

PIMCO MUNICIPAL INCOME FUND III

Form N-Q

February 29, 2008

OMB APPROVAL

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, NY 10105

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

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

Date of Fiscal Year End: September 30, 2008

Date of Reporting Period: December 31, 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 30b1-5 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

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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
 December 31, 2007 (unaudited)

| Amount (000) Credit Rating (Moody's/S&P) Value* | Principal |
|---|---|
| MUNICIPAL BONDS & NOTES—97.6% | |
| Alabama—1.1% | |
| Birmingham, GO, Ser. B, (Pre-refunded @ \$100, 12/1/12) (AMBAC)(b), Aaa/AAA \$ 1,079,250 2,560 5.00%, 12/1/32 Aaa/AAA 2,762,880 5,000 | \$ 1,000 5.00%, 12/1/27 Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/30, Ser. A Baa1/NR 4,561,450 1,500 |
| Colbert Cnty., Northwest Health Care Auth., Health Care Facs. Rev., 5.75%, 6/1/27 Baa3/NR 1,457,250 | 9,860,830 |
| Alaska—0.8% | |
| 3,100 Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A Baa3/NR 2,550,277 | |
| State Housing Finance Corp. Rev., 3,900 5.00%, 12/1/33, Ser. A Aaa/AAA 3,902,964 1,000 5.25%, 6/1/32, Ser. C (MBIA) Aaa/AAA 1,001,410 | 7,454,651 |
| Arizona—3.1% | |
| 2,200 Health Facs. Auth. Rev., 2,250 Beatitudes Project, 5.20%, 10/1/37 NR/NR 1,851,705 | |
| John C. Lincoln Health Network, 2,473,724 1,500 7.00%, 12/1/25, (Pre-refunded @ \$102, 12/1/10) (b) NR/BBB Maricopa Cnty. Pollution Control Corp., Pollution Control Rev., 5.05%, 5/1/29 (AMBAC) Aaa/AAA 1,542,540 Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (i), 5,000 5.00%, 1/1/35 Aa1/AA 5,200,300 16,000 5.00%, 1/1/37 Aa1/AA 16,629,920 | 27,698,189 |
| Arkansas—0.1% | |
| 7,000 Arkansas Dev. Finance Auth. Rev., zero coupon, 7/1/46 (AMBAC) Aaa/NR | 991,130 |
| California—6.7% | |
| 1,000 Alameda Public Financing Auth. Rev., 7.00%, 6/1/09 NR/NR 999,260 2,000 Chula Vista Community Facs. Dist., Special Tax, 5.25%, 9/1/30 NR/NR 1,776,860 Golden State Tobacco Securitization Corp., Tobacco Settlement Rev., Ser. A, 27,585 6.25%, 6/1/33 Aaa/AAA 30,272,882 21,000 6.75%, | |

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| | | | | |
|--|----------------------|------------|-------|--------------------------------|
| 6/1/39, (Pre-refunded @ \$100, 6/1/13) (b) | Aaa/AAA | 24,279,570 | 3,060 | Statewide Community Dev. Auth. |
| | Rev., Baptist Univ., | | | |
| 9.00%, 11/1/17, Ser. B (c) | NR/NR | 3,186,776 | | 60,515,348 |

Colorado-3.4%

| | | | | | | |
|--|--|----------------|-----------|----------|-------|--------|
| 1,000 | Aurora Single Tree Metropolitan Dist., GO, 5.50%, 11/15/31 | NR/NR | 939,320 | Colorado | | |
| School of Mines Aux. Facs. Rev. (AMBAC), | 340 | 5.00%, 12/1/37 | Aaa/AAA | 347,850 | 2,160 | 5.00%, |
| | 12/1/37, (Pre-refunded @ \$100, 12/1/12) (b) | Aaa/AAA | 2,331,180 | | | |

