

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

CORPORATE HIGH YIELD FUND III INC
Form N-CSR
July 28, 2005

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-08497

Name of Fund: Corporate High Yield Fund III, Inc.

Fund Address: P.O. Box 9011
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive
Officer, Corporate High Yield Fund III, Inc., 800 Scudders Mill Road,
Plainsboro, NJ 08536. Mailing address: P.O. Box 9011, Princeton, NJ
08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 05/31/05

Date of reporting period: 06/01/04 - 05/31/05

Item 1 - Report to Stockholders

Corporate High Yield
Fund III, Inc.

Annual Report
May 31, 2005

Corporate High Yield Fund III, Inc.

The Benefits and Risks of Leveraging

Corporate High Yield Fund III, Inc. utilizes leveraging through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. Since the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders are the beneficiaries of the incremental yield.

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility. In addition, there is the risk that fluctuations in interest rates on borrowings (or in the dividend rates on any Preferred Stock, if the Fund were to issue Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market price. If the income derived from securities purchased with assets received from

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced.

Important Tax Information

The following information is provided with respect to the ordinary income distributions paid monthly by Corporate High Yield Fund III, Inc. during the fiscal year ended May 31, 2005:

	July 2004	August 2004 through December 2004
Qualified Dividend Income for Individuals	3.00%	5.00%
Dividends Qualifying for the Dividends Received Deduction for Corporations	3.00%	5.00%

2 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

A Letter From the President

Dear Shareholder

After expanding at an annualized rate of 4.4% in 2004, U.S. gross domestic product grew at an estimated 3.5% in the first quarter of 2005. The slowdown was not entirely unexpected given last year's healthy growth and the evolution of the economic cycle. The Federal Reserve Board -- with one eye firmly affixed on the economic indicators and the other on inflationary measures -- has increased the federal funds rate by 25 basis points (.25%) at each of its eight meetings since June 2004. At period-end, the target short-term interest rate stood at 3%.

U.S. equity markets ended 2004 in a strong rally, but have struggled to record meaningful gains in 2005. The potential for slowing economic and corporate earnings growth, as well as volatile energy prices, have intermittently hampered equity market progress. On the positive side, corporate transactions, such as mergers and acquisitions, stock buy-backs and dividend payouts, have all increased. In Asia, equities have continued to benefit from higher economic growth prospects and valuations that appear inexpensive relative to other parts of the world.

In the bond market, the yield curve flattening "conundrum" continued as short-term and long-term yields moved still closer together. Over the past year, the two-year Treasury yield increased 106 basis points while the 10-year Treasury yield declined 66 basis points. At May 31, 2005, the two-year Treasury note yielded 3.60% and the 10-year Treasury note yielded 4%. The falling long-term rates may be partly attributed to foreign interest in U.S. assets and increased issuance of short-term Treasury bonds to finance the federal deficit. Notably, the government is considering the reissuance of the 30-year Treasury, which was suspended in August 2001. This would allow the U.S. Treasury to adopt a more flexible approach to borrowing, while providing investors with another long-term fixed income option.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Amid these conditions, the major benchmarks posted six-month and 12-month returns as follows:

Total Returns as of May 31, 2005	6-month	12-month
U.S. equities (Standard & Poor's 500 Index)	+2.42%	+ 8.24%
Small-cap U.S. equities (Russell 2000 Index)	-2.10%	+ 9.82%
International equities (MSCI Europe Australasia Far East Index)	+1.81%	+14.62%
Fixed income (Lehman Brothers Aggregate Bond Index)	+2.90%	+ 6.82%
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+3.51%	+ 7.96%
High yield bonds (Credit Suisse First Boston High Yield Index)	+0.60%	+ 9.97%

While the environment is likely to remain somewhat challenging, we believe opportunities exist for investors. With this in mind, we encourage you to meet with your financial advisor to review your goals and asset allocation and to rebalance your portfolio, as necessary, to ensure it remains aligned with your objectives and risk tolerance. As always, we thank you for trusting Merrill Lynch Investment Managers with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
President and Director

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

3

A Discussion With Your Fund's Portfolio Manager

The positive effect of an emphasis on CCC-rated securities in the first half of the fiscal year was enough to offset the underperformance that resulted from an overweight to that sector in the last six months, as the Fund outperformed its benchmark for the 12-month period.

How did the Fund perform during the fiscal year in light of the existing market conditions?

For the 12-month period ended May 31, 2005, the Common Stock of Corporate High Yield Fund III, Inc. had net annualized yields of 10.44% and 10.54%, based on a year-end per share net asset value of \$8.46 and a per share market price of \$8.38, respectively, and \$.883 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +11.24%, based on a change in per share net asset value from \$8.43 to \$8.46, and assuming reinvestment of all distributions. For the same period, the high yield bond market, as measured by the Credit Suisse First Boston (CSFB) High Yield Index, returned +9.97%, while the Fund's comparable Lipper category of High Current Yield Funds (Leveraged) had an average return of +12.58%. (Funds in this Lipper

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

category aim for relatively high current yield from investment in fixed income securities, have no quality or maturity restrictions, and tend to invest in lower-grade debt issues.)

