | 2,057,476 |
| 10,286 | 5.00%, 8/15/33 (h) | NR/NR | 10,484,804 |
| 4,400 | Harris Cnty., GO, 5.125%, 8/15/31, (Pre-refunded @ \$100, 8/15/12) (a) | Aa1/AA+ | 4,618,284 |
| 5,000 | Harris Cnty. Health Facs. Dev. Corp. Rev., Christus Health, 5.375%, 7/1/29, Ser. A, (Pre-refunded @ \$101, 7/1/09) (MBIA) (a) | Aaa/AAA | 5,189,050 |
| 2,750 | St. Luke's Episcopal Hospital, 5.375%, 2/15/26, Ser. A, (Pre-refunded @ \$100, 8/15/11) (a) | NR/AAA | 2,894,045 |
| 19,500 | Harris Cnty. Rev., 5.125%, 8/15/32, (Pre-refunded @ \$100, 5/1/13) (FSA) (a) | Aaa/AAA | 20,485,725 |
| 4,005 | Houston, GO, 5.00%, 3/1/25 (MBIA) | Aaa/AAA | 4,094,792 |
| 5,000 | Houston Water & Sewer System Rev., 5.00%, 12/1/30, Ser. A, (Pre-refunded @ \$100, 12/1/12) (FSA) (a) | Aaa/AAA | 5,230,800 |
| | Judson Independent School Dist., GO (PSF-GTD), | | |
| 465 | 5.00%, 2/1/30 | NR/NR | 471,966 |
| 6,535 | 5.00%, 2/1/30, (Pre-refunded @ \$100, 2/1/11) (a) | NR/NR | 6,759,150 |
| 11,950 | Mansfield Independent School Dist., GO, 5.00%, 2/15/28 (PSF-GTD) (h) | Aaa/AAA | 12,207,164 |
| | Mesquite Independent School Dist. No. 1, GO, Ser. A (PSF-GTD), | | |
| 1,365 | zero coupon, 8/15/16 | NR/AAA | 906,019 |
| 1,000 | zero coupon, 8/15/18 | NR/AAA | 598,910 |
| 1,000 | zero coupon, 8/15/19 | NR/AAA | 566,860 |
| 1,000 | zero coupon, 8/15/20 | NR/AAA | 537,480 |
| 2,105 | Northwest Harris Cnty. Municipal Utility Dist. No. 16, GO, 5.30%, 10/1/29 (Radian) | NR/AA | 2,144,911 |
| 2,000 | Sabine River Auth. Rev., 5.20%, 5/1/28 | Baa2/BB | 2,005,200 |
| 4,000 | State, GO, 4.75%, 4/1/36 | Aa1/AA | 3,962,560 |
| | Univ. Rev., Ser. B, | | |
| 2,000 | 5.00%, 7/1/26, (Pre-refunded @ \$100, 7/1/14) (a) | Aaa/AAA | 2,112,140 |
| 11,115 | 5.00%, 8/15/33 (h) | Aaa/AAA | 11,366,755 |
| | | | 135,623,401 |

PIMCO Municipal Income Fund III
 Schedule of Investments
 June 30, 2007 (unaudited) (continued)

| Principal Amount (000) | | Credit Rating (Moody's/S&P) | Value* |
|------------------------|-----------|-----------------------------|--------------|
| \$ 1,750 | Utah-0.7% | Aa1/AA+ | \$ 1,769,337 |

