

PIMCO MUNICIPAL INCOME FUND III  
Form N-CSR/A  
June 05, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR/A

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number 811-21187

PIMCO Municipal Income Fund III  
(Exact name of registrant as specified in charter)

1345 Avenue of the Americas, New York, New York 10105  
(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna – 1345 Avenue of the Americas, New York, New York 10105  
(Name and address of agent for service)

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

Date of fiscal year end: September 30, 2006

Date of reporting period: September 30, 2006

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR 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 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. Report to Shareholders**

PIMCO Municipal Income Fund III  
PIMCO California Municipal Income Fund III  
PIMCO New York Municipal Income Fund III

Annual Report September 30, 2006

As Restated  
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Why is PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III Annual Reports being “Restated”?

The financial statements of PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III for the fiscal year ended September 30, 2006 contained within this annual report have been restated, as set forth in Note 8 to the financial statements. The reason for the restatements is to appropriately reflect the accounting treatment of each Fund’s portfolio holdings of certain municipal bond transactions referred to as “inverse floaters.” Additionally, certain other data presented in the annual reports, derived from the information in each Fund’s financial statements or using the same methodology on which the presentation of the information in the financial statements were based, have been revised accordingly.

Principally, the restatements reflect revised portfolio holdings information in the schedule of investments and revised expenses and income. It is important to note, however, that these restatements have no effect on each Fund’s previously reported net assets, net asset values per share or investment performance. Distributions paid to shareholders during the fiscal year ended September 30, 2006, as well as the tax status of those distributions, also remain unchanged.

October 30, 2006

Dear Shareholder:

We are pleased to provide you with the annual report for PIMCO Municipal Income Fund III, PIMCO California Municipal Income Fund III and PIMCO New York Municipal Income Fund III (the “Funds”) for the fiscal year ended September 30, 2006.

After a difficult period, the bond market picked up in the third quarter of 2006 as the economy slowed and expectations grew that the Federal Reserve (the “Fed”) might begin easing. In fact, the Fed left rates unchanged at 5.25% at each of the last three Fed meetings (August, September and October), citing weakness in the housing sector and falling energy prices. Prior to the August meeting, the Fed had raised the fed funds rate 25 basis points at seventeen consecutive meetings. Nine of the seventeen interest rate increases took place during the Funds’ fiscal year, and as a result the inherent increase in borrowing costs proved to be a headwind for the Funds during the year.

For specific information on the Funds and their performance during the reporting period, please review the following pages.

If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds’ shareholder servicing agent at (800) 331-1710. You will also find a wide range of information and resources on our Web site, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Funds’ investment manager, and Pacific Investment Management Company LLC, the Funds’ sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Robert E. Connor

Chairman

Brian S. Shlissel

President & Chief Executive Officer

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PIMCO Municipal Income Fund III  
Performance & Statistics  
September 30, 2006 (unaudited)

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Management Review

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For the 12 months ended September 30, 2006, PIMCO Municipal Income Fund III returned 7.89% on net asset value and 7.69% on market price, compared with 6.37% and 8.73%, respectively, for the Lipper Analytical General Municipal Debt Funds (Leveraged) average.

- The municipal bond market outperformed the taxable bond market for the one-year reporting period, as the Lehman Municipal Bond Index returned 4.45% and the Lehman Aggregate Bond Index returned 3.67%, respectively.
- Longer-dated municipal bonds outperformed shorter-dated municipals during the reporting period as the yield curve flattened. For example, five- and 10-year AAA General Obligation yields rose 27 and 6 basis points, while 20- and 25-year yields declined 13 and 22 basis points, respectively. Note that when a bond's yield rises, its price declines, and vice versa.
- Longer-dated municipals also outperformed longer-dated Treasuries for the period. Consequently, interest rate hedging strategies that benefit when longer-term Treasuries lag municipals added to performance.
- Exposure to tobacco-securitized debt was positive for performance.
- Exposure to zero-coupon bonds, which have outperformed most other fixed-income sectors in 2006, also enhanced performance.
- A focus on higher credit quality bonds detracted from performance as lower-rated, more speculative issues outperformed during the year.

Total Return <sup>(1)</sup> :	Market Price	Net Asset Value ("NAV")
1 Year	7.69%	7.89%
3 Years	10.51%	8.97%
Commencement of Operations (10/31/02) to 9/30/06	7.97%	7.78%

Common Share Market Price / NAV Performance:

Commencement of Operations (10/31/02) to 9/30/06

Market Price / NAV:	
Market Price	\$15.70
NAV	\$14.90
Premium to NAV	5.37%
Market Price Yield <sup>(2)</sup>	5.35%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2)Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at September 30, 2006.