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | Amount (000) | Credit Rating (Moody's/S&P) Value* | Principal |
|---|---|---------------------------------------|---|
| Colorado--(continued) | | | |
| \$ 9,955 Colorado Springs Rev., 5.00%, 11/15/30, Ser. B (i) Aa2/AA | \$ 10,248,573 | 500 | Confluence |
| Metropolitan Dist. Rev, 5.45%, 12/1/34 NR/NR | 431,945 | | El Paso Cnty., CP (AMBAC), 1,735 |
| 5.00%, 12/1/23, Ser. A, (Pre-refunded @ \$100, 12/1/12) (b) Aaa/AAA | 1,872,499 | 1,725 | 5.00%, 12/1/23, Ser. |
| B Aaa/AAA 1,791,775 2,820 | 5.00%, 12/1/27, Ser. A, (Pre-refunded @ \$100, 12/1/12) (b) Aaa/AAA | | |
| 3,043,485 1,500 | 5.00%, 12/1/27, Ser. B Aaa/AAA | 1,545,960 | 1,500 Garfield Cnty. School Dist. Re-2, |
| GO, 5.00%, 12/1/25 (FSA) Aaa/NR | 1,554,690 | 1,000 | Health Facs. Auth. Rev., American Baptist Homes, |
| 5.90%, 8/1/37, Ser. A NR/NR | 915,450 | 1,500 | Housing & Finance Auth. Rev., Evergreen Country Day School, |
| 5.875%, 6/1/37 (c) NR/BB | 1,436,280 | 4,000 | Saddle Rock Metropolitan Dist., GO, 5.35%, 12/1/31 (Radian) |
| | NR/AA | 4,012,360 | 30,471,367 |
| Florida--5.7% | | | |
| 3,480 Brevard Cnty. Health Facs. Auth. Rev., 5.00%, 4/1/34 A2/A | 3,323,156 | 8,000 | Highlands Cnty. |
| Health Facs. Auth. Rev., Adventist Health System, 5.25%, 11/15/23, Ser. B, (Pre-refunded @ \$100, 11/15/12) (b) | | | |
| A1/A+ 8,643,120 2,500 | Hillsborough Cnty. Industrial Dev. Auth. Rev., Tampa General Hospital, 5.25%, | | |
| 10/1/34, Ser. B A3/NR | 2,433,250 | 1,485 | Julington Creek Plantation Community Dev. Dist., Special |
| Assessment Rev., 5.00%, 5/1/29 (MBIA) Aaa/AAA | 1,527,516 | 1,000 | Orange Cnty. Housing Finance Auth., |
| Multifamily Rev., Palm Grove Gardens, 5.25%, 1/1/28, Ser. G Aaa/NR | 1,012,280 | 15,000 | Pinellas Cnty. |
| Health Facs. Auth. Rev., Baycare Health, 5.50%, 11/15/33, (Pre-refunded @ \$100, 5/15/13) (b) Aa3/NR | | | |
| 16,563,000 3,895 | Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/45 NR/NR | 3,471,536 | 7,500 South |
| Miami Health Facs. Auth., Hospital Rev., Baptist Health, 5.25%, 11/15/33, (Pre-refunded @ \$100, 2/1/13) (b) | | | |
| Aaa/AA- 8,137,950 5,615 | Tampa Water & Sewer Rev., 5.00%, 10/1/26 Aa2/AA | 5,791,311 | |
| | | | 50,903,119 |
| Georgia--0.6% | | | |
| 1,750 Fulton Cnty. Rev., 5.125%, 7/1/42, Ser. A NR/NR | 1,424,623 | 4,000 | Griffin Combined Public |
| Utility Rev., 5.00%, 1/1/32 (AMBAC) Aaa/AAA | 4,143,080 | | 5,567,703 |
| Idaho--0.8% | | | |
| State Building Auth., Building Rev., Ser. A (XLCA), | | 1,000 | 5.00%, 9/1/33 Aaa/AAA |
| 1,021,810 5,750 | 5.00%, 9/1/43 Aaa/AAA | 5,854,190 | 6,876,000 |
| Illinois--6.1% | | | |

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Chicago, GO, Ser. A (MBIA), 1,530 5.00%, 1/1/31, (Pre-refunded @ \$101, 1/1/11) (b)
Aaa/AAA 1,623,682 720 5.00%, 1/1/31 Aaa/AAA 733,810