Fund performance reflects the changing risk appetite of investors in the high yield market over the past year. The high yield bond market benefited from optimistic views of economic and corporate earnings growth early in the period. However, as earnings growth slowed and prospects for a decelerating economy increased, investors increasingly questioned the benefits of higher-risk assets. The well-publicized problems at General Motors Corporation and the downgrade of its debt to below investment grade by two credit rating agencies, Standard & Poor's and Moody's, also had an adverse effect on high yield bonds. The spreads of high yield bonds versus 10-year Treasury notes as measured by the CSFB High Yield Index, narrowed from 474 basis points (4.74%) at May 31, 2004, to 357 basis points at November 30, 2004, and then widened to 430 basis points at May 31, 2005. The average bond price in the CSFB High Yield Index dropped 2.8% in the six months ended May 31, 2005. Most affected in the weakening market of the past six months were bonds in the higher-risk categories, particularly those rated CCC. Given our expectation of continued modest economic and earnings growth through 2005, the Fund's holdings were more heavily weighted in the higher-risk categories. This benefited relative performance in the first half of the year, but hurt Fund results during the last six months of the fiscal period.

For the six-month period ended May 31, 2005, the total investment return on the Fund's Common Stock was -1.13%, based on a change in per share net asset value from \$9.02 to \$8.46, and assuming reinvestment of all distributions. For the same period, the CSFB High Yield Index returned +.60% and the Lipper High Current Yield Funds (Leveraged) category posted an average return of -.46%.

For a description of the Fund's total investment return based on a change in the per share market value of the Fund's Common Stock (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or a discount to the Fund's net asset value. As a result, total investment returns based on changes in the market value of the Fund's Common Stock can vary significantly from total investment returns based on changes in the Fund's net asset value.

What changes were made to the portfolio during the year?

Although the general composition of the portfolio was similar at the beginning and end of the period, we did modestly reconfigure our holdings. We sold our entire position in Mission Energy following the bond's strong performance. The company is an affiliate of Edison International Inc., one of the Fund's top 10 holdings. The security had recovered dramatically from a low of approximately 25% of par value to a high of nearly 125% of par value. We believe the security had reached full value. We also reduced our exposure to the chemicals sector during the period by eliminating our positions in Rockwood Specialties Group Inc., Millennium America Inc. and Crompton Corp.

4

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

The Fund's leverage position averaged 26% during the six-month period ended May 31, 2005. That is, the Fund borrowed the equivalent of 26% of total assets invested, earning incremental yield on the investments we made with the borrowed funds. For the year ended May 31, 2005, the average amount borrowed was \$112.5 million, and the daily weighted average interest rate was 2.38%. While leveraging will hinder the Fund's total return in a weak market, the converse also is true. We intend to maintain our leverage position in the mid-20% range,

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

although that level may vary somewhat as we adjust the portfolio's holdings. (For a more complete discussion of the benefits and risks of leveraging, see page 2 of this report to shareholders.)

How would you characterize the Fund's position at the close of the period?

We believe that the high yield market will benefit from continued growth in the economy and in corporate earnings for the remainder of 2005, despite investors' perception of increased risk in the marketplace. We will continue to trim positions that we believe are overvalued, as well as securities that, based on their fundamental outlook, no longer warrant a position in the portfolio. We are focusing on securities that we believe offer a combination of value and reasonable risk.

The Fund's position in convertible securities -- corporate bonds that can be converted to shares of company stock -- increased slightly to 8% of long-term investments at period-end. We continue to see value and diversification in that asset class relative to high yield bonds. We also have increased our investments in floating rate securities, including bank loans, with total holdings representing 10.6% of long-term investments at May 31, 2005. We believe that rising short-term interest rates will benefit these securities. The Fund had an average credit rating of B at the end of the period, as did the CSFB High Yield Index.

Elizabeth M. Phillips
Vice President and Portfolio Manager

June 22, 2005

CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005 5

Schedule of Investments (in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
=====		
Aerospace & Defense--4.5%	\$2,275,000	Alliant Techsystems, Inc., 3% due 8/15/2024 (b) (i)
	2,275,000	DRS Technologies, Inc., 6.875% due 11/01/2013 (i)
	975,000	Esterline Technologies Corp., 7.75% due 6/15/2013
	775,000	K&F Acquisition, Inc., 7.75% due 11/15/2014 (i)
	1,750,000	Standard Aero Holdings, Inc., 8.25% due 9/01/2014 (i)
	2,000,000	Titan Corp., 8% due 5/15/2011
	1,400,000	Transdigm, Inc., 8.375% due 7/15/2011
	2,350,000	Vought Aircraft Industries, Inc., 8% due 7/15/2011
=====		
Airlines--2.2%	2,250,000	American Airlines, Inc. Series 2001-2, 7.80% due 4/01/2008
	950,000	Continental Airlines, Inc.: 8% due 12/15/2005
	1,209,126	Series 1997-4-B, 6.90% due 1/02/2017
	235,853	Series 1998-1-C, 6.541% due 9/15/2009
	750,000	Series 1998-3, 7.25% due 11/01/2005
	1,239,207	Series 2001-1-C, 7.033% due 6/15/2011
	1,225,000	Delta Air Lines, Inc.: 7.90% due 12/15/2009
	1,930,000	2.875% due 2/18/2024 (b) (i)