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PIMCO California Municipal Income Fund III  
Performance & Statistics  
September 30, 2006 (unaudited)

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Management Review

- For the 12 months ended September 30, 2006, PIMCO California Municipal Income Fund III returned 6.99% on net asset value and 19.43% on market price, compared with 6.19% and 9.94%, respectively, for the Lipper Analytical California Municipal Debt Funds average.
- California municipal bonds, as measured by the Lehman California Municipal Bond Index, outperformed the broader national municipal market, as measured by the Lehman Municipal Bond Index, for the one-year reporting period, returning 4.61% and 4.45%, respectively.
- The California General Obligation AAA municipal yield curve flattened over the reporting period. For example, five-year maturity AAA municipal yields increased 27 basis points, while 10-, 20- and 30-year maturities decreased 7, 16 and 25 basis points, respectively.
- Exposure to tobacco-securitized debt was positive for performance.
- Exposure to zero-coupon bonds, which have outperformed most other fixed-income sectors in 2006, also enhanced performance.
- A focus on higher credit quality bonds detracted from performance as lower-rated, more speculative issues outperformed during the year.

Total Return <sup>(1)</sup> :	Market Price	Net Asset Value (“NAV”)
1 Year	19.43%	6.99%
3 Years	14.93%	10.50%
Commencement of Operations (10/31/02) to 9/30/06	10.07%	7.67%

Common Share Market Price / NAV Performance:

Commencement of Operations (10/31/02) to 9/30/06

Market Price / NAV:	
Market Price	\$16.94

NAV	\$14.83
Premium to NAV	14.23%
Market Price Yield <sup>(2)</sup>	5.67%

Moody's Ratings  
(as a % of total investments)

(1)**Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2)Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at September 30, 2006.

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PIMCO New York Municipal Income Fund III  
Performance & Statistics  
September 30, 2006 (unaudited)

Management Review

- For the 12 months ended September 30, 2006, PIMCO New York Municipal Income Fund III returned 6.53% on net asset value and 8.73% on market price, compared with 5.89% and 9.02%, respectively, for the Lipper Analytical New York Municipal Debt Funds average.
- Municipal bonds issued within New York, as measured by the Lehman New York Municipal Bond Index, slightly underperformed the national market, as measured by the Lehman Municipal Bond Index, for the one-year reporting period, returning 4.37% and 4.45%, respectively.
- The New York General Obligation AAA municipal yield curve flattened over the reporting period. For example, five-year maturity AAA yields increased 19 basis points, while 10-, 20- and 30-year maturities decreased 8, 9, and 26 basis points, respectively.
- Exposure to tobacco-securitized debt was positive for performance.
- Exposure to zero-coupon bonds, which have outperformed most other fixed-income sectors in 2006, also enhanced performance.
- A focus on higher credit quality bonds detracted from performance as lower-rated, more speculative issues outperformed during the year.

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Total Return <sup>(1)</sup> :	Market Price	Net Asset Value (“NAV”)
1 Year	8.73%	6.53%
3 Years	13.35%	8.89%
Commencement of Operations (10/31/02) to 9/30/06	9.00%	7.85%

Common Share Market Price / NAV Performance:

Commencement of Operations (10/31/02) to 9/30/06

Market Price / NAV:

Market Price	\$16.45
NAV	\$15.09
Premium to NAV	9.01%
Market Price Yield <sup>(2)</sup>	5.11%

Moody’s Ratings

(as a % of total investments)

(1)**Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends have been reinvested at prices obtained under the Fund’s dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period more than one year represents the average annual total return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. A portion of the income generated by the Fund may be subject to federal, state and local taxes, and may at times be subject to the alternative minimum tax. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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PIMCO Municipal Income Fund III  
 Schedule of Investments (As Restated—See Note 8)  
 September 30, 2006

Principal  
 Amount  
 (000)

Credit Rating  
 (Moody’s/S&P)\* Value  
 MUNICIPAL BONDS & NOTES—97.5%

**Alabama—1.1%**

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	Birmingham, GO, Ser. B (AMBAC),		
\$1,000	5.00%, 12/1/27	Aaa/AAA	\$1,040,760
2,560	5.00%, 12/1/32	Aaa/AAA	2,650,317
5,000	Birmingham Baptist Medical Centers Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/30, Ser. A	Baa1/NR	5,117,350
1,500	Colbert Cnty., Northwest Health Care Auth., Health Care Facs. Rev., 5.75%, 6/1/27	Baa3/NR	1,530,090
			10,338,517
	<b>Alaska-0.5%</b>		
	State Housing Finance Corp. Rev.,		
3,900	5.00%, 12/1/33, Ser. A	Aaa/AAA	3,997,305
1,000	5.25%, 6/1/32, Ser. C (MBIA)	Aaa/AAA	1,020,690
			5,017,995
	<b>Arizona-2.9%</b>		
2,200	Health Facs. Auth. John C. Lincoln Health Network Rev., 7.00%, 12/1/25, (Pre-refunded @ \$102, 12/1/10) (a)	NR/BBB	2,520,584
1,500	Maricopa Cnty. Pollution Control Corp., Pollution Control Rev., 5.05%, 5/1/29 (AMBAC)	Aaa/AAA	1,569,330
	Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (g),		
5,000	5.00%, 1/1/35	Aa1/AA	5,283,800
16,000	5.00%, 1/1/37	Aa1/AA	16,895,680
			26,269,394
	<b>Arkansas-0.1%</b>		
7,000	Arkansas Dev. Finance Auth. Rev., zero coupon, 7/1/46 (AMBAC)	Aaa/AAA	1,056,580
	<b>California-6.2%</b>		