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | | | | Principal | |
|---|--|--|--|---|--|---|----------------|
| | | (000) | Credit Rating | | | | |
| | | (Moody's/S&P) Value* | | | | | |
| Illinois--(continued) | | | | | | | |
| Chicago, Lake Shore East, Special Assessment, | | \$ 1,600 | 6.625%, 12/1/22 | NR/NR | \$ 1,646,656 | | |
| 3,456 | 6.75%, 12/1/32 | NR/NR | 3,551,489 | 500 | Chicago Board of Education School Reform, GO, zero | | |
| coupon, 12/1/28, Ser. A (FGIC) | Aaa/AAA | 176,600 | 3,000 | Chicago Kingsbury Redev. Project, Tax Allocation, | | | |
| 6.57%, 2/15/13, Ser. A | NR/NR | 3,029,970 | 7,000 | Chicago Motor Fuel Tax Rev., 5.00%, 1/1/33, Ser. A | | | |
| | | | | (AMBAC) | | | |
| Dev. Finance Auth. Rev., | Aaa/AAA | 7,168,630 | 2,000 | Christian Homes, Inc., 5.75%, 5/15/31, Ser. A | NR/NR | | |
| 1,827,200 | 1,500 | Franciscan Communities, 5.50%, 5/15/37 | NR/NR | 1,364,340 | 12,795 | People Gas Light | |
| & Coke 5.00%, 2/1/33 (AMBAC)(i) | Aaa/AAA | 13,018,017 | 1,500 | Sedgebrook, 6.00%, 11/15/37, Ser. A | | | |
| NR/NR | 1,394,130 | 1,050 | Three Crowns Park Plaza, 5.875%, 2/15/38 | NR/NR | 955,962 | Educational | |
| Facs. Auth. Rev., Univ. of Chicago, | | 4,780 | 5.00%, 7/1/33 | Aa1/AA | 4,916,182 | 220 | 5.00%, 7/1/33, |
| (Pre-refunded @ \$100, 7/1/13) (b) | Aa1/AA | 238,531 | 165 | 5.25%, 7/1/41 | Aa1/AA | 171,613 | 4,160 |
| 5.25%, 7/1/41, (Pre-refunded @ \$101, 7/1/11) (b) | Aa1/AA | 4,479,741 | | Finance Auth. Rev., | | 1,000 | |
| 5.875%, 3/1/27, Ser. A | NR/NR | 968,110 | 625 | 6.00%, 3/1/37, Ser. A | NR/NR | 599,250 | 1,175 |
| Facs. Auth. Rev., Elmhurst Memorial Healthcare, 5.50%, 1/1/22 | A2/NR | 1,222,211 | 4,283 | Round Lake, Special | | | |
| Tax Rev., 6.70%, 3/1/33, (Pre-refunded @ \$102, 3/1/13) (b) | NR/NR | 4,906,690 | 600 | Southwestern Dev. Auth. | | | |
| Rev., Comprehensive Mental Health Center, 6.625%, 6/1/37 | NR/NR | 589,662 | | | | 54,582,476 | |
| Indiana--3.1% | | | | | | | |
| 7,535 | Bond Bank Rev., 5.00%, 2/1/33, Ser. A (FSA)(i) | Aaa/AAA | 7,700,996 | 3,000 | Brownsburg | | |
| | 1999 School Building Corp. Rev., 5.25%, 3/15/25, | | | | | | |
| Ser. A, (Pre-refunded @ \$100, 9/15/13) (FSA)(b) | Aaa/AAA | 3,299,790 | 1,375 | Fort Wayne Pollution Control | | | |
| Rev., 6.20%, 10/15/25 | Caa1/B- | 1,328,910 | 5,000 | Indianapolis Local Public Improvement Board, Tax | | | |
| | Allocation, | | | | | | |
| 5.00%, 2/1/29, Ser. G (MBIA) | Aaa/AAA | 5,114,400 | | Michigan City Area Wide School Building Corp., Rev. | | | |
| (FGIC), | 2,500 | zero coupon, 1/15/21 | Aaa/AAA | 1,380,450 | 1,000 | zero coupon, 7/15/21 | Aaa/AAA |
| 539,730 | 1,000 | zero coupon, 1/15/22 | Aaa/AAA | 523,250 | 1,000 | Plainfield Parks Facs. Corp. Lease Rent | |
| Rev., 5.00%, 1/15/22 (AMBAC) | Aaa/AAA | 1,031,650 | | Portage Industrial Economic Dev. Rev., | | 1,000 | |
| | 5.00%, 7/15/23 | NR/BBB+ | 940,650 | 775 | 5.00%, 1/15/27 | NR/BBB+ | 715,937 |

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | | Principal | |
|-------------------------------------|---|--------------------------------|---------------|---|---|
| | | (000) | Credit Rating | | |
| | | (Moody's/S&P) Value* | | | |
| Indiana--(continued) | | | | | |
| \$ 3,500 | State Dev. Finance Auth., Pollution Control Rev., 5.00%, 3/1/30 (AMBAC) | | Aaa/AAA | \$ 3,505,460 | |
| 2,000 | Vigo Cnty. Hospital Auth. Rev., 5.70%, 9/1/37 (c) | NR/NR | | 1,809,940 | 27,891,163 |
| Iowa--1.7% | | | | | |
| 1,000 | Coralville, CP, 5.25%, 6/1/26, Ser. D | A2/NR | | 1,028,000 | 3,715 |
| | Walnut Ridge LLC, 5.625%, 12/1/45, Ser. A | NR/NR | | 3,235,691 | |
| B, | 11,010 | 5.60%, 6/1/34 | Baa3/BBB | 10,007,539 | 1,000 |
| | | 6/1/11) (b) | NR/AAA | 1,079,790 | 5.60%, 6/1/35, (Pre-refunded @ \$101, 15,351,020 |
| Kentucky--0.2% | | | | | |
| | Economic Dev. Finance Auth., Hospital Facs. Rev., | | | 1,000 | Catholic Healthcare Partners, 5.25%, |
| 10/1/30 | A1/AA- | 1,010,780 | 1,080 | St. Luke's Hospital, 6.00%, 10/1/19, Ser. B | A3/A |
| | | | | 2,098,459 | 1,087,679 |
| Louisiana--1.0% | | | | | |
| | Public Facs. Auth. Rev., Ochsner Clinic Foundation, Ser. B, | | | 5,000 | 5.50%, 5/15/32, |
| (Pre-refunded @ \$100, 5/15/26) (b) | Aaa/NR | 5,735,550 | 1,700 | 5.50%, 5/15/47 | A3/NR |
| | | | | 1,675,622 | 1,595 |
| | Tobacco Settlement Financing Corp. Rev., 5.875%, 5/15/39, Ser. 2001-B | Baa3/BBB | | 1,538,489 | |
| | | | | 8,949,661 | |
| Maryland--0.2% | | | | | |
| 500 | Health & Higher Educational Facs. Auth. Rev., 5.30%, 1/1/37 | NR/NR | | 432,585 | 1,500 |
| | Health & Higher Educational Facs. Auth. Rev., Calvert Health Systems, 5.50%, 7/1/36 | A2/NR | | 1,543,650 | |
| | | | | 1,976,235 | |
| Massachusetts--1.1% | | | | | |
| | 1,000 | State Dev. Finance Agcy. Rev., | | | |
| | 5.75%, 7/1/33, Ser. C, (Pre-refunded @ \$101, 7/1/13) (b) | A3/A- | | 1,128,880 | 750 |
| | 11/15/35, Ser. A | NR/NR | | 677,063 | 4,910 |
| | | | | 4,910 | State Housing Finance Agcy., Housing Rev., 5.125%, 6/1/43, Ser. H |
| | Aa3/AA- | 4,925,614 | 3,225 | State Water Pollution Abatement Trust Rev., 5.00%, 8/1/32, Ser. 8 | Aaa/AAA |
| | | | | 3,312,365 | 10,043,922 |