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Automotive--0.9%	1,500,000	Autocam Corp., 10.875% due 6/15/2014
	1,750,000	Metaldyne Corp.:
	1,165,000	11% due 6/15/2012
		10% due 11/01/2013 (i)
Broadcasting--5.1%	2,675,000	Granite Broadcasting Corp., 9.75% due 12/01/2010
	1,375,000	Nextmedia Operating, Inc., 10.75% due 7/01/2011
	2,125,000	Paxson Communications Corp.:
	550,000	10.75% due 7/15/2008
	1,700,000	12.121% due 1/15/2009 (h)
	1,175,000	Radio One, Inc., 6.375% due 2/15/2013 (i)
	1,364,000	Salem Communications Corp., 7.75% due 12/15/2010
	400,000	Salem Communications Holding Corp. Series B, 9% due 7/01/2011
	3,005,000	Sinclair Broadcast Group, Inc.:
	2,300,000	8% due 3/15/2012
		Class A, 4.875% due 7/15/2018 (b)
		Young Broadcasting, Inc., 8.75% due 1/15/2014
Cable-- International--0.7%	2,100,000	NTL Cable Plc, 8.141% due 10/15/2012 (d)
Cable--U.S.--8.3%	750,000	Adelphia Communications Corp., 6% due 2/15/2006 (b) (e)
	2,275,000	CSC Holdings, Inc. Series B, 7.625% due 4/01/2011
	1,900,000	Century Communications Series B, 9.05% due 1/15/2008 (e)
	3,500,000	Charter Communications Holdings LLC:
	2,000,000	8.625% due 4/01/2009
	945,000	9.625% due 11/15/2009
	2,675,000	Charter Communications, Inc., 5.875% due 11/16/2009 (b) (i)
	2,775,000	Intelsat Bermuda Ltd. (i):
	3,494,000	7.805% due 1/15/2012 (d)
	3,775,000	8.625% due 1/15/2015
	450,000	Loral Cyberstar, Inc., 10% due 7/15/2006 (e)
	750,000	Mediacom Broadband LLC, 11% due 7/15/2013
	1,000,000	Mediacom LLC, 9.50% due 1/15/2013
	1,375,000	New Skies Satellites BV (i):
	1,900,000	8.539% due 11/01/2011 (d)
		9.125% due 11/01/2012
		Quebecor Media, Inc., 10.465% due 7/15/2011 (h)
		Rainbow National Services LLC, 10.375% due 9/01/2014 (i)

6 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Schedule of Investments (continued) (in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
-----------	----------------	-----------------

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Chemicals--8.3%	\$1,519,000	BCP Caylux Holdings Luxembourg SCA, 9.625% due 6/15/2014 (i)
		Crompton Corp.:
	1,675,000	9.164% due 8/01/2010 (d)
	1,375,000	9.875% due 8/01/2012
	1,525,000	Huntsman International LLC, 10.125% due 7/01/2009
	1,025,000	ISP Chemco, Inc. Series B, 10.25% due 7/01/2011
	1,075,000	ISP Holdings, Inc. Series B, 10.625% due 12/15/2009
	1,950,000	Innophos, Inc., 8.875% due 8/15/2014 (i)
		Millennium America, Inc.:
	2,300,000	7% due 11/15/2006
	975,000	9.25% due 6/15/2008
		Nalco Co.:
	450,000	7.75% due 11/15/2011
	1,125,000	8.875% due 11/15/2013
	1,324,000	Nalco Finance Holdings, Inc., 9.099% due 2/01/2014 (h)
	3,125,000	Omnova Solutions, Inc., 11.25% due 6/01/2010
	725,000	PCI Chemicals Canada, Inc., 10% due 12/31/2008
		PolyOne Corp.:
	2,625,000	10.625% due 5/15/2010
	300,000	8.875% due 5/01/2012
	1,966,000	Terra Capital, Inc., 11.50% due 6/01/2010
=====		
Consumer--	1,350,000	Sealy Mattress Co., 8.25% due 6/15/2014
Durables--0.7%	785,000	Tempur-Pedic, Inc., 10.25% due 8/15/2010
=====		
Consumer--		Chattem, Inc.:
Non-Durables--3.0%	1,575,000	6.33% due 3/01/2010 (d)
	600,000	7% due 3/01/2014
	1,175,000	Church & Dwight Co., Inc., 6% due 12/15/2012 (i)
	3,525,000	Hines Nurseries, Inc., 10.25% due 10/01/2011
	2,200,000	Samsonite Corp., 8.875% due 6/01/2011
=====		
Diversified	2,350,000	CBD Media, Inc., 8.625% due 6/01/2011
Media--7.7%	2,275,000	CanWest Media, Inc., 8% due 9/15/2012 (i)
	1,367,000	Dex Media West LLC, 9.875% due 8/15/2013
		Houghton Mifflin Co.:
	2,650,000	8.25% due 2/01/2011
	1,775,000	10.378% due 10/15/2013 (h) (i)
	5,600,000	Liberty Media Corp., 0.75% due 3/30/2023 (b)
		Primedia, Inc.:
	565,000	7.625% due 4/01/2008
	1,225,000	8.875% due 5/15/2011
		Universal City Florida Holding Co. I:
	1,700,000	7.96% due 5/01/2010 (d)
	1,025,000	8.375% due 5/01/2010
	3,302,000	Yell Finance BV, 12.52% due 8/01/2011 (h)
=====		
Energy--Exploration &	2,000,000	Belden & Blake Corp., 8.75% due 7/15/2012
Production--1.4%	2,525,000	Plains Exploration & Production Co. Series B, 8.75% due 7/01/2011
=====		
Energy--	850,000	Aventine Renewable Energy Holdings, Inc., 9.01% due 12/15/2011
Other--3.5%	1,875,000	Dresser, Inc., 9.375% due 4/15/2011