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| | | | |
|--------|--|----------|------------------------------------|
| | Cnty. of Weber, IHC Health Services Rev., 5.00%, 8/15/30 | | |
| 4,100 | Salt Lake Cnty. Hospital Rev., IHC Health Services, 5.125%, 2/15/33 (AMBAC) | Aaa/AAA | 4,205,452 |
| 750 | Spanish Fork City Rev., 5.70%, 11/15/36 | NR/NR | 761,355 |
| | | | 6,736,144 |
| | Washington—9.6% | | |
| 6,375 | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aaa/AAA | 6,554,138 |
| 15,000 | King Cnty. Sewer Rev., Ser. A (h), 5.00%, 1/1/35 (FSA) | Aaa/AAA | 15,271,200 |
| 10,000 | 5.00%, 1/1/35 (FGIC) | Aaa/AAA | 10,217,800 |
| 21,625 | Port Tacoma, GO, 5.00%, 12/1/33, (Pre-refunded @ \$100, 12/1/13) (AMBAC) (a)(h) | Aaa/AAA | 22,785,614 |
| 10,000 | Seattle Drain & Wastewater Rev., 5.00%, 7/1/32 (FGIC) (h) | Aaa/AAA | 10,212,200 |
| 22,575 | Tobacco Settlement Auth., Tobacco Settlement Rev., 6.50%, 6/1/26 | Baa3/BBB | 24,527,060 |
| | | | 89,568,012 |
| | Wisconsin—0.1% | | |
| 560 | Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17 | Baa3/BBB | 600,398 |
| | Total Municipal Bonds & Notes (cost—\$869,783,248) | | 909,952,330 |
| | | | VARIABLE RATE NOTES (b)(e)(f)—2.0% |
| | Florida—0.3% | | |
| 2,554 | State Turnpike Auth. Rev., 7.86%, 7/1/31, Ser. 1450 | Aa2/A+ | 2,562,300 |
| | New York—1.5% | | |
| 4,660 | Liberty Dev. Corp. Rev., 10.40%, 10/1/35, Ser. 1451 | Aa3/BBB+ | 6,612,074 |
| 6,000 | State Dormitory Auth. Rev., Univ. & College Improvement., 9.03%, 3/15/35, Ser. 1216 | NR/AAA | 6,925,200 |
| | | | 13,537,274 |
| | Ohio—0.2% | | |
| 2,075 | Ohio Air Quality Dev. Auth. Rev. (FGIC), 7.99%, 1/1/34, Ser. 1223 | Aaa/AAA | 2,109,092 |
| | Pennsylvania—0.0% | | |
| 350 | Washington Cnty. Redev. Auth., Tax Allocation, 5.45%, 7/1/35, Ser. A | NR/NR | 352,545 |
| | Total Variable Rate Notes (cost—\$18,757,456) | | 18,561,211 |
| | | | U.S. TREASURY BILLS (g)—0.2% |
| 1,855 | 4.39%-4.75%, 8/30/07-9/13/07 (cost—\$1,837,574) | | 1,837,574 |
| | Total Investments (cost—\$890,378,278)— 100.0% | | \$ 930,351,115 |

Notes to 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, are 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 by using the last sale price on the exchange that is the primary market for such securities, or the quoted mean 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. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Exchange traded options and futures are valued at the settlement price determined by the relevant exchange. Securities purchased on a when-issued or delayed delivery basis are marked to market daily until settlement at the forward settlement value. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold. The Fund's net asset value is normally determined daily as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange ("NYSE") on each day the NYSE 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 (payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate).
 - (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) When-issued or delayed-delivery security. To be settled/delivered after June 30, 2007.
 - (d) Fair-valued security – Security with an aggregate value of \$1,705,580, representing 0.18% of total investments, has been fair valued.
 - (e) Inverse Floater – The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index.
 - (f) 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 June 30, 2007.
 - (g) All or partial amount segregated as collateral for futures contracts.
 - (h) Residual Interest Bonds held in trust – Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.

Glossary:

AMBAC – insured by American Municipal Bond Assurance Corp.

CP – Certificates of Participation

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 June 30, 2007:

| Type | Contracts | Market Value (000) | Expiration Date | Unrealized Appreciation (Depreciation) |
|--------------------------------------|-----------|-----------------------|-----------------|---|
| Long: Financial Future Euro – 90 day | 57 | \$ 13,490 | 9/17/07 | \$ (60,450) |
| Financial Future Euro – 90 day | 57 | 13,497 | 12/17/07 | (54,750) |
| Financial Future Euro – 90 day | 57 | 13,508 | 3/17/08 | (42,638) |
| U.S. Treasury Note 5 yr. Futures | 812 | 84,511 | 9/28/07 | (393,312) |
| Short: U.S. Treasury Bond Futures | (1,685) | (181,559) | 9/19/07 | 1,802,999 |
| U.S. Treasury Note 10 yr. Futures | (190) | (20,084) | 9/19/07 | 175,157 |
| | | | | \$ 1,427,006 |

(2) Transactions in options written for the nine months ended June 30, 2007:

| | Contracts | Premiums |
|---|-----------|-----------|
| Options outstanding, September 30, 2006 | 484 | \$ 89,177 |
| Options written | 310 | 129,774 |
| Options expired | (794) | (218,951) |
| Options outstanding, June 30, 2007 | — | \$ — |

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 Act (17CFR270.3A-3(c)), 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 changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR270.30a-3(d)) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits

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

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: August 28, 2007

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: August 28, 2007

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: August 28, 2007

By /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: August 28, 2007