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Michigan-13.9%

| | | | | | |
|-----|--|---------|------------|--------|-----------------------------------|
| 500 | Corner Creek Academy East Rev., 5.25%, 11/1/36 | A1/BB+ | 430,560 | 250 | Crescent Academy, |
| | CP, 5.75%, 12/1/36 | NR/NR | 221,835 | | Detroit Water Supply System Rev., |
| | Ser. A (FSA)(i) | Aaa/AAA | 33,884,172 | 35,000 | 5.00%, 7/1/32, |
| | | | | | Ser. A (MBIA)(i) |
| | | | | | Aaa/AAA |
| | | | | | 35,706,650 |

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | | Principal | |
|---|---|----------------------|---------------|--|--|
| | | (000) | Credit Rating | | |
| | | (Moody's/S&P) Value* | | | |
| Michigan--(continued) | | | | | |
| \$ 7,555 | 5.00%, 7/1/34, Ser. B (MBIA) | Aaa/AAA | \$ 7,707,535 | 500 | Star International Academy, CP, |
| 6.125%, 3/1/37 | NR/BB+ | 499,610 | 5,000 | | State Building Auth. Rev., 5.00%, 10/15/26, Ser. III, (Pre-refunded @ |
| \$100, 10/15/12) | (FSA)(b) | Aaa/AAA | 5,386,600 | | State Hospital Finance Auth. Rev., 175 |
| | Medical Center, 5.25%, 8/15/23 | Ba3/BB- | 157,537 | 4,000 | Henry Ford Health System, |
| 5.00%, 3/1/17, (Pre-refunded @ \$100, 3/1/13) | (b) | A1/A | 4,304,200 | | Oakwood Group, Ser. A, 5,405 |
| 5.75%, 4/1/32 | A2/A | 5,574,339 | 575 | 6.00%, 4/1/22 | A2/A |
| 611,518 | 20,000 | | | | Trinity Health Credit, |
| 5.375%, 12/1/30 | Aa2/AA | 20,505,400 | 1,000 | State Technical Univ. Rev., 5.00%, 10/1/33 (XLCA) | Aaa/AAA |
| 1,026,810 | 10,000 | | | Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A | NR/BBB |
| | | | | | 9,689,700 |
| | | | | | 125,706,466 |
| Minnesota--0.4% | | | | | |
| 750 | Cottage Grove Rev., 5.00%, 12/1/31 | NR/NR | 631,133 | 2,400 | Upsala Independent School Dist. |
| | No. 487, GO, 5.00%, 2/1/28 (FGIC) | Aaa/AAA | 2,566,008 | | 3,197,141 |
| Mississippi--0.5% | | | | | |
| | Business Finance Corp., Pollution Control Rev., | | 3,000 | 5.875%, 4/1/22 | Ba1/BBB |
| | 1,250 | 5.90%, 5/1/22 | Ba1/BBB | 1,251,613 | 4,254,133 |
| | | | | | 3,002,520 |
| Missouri--1.5% | | | | | |
| | 1,350 | | | | St. Louis Cnty. Industrial Dev. Auth., |
| | Housing Dev. Rev., 5.20%, 1/20/36 (GNMA) | NR/AAA | 1,360,395 | | St. Louis Industrial Dev. Auth. Rev. |
| | (GNMA), 1,500 | 5.125%, 12/20/29 | NR/AAA | 1,514,670 | 1,500 |
| | 1,508,115 | 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) | (b) | A2/NR | 8,220,525 | 250 |
| | NR/NR | 228,722 | 500 | | Township of Jennings Rev., 5.00%, 11/1/23 |
| | | | | | Univ. Place Transportation Dev. Dist., Special Assessment, 5.00%, 3/1/32 (d) |
| | | | | | NR/NR |
| | | | | | 444,760 |
| | | | | | 13,277,187 |
| Montana--1.3% | | | | | |
| 11,250 | Forsyth Pollution Control Rev., Puget Sound Energy, 5.00%, 3/1/31 (AMBAC) | Aaa/AAA | | | |
| | | | | | 11,579,400 |
| Nevada--0.4% | | | | | |

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3,355 Henderson Health Care Facs. Rev., Catholic Healthcare West,
5.125%, 7/1/28, (Pre-refunded @ \$101, 7/1/08) (b) A2/NR 3,423,912