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

650,000	Energy Corp. of America Series A, 9.50% due 5/15/2007
3,700,000	Ocean Rig Norway AS, 10.25% due 6/01/2008
	Star Gas Partners LP:
1,525,000	10.25% due 2/15/2013
375,000	10.25% due 2/15/2013 (i)

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

7

Schedule of Investments (continued)

(in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
Energy--Other (concluded)	\$ 400,000 1,975,000	Suburban Propane Partners, LP: 6.875% due 12/15/2013 6.875% due 12/15/2013 (i)
Financial--0.9%	2,850,000	Refco Finance Holdings LLC, 9% due 8/01/2012
Food & Tobacco--5.1%	800,000 1,975,000 1,525,000 2,725,000 1,250,000 475,000 1,550,000 1,275,000 1,950,000 2,100,000 1,250,000 1,600,000	AmeriQual Group LLC, 9% due 4/01/2012 (i) Commonwealth Brands, Inc. (i): 9.75% due 4/15/2008 10.625% due 9/01/2008 Cott Beverages USA, Inc., 8% due 12/15/2011 Del Monte Corp.: 8.625% due 12/15/2012 6.75% due 2/15/2015 (i) Doane Pet Care Co., 10.75% due 3/01/2010 Merisant Co., 10.25% due 7/15/2013 (i) New World Pasta Co., 9.25% due 2/15/2009 (e) Smithfield Foods, Inc. Series B, 8% due 10/15/2009 Tabletop Holdings Inc., 12.25% due 5/15/2014 (h) (i) The Wornick Co., 10.875% due 7/15/2011
Gaming--6.3%	3,225,000 1,350,000 1,925,000 1,550,000 3,625,000 1,425,000 2,575,000 2,675,000	Boyd Gaming Corp., 8.75% due 4/15/2012 Caesars Entertainment, Inc., 7.875% due 3/15/2010 Inn of the Mountain Gods Resort & Casino, 12% due 11/15/2010 MGM Mirage, 8.50% due 9/15/2010 Majestic Star Casino LLC, 9.50% due 10/15/2010 Pinnacle Entertainment, Inc., 8.25% due 3/15/2012 Poster Financial Group, Inc., 8.75% due 12/01/2011 Resorts International Hotel and Casino, Inc., 11.50% due 3/15/2011
Health Care--7.8%	2,950,000 2,175,000 2,700,000 2,125,000 3,750,000 2,825,000	Alpharma, Inc.: 3% due 6/01/2006 (b) 8.625% due 5/01/2011 (i) DaVita, Inc., 7.25% due 3/15/2015 (i) Elan Finance Plc, 7.268% due 11/15/2011 (d) (i) Fresenius Medical Care Capital Trust II, 7.875% due 2/01/2008 Healthsouth Corp., 8.375% due 10/01/2011

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

1,450,000	Select Medical Corp., 7.625% due 2/01/2015 (i)
2,675,000	US Oncology, Inc., 9% due 8/15/2012
1,000,000	Vanguard Health Holding Co. II LLC, 9% due 10/01/2014
1,950,000	Ventas Realty LP, 6.75% due 6/01/2010 (i)

=====
Housing--3.3%

	Building Materials Corp. of America:
400,000	7.75% due 7/15/2005
1,050,000	8% due 10/15/2007
5,850,000	8% due 12/01/2008
	Goodman Global Holding Co., Inc. (i):
450,000	5.76% due 6/15/2012 (d)
1,300,000	7.875% due 12/15/2012
1,475,000	Texas Industries, Inc., 10.25% due 6/15/2011

=====
Information Technology--6.0%

3,600,000	Advanced Micro Devices, Inc., 7.75% due 11/01/2012
	Amkor Technology, Inc.:
775,000	9.25% due 2/15/2008
2,000,000	7.125% due 3/15/2011
3,215,000	Cypress Semiconductor Corp., 1.25% due 6/15/2008 (b)
1,925,000	Freescale Semiconductor, Inc., 5.891% due 7/15/2009 (d)

8 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Schedule of Investments (continued) (in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
Information Technology (concluded)		MagnaChip SemiConductor SA (i):
	\$ 600,000	6.26% due 12/15/2011 (d)
	650,000	8% due 12/15/2014
	1,835,000	Quantum Corp., 4.375% due 8/01/2010 (b)
	775,000	Telcordia Technologies Inc., 10% due 3/15/2013 (i)
	1,150,000	UGS Corp., 10% due 6/01/2012
	3,400,000	Viasystems, Inc., 10.50% due 1/15/2011