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| Amount (000) Credit Rating (Moody's/S&P) Value* | Principal |
|---|--------------------|
| New Hampshire-0.5% | |
| Manchester Water Works Rev. (FGIC), \$ 1,500 5.00%, 12/1/28 Aaa/AAA | \$ 1,551,840 3,250 |
| 5.00%, 12/1/34 Aaa/AAA 3,345,258 | 4,897,098 |
| New Jersey-5.7% | |
| 1,000 Camden Cnty., Improvement Auth. Rev., Cooper Health System, 5.00%, 2/15/35, Ser. A Baa3/BBB 876,480 Economic Dev. Auth. Rev., 4,500 Kapkowski Road Landfill Project, Special Assessment, 6.50%, 4/1/28 Baa3/NR 4,959,495 300 Newark Airport Rev., 7.00%, 10/1/14 Ba1/NR 301,485 450 Seashore Gardens, 5.375%, 11/1/36 NR/NR 388,035 Health Care Facs. Financing Auth. Rev., 2,500 Middlesex Cnty. Pollution Control Auth. Rev., 5.75%, 9/15/32 Baa3/BBB- 2,500,775 3,000 Pascack Valley Hospital, 6.625%, 7/1/36 (j) NR/CC 1,531,500 2,000 Somerset Medical Center, 5.50%, 7/1/33 Ba1/NR 1,791,300 2,000 South Port Corp., 5.10%, 1/1/33 NR/A 2,043,240 1,000 St. Peters Univ. Hospital, 5.75%, 7/1/37 Baa2/BBB- 975,060 1,150 Trinitas Hospital, 5.25%, 7/1/30, Ser. A Baa3/BBB- 1,061,588 1,500 State Educational Facs. Auth. Rev., 6.00%, 7/1/25, Ser. D NR/NR 1,544,850 Tobacco Settlement Financing Corp. Rev., 22,645 5.00%, 6/1/41, Ser. 1A Baa3/BBB 18,830,903 525 6.00%, 6/1/37, (Pre-refunded @ \$100, 6/1/12) (b) Aaa/AAA 582,466 1,000 6.125%, 6/1/24 Aaa/AAA 1,062,750 230 6.125%, 6/1/42, (Pre-refunded @ \$100, 6/1/12) (b) Aaa/AAA 256,346 350 6.25%, 6/1/43, (Pre-refunded @ \$100, 6/1/13) (b) Aaa/AAA 399,259 10,750 6.75%, 6/1/39, (Pre-refunded @ \$100, 6/1/13) (b) Aaa/AAA 12,526,545 51,632,077 | |
| New Mexico-0.1% | |
| 1,000 Farmington Pollution Control Rev., 5.80%, 4/1/22 Baa2/BBB- | 1,002,310 |
| New York-3.6% | |
| 10,000 Metropolitan Transportation Auth. Rev., 5.25%, 11/15/32, Ser. B, (Pre-refunded @ \$100, 11/15/13) (b) A2/AAA 11,054,000 New York City Municipal Water Finance Auth., Water & Sewer System Rev., 5,000 5.00%, 6/15/35, Ser. C Aa2/AA+ 5,146,900 8,180 5.00%, 6/15/37, Ser. D (i) Aa2/AA+ 8,441,433 1,500 5.00%, 6/15/39, Ser. A Aa2/AA+ 1,542,375 3,800 State Dormitory Auth. Rev., State Personal Income Tax, 5.00%, 3/15/32, (Pre-refunded @ \$100, 3/15/13) (b) Aa3/AAA 4,113,576 2,000 State Environmental Facs. Corp. Rev., 5.00%, 6/15/28 Aaa/AAA 2,076,160 32,374,444 | |
| North Carolina-1.3% | |

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2,000 Charlotte-Mecklenburg Hospital Auth., Healthcare System Rev.,
5.00%, 1/15/33, Ser. A, (Pre-refunded @ \$100, 1/15/13) (b) Aa3/AA- 2,148,720