=====
Leisure--1.7%

	Felcor Lodging LP:
2,850,000	7.78% due 6/01/2011 (d)
1,550,000	9% due 6/01/2011
775,000	True Temper Sports, Inc., 8.375% due 9/15/2011

=====
Manufacturing--5.9%

2,175,000	CPI Holdco, Inc., 8.83% due 2/01/2015 (d) (i)
800,000	Columbus McKinnon Corp., 8.50% due 4/01/2008
3,725,000	EaglePicher Inc., 9.75% due 9/01/2013 (e)
2,950,000	Invensys Plc, 9.875% due 3/15/2011 (i)
2,475,000	JohnsonDiversey, Inc. Series B, 9.625% due 5/15/2012
975,000	Mueller Group, Inc., 10% due 5/01/2012
775,000	Rexnord Corp., 10.125% due 12/15/2012

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

1,175,000 Superior Essex Communications LLC, 9% due 4/15/2012
 3,525,000 Trimas Corp., 9.875% due 6/15/2012
 1,555,000 Tyco International Group SA, 2.75% due 1/15/2018 (b)

=====
 Metal--Other--2.6% 585,000 Asia Aluminum Holdings Ltd., 8% due 12/23/2011 (i)
 1,200,000 Century Aluminum Co., 7.50% due 8/15/2014
 1,150,000 Foundation PA Coal Co., 7.25% due 8/01/2014
 2,925,000 Luscar Coal Ltd., 9.75% due 10/15/2011
 2,150,000 Novelis, Inc., 7.25% due 2/15/2015 (i)

=====
 Packaging--5.0% 2,650,000 AEP Industries, Inc., 7.875% due 3/15/2013 (i)
 1,400,000 Consolidated Container Co. LLC, 10.75% due 6/15/2009 (h)
 Crown European Holdings SA:
 950,000 9.50% due 3/01/2011
 500,000 10.875% due 3/01/2013
 3,000,000 Owens-Brockway, 8.875% due 2/15/2009
 Pliant Corp.:
 1,848,880 11.625% due 6/15/2009 (g) (i)
 1,475,000 13% due 6/01/2010
 Tekni-Plex, Inc.:
 775,000 12.75% due 6/15/2010
 400,000 8.75% due 11/15/2013 (i)
 US Can Corp.:
 375,000 10.875% due 7/15/2010
 2,575,000 12.375% due 10/01/2010
 650,000 Wise Metals Group LLC, 10.25% due 5/15/2012

=====
 Paper--6.2% 3,625,000 Abitibi-Consolidated, Inc., 6.51% due 6/15/2011 (d)
 1,200,000 Ainsworth Lumber Co. Ltd., 6.84% due 10/01/2010 (d)
 1,625,000 Boise Cascade LLC, 6.016% due 10/15/2012 (d) (i)
 3,325,000 Bowater, Inc., 6.01% due 3/15/2010 (d)
 1,125,000 Caraustar Industries, Inc., 9.875% due 4/01/2011
 Graphic Packaging International Corp.:
 825,000 8.50% due 8/15/2011
 950,000 9.50% due 8/15/2013
 925,000 JSG Funding Plc, 9.625% due 10/01/2012

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

9

Schedule of Investments (continued)

(in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
=====		
Paper		NewPage Corp. (i):
(concluded)	\$1,450,000	9.46% due 5/01/2012 (d)
	1,450,000	12% due 5/01/2013
	2,450,000	Norske Skog Canada Ltd. Series D, 8.625% due 6/15/2011
	1,003,000	Western Forest Products, Inc., 15% due 7/28/2009 (g) (i)

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Retail--0.9%	2,850,000	Jean Coutu Group, Inc., 8.50% due 8/01/2014
Service--6.0%	2,625,000	Allied Waste North America Series B, 8.875% due 4/01/2008
	2,725,000	Corrections Corp. of America, 7.50% due 5/01/2011
	775,000	Knowledge Learning Corp., Inc., 7.75% due 2/01/2015 (i)
	875,000	MSW Energy Holdings II LLC, 7.375% due 9/01/2010
	1,500,000	MSW Energy Holdings LLC, 8.50% due 9/01/2010
	3,125,000	United Rentals North America, Inc., 7.75% due 11/15/2013
	3,100,000	Waste Services, Inc., 9.50% due 4/15/2014 (i)
		Williams Scotsman, Inc.:
	3,700,000	9.875% due 6/01/2007
	375,000	10% due 8/15/2008
Steel--0.4%	1,200,000	Ucar Finance, Inc., 10.25% due 2/15/2012
Telecommunications--4.9%		ADC Telecommunications, Inc. (b):
	2,200,000	1% due 6/15/2008
	750,000	3.065% due 6/15/2013 (d)
	1,616,000	Alaska Communications Systems Holdings, Inc., 9.875% due 8/15/2011
	2,150,000	Cincinnati Bell, Inc., 8.375% due 1/15/2014
	2,550,000	LCI International, Inc., 7.25% due 6/15/2007
	675,000	Qwest Capital Funding, Inc., 7.25% due 2/15/2011
	1,000,000	Terremark Worldwide, Inc., 9% due 6/15/2009 (b) (i)
	850,000	Time Warner Telecom Holdings, Inc., 7.268% due 2/15/2011 (d)
		Time Warner Telecom, Inc.:
	250,000	9.75% due 7/15/2008
	3,875,000	10.125% due 2/01/2011
Transportation--1.6%	1,850,000	Laidlaw International, Inc., 10.75% due 6/15/2011
	2,325,000	Teekay Shipping Corp., 8.875% due 7/15/2011
	375,000	Titan Petrochemicals Group Ltd., 8.50% due 3/18/2012
Utility--11.4%		The AES Corp.:
	4,458,000	9.375% due 9/15/2010
	2,100,000	8.75% due 5/15/2013 (i)
	850,000	AES Drax Energy Ltd. Series B, 11.50% due 8/30/2010 (e)
	800,000	Aquila, Inc., 7.625% due 11/15/2009
	6,825,000	Calpine Canada Energy Finance ULC, 8.50% due 5/01/2008
		Calpine Corp.:
	1,500,000	8.25% due 8/15/2005
	950,000	8.75% due 7/15/2007
	3,205,000	Centerpoint Energy, Inc., 3.75% due 5/15/2023 (b)
	2,025,000	ESI Tractebel Acquisition Corp. Series B, 7.99% due 12/30/2011
	1,900,000	Edison Mission Energy, 9.875% due 4/15/2011
	1,550,000	El Paso CGP Co., 7.75% due 6/15/2010
		Nevada Power Co.:
	600,000	9% due 8/15/2013
	3,300,000	Series E, 10.875% due 10/15/2009
	1,650,000	Reliant Energy, Inc., 6.75% due 12/15/2014
	1,650,000	Sierra Pacific Power Co. Series A, 8% due 6/01/2008
	1,200,000	Sierra Pacific Resources, 8.625% due 3/15/2014
	925,000	Southern Natural Gas Co., 8.875% due 3/15/2010
	2,000,000	Texas Genco LLC, 6.875% due 12/15/2014 (i)

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

10 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Schedule of Investments (continued) (in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
Wireless Communications--4.0%	\$ 825,000 2,000,000 1,750,000	American Tower Escrow Corp., 14.887% due 8/01/2008 (h) Centennial Cellular Operating Co. LLC, 10.125% due 6/15/2013 Iwo Escrow Co., 6.891% due 1/15/2012 (d) (i) Rogers Wireless Communications, Inc.:
	450,000	6.135% due 12/15/2010 (d)
	250,000	8% due 12/15/2012
	3,400,000	6.375% due 3/01/2014
	625,000	Rural Cellular Corp., 7.51% due 3/15/2010 (d)
	1,375,000	SBA Communications Corp., 8.50% due 12/01/2012 (i)
	1,925,000	SBA Telecommunications, Inc., 7.432% due 12/15/2011 (h)

Total Corporate Bonds (Cost--\$400,670,141)--126.3%

Floating Rate Loan Interests (a)

Cable--U.S.--1.5%	4,850,000	Century Cable Holdings LLC Discretionary Term Loan, due 12/31
Chemicals--1.0%	2,830,000	Wellman, Inc. Second Lien Term Loan, due 2/10/2010
Manufacturing--0.3%	997,462	EaglePicher Holdings, Inc. Tranche B Term Loan, due 8/07/2009

Total Floating Rate Loan Interests (Cost--\$8,323,233)--2.8%

Shares Held Common Stocks

Airlines--0.2%	81,243	ABX Air, Inc. (c)
Cable--International--0.8%	117,037	Telewest Global, Inc. (c)
Energy--Other--0.4%	80,000	Trico Marine Services, Inc. (c)
Paper--0.3%	203,785	Western Forest Products, Inc. (c)

Total Common Stocks (Cost--\$5,685,338)--1.7%

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Preferred Stocks

Automotive--0.9%	128,000	General Motors Corp. Series C, 6.25% (b)
Total Preferred Stocks (Cost--\$3,199,472)--0.9%		

Warrants (j)

Cable--U.S.--0.0%	32,981	Loral Space & Communications (expires 12/26/2006)
Health Care--0.0%	32,042	HealthSouth Corp. (expires 1/16/2014)
Packaging--0.0%	4,000	Pliant Corp. (expires 6/01/2010)
Paper--0.0%	700	MDP Acquisitions Plc (expires 10/01/2013)
Wireless Communications--0.1%	825	American Tower Corp. (expires 8/01/2008)
Total Warrants (Cost--\$112,170)--0.1%		

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

11

Schedule of Investments (concluded) (in U.S. dollars)

Industry+	Beneficial Interest	Other Interests (f)
Airlines--0.3%	\$3,780,240	US Airways Group, Inc.--Certificate of Beneficial Interest
Total Other Interests (Cost--\$1,020,665)--0.3%		

Short-Term Securities

	\$ 79,564	Merrill Lynch Liquidity Series, LLC Cash Sweep Series I (k)
Total Short-Term Securities (Cost--\$79,564)--0.0%		

Total Investments (Cost--\$419,090,583*)--132.1%

Liabilities in Excess of Other Assets--(32.1%)

Net Assets--100.0%

+ For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease. These industry classifications are unaudited.