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | | | | Principal |
|-----------------------------|--|--|---|--|--------------------------------------|-----------------|
| | | (000) | Credit Rating | | | |
| | | (Moody's/S&P) Value* | | | | |
| North Carolina--(continued) | | | | | | |
| | Eastern Municipal Power Agcy., Power System Rev., | \$ 2,000 | 5.125%, 1/1/23, Ser. D | Baa1/BBB | | |
| \$ 2,034,760 | 2,000 5.125%, 1/1/26, Ser. D | Baa1/BBB | 2,022,340 | 3,795 | 5.375%, 1/1/17, Ser. C | |
| Baa1/BBB | 3,964,371 1,500 | Medical Care Commission, Health Care Facs. Rev., Cleveland Cnty., 5.00%, | | | | |
| | 7/1/35 (AMBAC) Aaa/AAA | 1,542,660 | | 11,712,851 | | |
| Ohio--1.4% | | | | | | |
| 5,000 | Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A-2 | Baa3/BBB | | | | |
| 4,775,300 | 2,500 Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30 | A1/AA- | 2,540,000 | | | |
| | 5,000 Ohio Air Quality Dev. Auth. Rev., Dayton Power & Light Co., | | | | | |
| | 4.80%, 1/1/34, Ser. B (FGIC)(i) Aaa/AAA | 4,977,900 | | 12,293,200 | | |
| Pennsylvania--4.0% | | | | | | |
| | Allegheny Cnty. Hospital Dev. Auth. Rev., | 11,300 | 5.375%, 11/15/40, Ser. A | Ba2/BB | | |
| 9,786,365 | 4,350 9.25%, 11/15/30, Ser. B, (Pre-refunded @ \$102, 11/15/10) (b) | Ba3/AAA | 5,130,694 | 1,500 | | |
| | Cumberland Cnty. Auth., Retirement Community Rev., Wesley Affiliated Services, 7.25%, 1/1/35, Ser. A, | | | | | |
| | (Pre-refunded @ \$101, 1/1/13) (b) NR/NR | 1,773,480 | 3,250 | Delaware River Toll Bridge, Commission Bridge | | |
| | Rev., 5.00%, 7/1/28 | A2/A- | 3,337,815 | 1,250 | Harrisburg Auth. Rev., 6.00%, 9/1/36 | NR/NR 1,224,762 |
| 3,000 | Lehigh Cnty. General Purpose Auth. Rev., St. Luke's Bethlehem Hospital, 5.375%, 8/15/33, (Pre-refunded @ | | | | | |
| | \$100, 8/15/13) (b) Baa1/BBB | 3,295,560 | 5,000 | Philadelphia School Dist., GO, 5.125%, 6/1/34, Ser. D, | | |
| | (Pre-refunded @ \$100, 6/1/14) (FGIC)(b) Aaa/AAA | 5,495,750 | 6,300 | St. Mary Hospital Auth., Bucks Cnty. | | |
| | Rev., 5.00%, 12/1/28, (Partially Pre-refunded @ \$101, 6/1/08) (b) | Aa2/NR | 6,203,358 | | 36,247,784 | |
| Puerto Rico--0.3% | | | | | | |
| | Electric Power Auth. Power Rev., | 2,200 | 5.125%, 7/1/29, Ser. NN, (Pre-refunded @ \$100, | | | |
| | 7/1/13) (b) A3/BBB+ | 2,402,466 | | | | |
| South Carolina--1.7% | | | | | | |
| 7,500 | Florence Cnty. Rev., McLeod Regional Medical Center, 5.00%, 11/1/31, Ser. A (FSA) | Aaa/AAA | | | | |
| 7,784,775 | Jobs Economic Dev. Auth. Rev., Bon Secours Health System, | 6,700 | 5.625%, 11/15/30 | | | |
| A3/A- | 6,817,652 750 | 6.00%, 11/15/37, Ser. A | NR/NR | 685,208 | 15,287,635 | |
| South Dakota--0.2% | | | | | | |

1,705 Minnehaha Cnty. Health Facs. Rev., Bethany Lutheran, 5.375%, 12/1/27 NR/NR 1,554,363