* The cost and unrealized appreciation (depreciation) of investments as of May 31, 2005, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$ 419,108,723
	=====
Gross unrealized appreciation	\$ 17,973,221
Gross unrealized depreciation	(20,109,582)

Net unrealized depreciation	\$ (2,136,361)
	=====

- (a) Floating rate corporate debt in which the Fund invests generally pays interest at rates that are periodically redetermined by reference to a base lending rate plus a premium. The base lending rates are generally (i) the lending rate offered by one or more major European banks, such as LIBOR (London InterBank Offered Rate), (ii) the prime rate offered by one or more U.S. banks or (iii) the certificate of deposit rate.
- (b) Convertible security.
- (c) Non-income producing security.
- (d) Floating rate note.
- (e) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.
- (f) Other interests represent beneficial interest in liquidation trusts and other reorganization entities.
- (g) Represents a pay-in-kind security that may pay interest/dividends in additional face/shares.
- (h) Represents a zero coupon or step bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.
- (i) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (j) Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.
- (k) Investments in companies considered to be an affiliate of the Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) were as follows:

-----	Net	Interest
Affiliate	Activity	Income

Merrill Lynch Liquidity Series, LLC		
Cash Sweep Series I	\$(2,935)	\$5,225

Financial futures contracts sold as of May 31, 2005 were as follows:

-----		Expiration	Face	Unrealized
Number of	Issue	Date	Value	Depreciation
Contracts				

49	Ten-Year U.S. Treasury Notes	September 2005	\$5,514,074	\$(35,942)

Swaps outstanding as of May 31, 2005 were as follows:

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

	Notional Amount	Unrealized Appreciation (Depreciation)
Receive a variable rate return based on 1-month USD LIBOR and pay a fixed rate of 1.56% Broker, UBS Warburg Expires June 2005	\$30,000,000	\$38,934
Sold credit default protection on Ford Motor Company and receive 4.70% Broker, Morgan Stanley Capital Services, Inc. Expires June 2007	\$ 300,000	11,067
Sold credit default protection on General Motors Corporation and receive 4.40% Broker, Morgan Stanley Capital Services, Inc. Expires June 2007	\$ 400,000	(7,721)
Sold credit default protection on General Motors Corporation and receive 5.50% Broker, Morgan Stanley Capital Services, Inc. Expires June 2007	\$ 300,000	320
Total		\$42,600 =====

See Notes to Financial Statements.

12 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Statement of Assets, Liabilities and Capital

As of May 31, 2005

Assets

Investments in unaffiliated securities, at value (identified cost--\$419,011,019)	
Investments in affiliated securities, at value (identified cost--\$79,564)	
Unrealized appreciation on swaps	
Cash on deposit for futures contracts	
Receivables:	
Interest (including \$7 from affiliates)	\$ 8,8
Securities sold	7
Prepaid expenses and other assets	
Total assets	

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Liabilities

Loans	
Payables:	
Securities purchased	2,1
Custodian bank	4
Dividends to shareholders	2
Interest on swaps	1
Investment adviser	1
Interest on loans	
Variation margin	
Other affiliates	
Accrued expenses	
Total liabilities	

Net Assets

Net Assets	
------------------	--

Capital

Common Stock, \$.10 par value, 200,000,000 shares authorized....	
Paid-in capital in excess of par	
Undistributed investment income--net	\$ 3,2
Accumulated realized capital losses--net	(230,0
Unrealized depreciation--net	(2,1
Total accumulated losses--net	
Total--Equivalent to \$8.46 per share based on 37,310,139 shares of capital stock outstanding (market price--\$8.38)	

See Notes to Financial Statements.

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

13

Statement of Operations

For the Year Ended May 31, 2005

Investment Income

Interest (including \$5,225 from affiliates)	
Dividends	
Other	
Total income	

Expenses

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Loan interest expense	\$ 2,6
Investment advisory fees	2,6
Borrowing costs	1
Accounting services	1
Professional fees	
Transfer agent fees	
Printing and shareholder reports	
Listing fees	
Custodian fees	
Pricing services	
Directors' fees and expenses	
Other	

Total expenses	
Investment income--net	

=====
Realized & Unrealized Gain (Loss)--Net

Realized gain on:	
Investments--net	6,7
Futures contracts and swaps--net	1
Foreign currency transactions--net	

Change in unrealized appreciation/depreciation on:	
Investments--net	(4,0
Futures contracts and swaps--net	(2

Total realized and unrealized gain--net	
Net Increase in Net Assets Resulting from Operations	

See Notes to Financial Statements.

14 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:	20

Operations	

Investment income--net	\$ 31,7
Realized gain--net	6,9
Change in unrealized appreciation/depreciation--net	(4,2

Net increase in net assets resulting from operations	34,3

=====
Dividends to Shareholders

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Dividends to shareholders from investment income--net (33,1

Capital Stock Transactions

Value of shares issued to Common Stock shareholders in.....
 reinvestment of dividends 8
 Recovery of previously expensed Common Stock offering costs ...
 Net increase in net assets resulting from capital stock
 transactions 8

Net Assets

Total increase in net assets 2,0
 Beginning of year 313,5
 End of year* \$ 315,6
 * Undistributed investment income--net \$ 3,2

See Notes to Financial Statements.