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| Amount (000) Credit Rating (Moody's/S&P) Value* | Principal |
|--|--------------|
| Tennessee-0.1% | |
| \$ 1,250 Knox Cnty. Health Educational & Housing Facs., Board Hospital Facs. Rev., Catholic Healthcare Partners, 5.25%, 10/1/30 A1/AA- | \$ 1,263,475 |
| Texas-14.3% | |
| 2,500 Columbia & Brazoria Independent School Dist., GO, 5.00%, 8/1/29 (PSF-GTD) NR/AAA | |
| 2,575,850 1,300 Comal Cnty. Health Facs. Dev., McKenna Memorial Hospital Project Rev., 6.25%, 2/1/32 Baa2/BBB- | |
| 1,317,927 6,810 Crowley Independent School Dist., GO, 4.75%, 8/1/35 (PSF-GTD)(i) Aaa/AAA | |
| 6,839,896 12,975 Dallas Area Rapid Transit Rev., 5.00%, 12/1/32, (Pre-refunded @ \$100, 12/1/12) (FGIC)(b)(i) Aaa/AAA | |
| 14,003,269 Denton Independent School Dist., GO, (PSF-GTD), 5,745 zero coupon, 8/15/26, (Pre-refunded @ \$44.73, 8/15/12) (b) Aaa/AAA | |
| 2,190,568 255 zero coupon, 8/15/26 Aaa/AAA | |
| 93,223 5,745 zero coupon, 8/15/27, (Pre-refunded @ \$42.17, 8/15/12) (b) Aaa/AAA | |
| 2,065,213 255 zero coupon, 8/15/27 Aaa/AAA | |
| 87,733 4,785 zero coupon, 8/15/28, (Pre-refunded @ \$39.75, 8/15/12) (b) Aaa/AAA | |
| 1,621,397 215 zero coupon, 8/15/28 Aaa/AAA | |
| 69,598 5,745 zero coupon, 8/15/29, (Pre-refunded @ \$37.46, 8/15/12) (b) Aaa/AAA | |
| 1,834,551 255 zero coupon, 8/15/29 Aaa/AAA | |
| 77,688 1,915 zero coupon, 8/15/30, (Pre-refunded @ \$35.30, 8/15/12) (b) Aaa/AAA | |
| 576,185 85 zero coupon, 8/15/30 Aaa/AAA | |
| 24,367 7,660 zero coupon, 8/15/31, (Pre-refunded @ \$33.25, 8/15/12) (b) Aaa/AAA | |
| 2,171,227 340 zero coupon, 8/15/31 Aaa/AAA | |
| 91,735 10,115 5.00%, 8/15/33 (i) Aaa/AAA | |
| 10,340,059 4,400 Harris Cnty., GO, 5.125%, 8/15/31, (Pre-refunded @ \$100, 8/15/12) (b) Aa1/AA+ | |
| 4,748,744 Harris Cnty. Health Facs. Dev. Corp. Rev., 5,000 Christus Health, 5.375%, 7/1/29, Ser. A, (Pre-refunded @ \$101, 7/1/09) (MBIA)(b) Aaa/AAA | |
| 5,219,050 2,750 St. Luke's Episcopal Hospital, 5.375%, 2/15/26, Ser. A, (Pre-refunded @ \$100, 8/15/11) (b) NR/AAA | |
| 2,954,435 19,500 Harris Cnty. Rev., 5.125%, 8/15/32, (Pre-refunded @ \$100, 8/15/12) (FSA)(b) Aaa/AAA | |
| 21,062,925 5,000 Houston Water & Sewer System Rev., 5.00%, 12/1/30, Ser. A, (Pre-refunded @ \$100, 12/1/12) (FSA)(b) Aaa/AAA | |
| 5,391,550 Judson Independent School Dist., GO, (PSF-GTD), 6,535 5.00%, 2/1/30, (Pre-refunded @ \$100, 2/1/11) (b) Aaa/NR | |
| 6,884,557 465 5.00%, 2/1/30 Aaa/NR | |
| 472,793 11,950 Mansfield Independent School Dist., GO, 5.00%, 2/15/28 (PSF-GTD)(i) Aaa/AAA | |
| 12,296,670 Mesquite Independent School Dist. No. 1, GO, Ser. A (PSF-GTD), 1,365 zero coupon, 8/15/16 NR/AAA | |
| 949,535 1,000 zero coupon, 8/15/18 NR/AAA | |
| 625,510 1,000 zero coupon, 8/15/19 NR/AAA | |
| 586,880 1,000 zero coupon, 8/15/20 NR/AAA | |
| 553,240 2,105 Northwest Harris Cnty. Municipal Utility Dist. No. 16, GO, 5.30%, 10/1/29 (Radian) NR/AA | |
| 2,127,271 | |

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PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | | Principal | |
|--|--|----------------------|---------------|---|----------------------------|
| | | (000) | Credit Rating | | |
| | | (Moody's/S&P) Value* | | | |
| Texas--(continued) | | | | | |
| \$ 2,000 | Sabine River Auth. Rev., 5.20%, 5/1/28 | NR/CCC | \$ 1,640,600 | Univ. Rev., Ser. B (b), | |
| 2,000 | 5.00%, 7/1/26, (Pre-refunded @ \$100, 7/1/14) | Aaa/AAA | 2,186,220 | 11,115 | 5.00%, 8/15/33, |
| (Pre-refunded @ \$100, 8/15/13) (i) | Aaa/AAA | 12,069,778 | 2,500 | Willacy Cnty. Rev., 6.875%, 9/1/28, Ser. A-1 | |
| | NR/NR | 2,609,200 | | 128,359,444 | |
| Utah--0.3% | | | | | |
| 750 | Spanish Fork City Rev., 5.70%, 11/15/36 | NR/NR | 696,045 | 720 | Utah Cnty. Lincoln Academy |
| Charter School, GO, 5.875%, 6/15/37, Ser. A (c) | NR/NR | 685,678 | 1,750 | Weber Cnty., IHC Health Services | |
| Rev., 5.00%, 8/15/30 | Aa1/NR | 1,757,367 | | 3,139,090 | |
| Virginia--0.1% | | | | | |
| 1,000 | James City Cnty. Economic Dev. Auth. Rev., 5.50%, 7/1/37, Ser. A | NR/NR | | 887,320 | |
| Washington--10.2% | | | | | |
| 6,375 | Chelan Cnty. Public Utility Dist. Rev., 5.125%, 7/1/33, Ser. C (AMBAC) | Aaa/AAA | 6,566,760 | | |
| King Cnty. Sewer Rev., Ser. A (i), | 10,000 | 5.00%, 1/1/35 (FGIC) | Aaa/AAA | 10,226,200 | 15,000 |
| 5.00%, 1/1/35 (FSA) | Aaa/AAA | 15,326,100 | 21,625 | Port Tacoma, GO, 5.00%, 12/1/33, (Pre-refunded @ \$100, | |
| 12/1/13) (AMBAC)(b)(i) | Aaa/AAA | 23,571,034 | 10,000 | Seattle Drain & Wastewater Rev., 5.00%, 7/1/32 | |
| (FGIC)(i) | Aaa/AAA | 10,213,500 | 3,400 | State Housing Finance Commission Rev., Skyline at First Hill, | |
| 5.625%, 1/1/38, Ser. A | NR/NR | 3,017,636 | 22,415 | Tobacco Settlement Auth., Tobacco Settlement Rev., | |
| 6.50%, 6/1/26 | Baa3/BBB | 23,343,653 | | 92,264,883 | |
| Wisconsin--0.1% | | | | | |
| 560 | Badger Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/17 | Baa3/BBB | 580,535 | 700 | |
| Milwaukee Redev. Auth. Rev., 5.65%, 8/1/37, Ser. A | NR/NR | 641,018 | 1,221,553 | Total Municipal | |
| Bond & Notes (cost--\$847,822,704) | | 879,209,505 | | | |
| VARIABLE RATE NOTES (f)--2.0% | | | | | |
| Florida--0.3% | | | | | |

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2,554 State Turnpike Auth. Rev., 9.02%, 7/1/31, Ser. 1450 (a)(c)(e) Aa2/NR 2,666,121

New York-1.5%

4,660 Liberty Dev. Corp. Rev., 11.60%, 10/1/35, Ser. 1451 (a)(c)(e) Aa3/NR 5,851,562

PIMCO Municipal Income Fund III
 Schedule of Investments
 December 31, 2007 (unaudited) (continued)

| | | Amount | Principal |
|-------------------------------|---|---|---|
| | | (000) Credit Rating (Moody's/S&P) Value* | |
| New York--(continued) | | | |
| \$ 6,000 | State Dormitory Auth. Rev., Univ. & College Improvement, (a)(c)(e) NR/AAA | \$ 7,154,400 13,005,962 | 10.23%, 3/15/35, Ser. 1216 |
| Ohio--0.2% | | | |
| 2,075 | Ohio Air Quality Dev. Auth. Rev., 8.47%, 1/1/34, Ser. 1223 (FGIC)(a)(c)(e) Aaa/NR | | 2,044,435 |
| Pennsylvania--0.0% | | | |
| 350 | Washington Cnty. Redev. Auth., Tax Allocation, 5.45%, 7/1/35, Ser. A Variable Rate Notes (cost--\$18,715,469) | NR/NR 18,035,763 | 319,245 Total |
| U.S. TREASURY BILLS (g)--0.5% | | | |
| 4,425 | 2.99%-3.21%, 2/28/08-3/13/08 (cost--\$4,399,478) written (cost--\$870,937,651)-- 100.1% | 4,399,478 901,644,746 | Total Investments before options Contracts |
| OPTIONS WRITTEN (h)--(0.1)% | | | |
| Call Options--(0.1)% | | | |
| | U.S. Treasury Notes 10 yr. Futures (CBOT), (856,125) | 761 | strike price \$114, expires 2/22/08 |
| Put Options--(0.0)% | | | |
| (190,250) | U.S. Treasury Notes 10 yr. Futures (CBOT), Total Options Written (premiums received--\$1,050,188) of options written (cost--\$869,887,463)-- 100.0% | 761 (1,046,375) \$ 900,598,371 | strike price \$110, expires 2/22/08 Total Investments net |

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 or persons acting at their discretion 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 last 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 date. 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 normally determined 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) Private Placement – Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$17,716,518, representing 1.97% of total investments. (b) 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). (c) 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. (d) When-issued or delayed-delivery security. To be settled/delivered after December 31, 2007. (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 December 31, 2007. (g) All or partial amount segregated as collateral for futures contracts. (h) Non-income producing. (i) 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. (j) Security in default.

Glossary:

AMBAC – insured by American Municipal Bond Assurance Corp. CBOT – Chicago Board of Trade CP – Certificates of Participation FGIC – insured by Financial Guaranty Insurance Co. FSA – insured by Financial Security Assurance, Inc. GNMA – insured by Government National Mortgage Association GO – General Obligation Bond MBIA – insured by Municipal Bond Investors Assurance NR – Not Rated

PSF-GTD – Public School Fund-Guaranteed Radian – insured by Radian Guaranty, Inc. XLCA – insured by XL Capital Assurance

Other Investments:

(1) Futures contracts outstanding at December 31, 2007:

| Type | Contracts | Market | Value | (000) | Expiration | Date | Unrealized | |
|-----------------------|------------------------------------|-----------|----------|-----------|------------|------|--------------|-------------|
| Appreciation Long: | U.S. Treasury Notes 10 yr. Futures | 31 | \$ 3,515 | | 3/19/08 | | \$ 31,000 | Short: U.S. |
| Treasury Bond Futures | (1,456) | (169,442) | 3/19/08 | 1,274,859 | | | \$ 1,305,859 | |

(2) Transactions in options written for the three months ended December 31, 2007:

| | | | | | | | |
|--|----------|---|-------------|-----|-----------------|-------|-----------|
| Contracts | Premiums | Options outstanding, September 30, 2007 | — | \$— | Options written | 1,522 | 1,050,188 |
| Options outstanding, December 31, 2007 | | 1,522 | \$1,050,188 | | | | |

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 (17CFR270.30a -3(c)), 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 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: February 29, 2008

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

Date: February 29, 2008

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 29, 2008

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

Date: February 29, 2008