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

15

Statement of Cash Flows

For the Year Ended May 31, 2005

Cash Provided by Operating Activities

Net increase in net assets resulting from operations \$ 34,38
 Adjustments to reconcile net increase in net assets resulting
 from operations to net cash provided by operating activities:
 Decrease in receivables 36
 Decrease in prepaid expenses and other assets 22
 Increase in other liabilities 7
 Realized and unrealized gain--net (2,66)
 Realized gain on futures contracts and swaps--net 16
 Unrealized loss on futures contracts--net (3
 Realized gain on foreign currency transactions--net
 Amortization of discount (2,60)
 Proceeds from sales and paydowns of long-term investments 247,76
 Purchases of long-term investments (244,08
 Proceeds from sales of short-term investments--net
 Net cash provided by operating activities 33,60

Cash Used for Financing Activities

Cash receipts from borrowings 170,40
 Cash payments on borrowings (172,20
 Dividends paid to shareholders (32,38
 Increase in custodian bank payable 46

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

	Net cash used for financing activities	(33,71)
=====		
Cash		
	Net decrease in cash	(11
	Cash at beginning of year	21
	Cash at end of year	\$ 10
=====		
Cash Flow Information		
	Cash paid for interest	\$ 2,64
=====		
Non-Cash Financing Activities		
	Reinvestment of dividends paid to shareholders	\$ 80
=====		

See Notes to Financial Statements.

16 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Financial Highlights

	For the Year En		
The following per share data and ratios have been derived from information provided in the financial statements.	2005	2004	2003
=====			
Per Share Operating Performance			
Net asset value, beginning of year	\$ 8.43	\$ 7.86	\$ 7.
Investment income--net* .....	.85	.88	.
Realized and unrealized gain (loss)--net ...	.07	.58	.
Total from investment operations .....	.92	1.46	1.
Less dividends from investment income--net .	(.89)	(.89)	(.
Recovery of previously expensed offering costs resulting from issuance of Common Stock	--	--+	
Net asset value, end of year	\$ 8.46	\$ 8.43	\$ 7.
Market price per share, end of year	\$ 8.38	\$ 7.97	\$ 8.
=====			
Total Investment Return**			
Based on net asset value per share	11.24%	19.33%	16.
=====			

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Based on market price per share	16.55%	6.07%	15.
=====			
Ratios to Average Net Assets			

Expenses, excluding interest expense .....	.99%	1.01%	1.
Expenses	1.81%	1.51%	1.
Investment income--net	9.71%	10.48%	13.
=====			
Leverage			

Amount of borrowings outstanding, end of year (in thousands)	\$107,800	\$109,600	\$ 98,8
Average amount of borrowings outstanding during the year (in thousands)	\$112,501	\$112,297	\$ 75,5
Average amount of borrowings outstanding per share during the year*	\$ 3.02	\$ 3.03	\$ 2.
=====			
Supplemental Data			

Net assets, end of year (in thousands)	\$315,626	\$313,583	\$289,8
Portfolio turnover	54.64%	82.54%	76.
=====			

* Based on average shares outstanding.

** Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effect of sales charges.

+ Amount is less than \$.01 per share.

See Notes to Financial Statements.

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

17

Notes to Financial Statements

1. Significant Accounting Policies:

Corporate High Yield Fund III, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock shares are listed on the New York Stock Exchange ("NYSE") under the symbol CYE. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments -- Debt securities are traded primarily in the over-the-counter ("OTC") markets and are valued at the last available bid price in the OTC market or on the basis of values obtained by a pricing service.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general direction of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Fund. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sale price in the case of exchange-traded options. In the case of options traded in the OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued by quoted fair valuations received daily by the Fund from the counterparty. Short-term investments with a remaining maturity of 60 days or less are valued at amortized cost, which approximates market value, under which method the investment is valued at cost and any premium or discount is amortized on a straight line basis to maturity. Repurchase agreements are valued at cost plus accrued interest. Investments in open-end investment companies are valued at their net asset value each business day. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

Equity securities that are held by the Fund, which are traded on stock exchanges or the Nasdaq National Market, are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available asked price for short positions. In cases where equity securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions traded in the OTC market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions traded in the OTC market are valued at the last available asked price. Portfolio securities that are traded both in the OTC market and on a stock exchange are valued according to the broadest and most representative market.

Generally, trading in foreign securities is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates also are generally determined prior to the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Fund's Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Fund's Board of Directors.

(b) Derivative financial instruments -- The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

o Options -- The Fund may write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

an exercise of an option,

18 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Notes to Financial Statements (continued)

the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

- o Financial futures contracts -- The Fund may purchase or sell financial futures contracts and options on such futures contracts. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.
- o Swaps -- The Fund may enter into swap agreements, which are over-the-counter contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. The net payments can be made for a set period of time or may be triggered by a predetermined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security. These periodic payments received or made by the Fund are recorded in the accompanying Statement of Operations as realized gains or losses, respectively. Gains or losses are also realized upon termination of the swap agreements. Swaps are marked-to-market daily based on dealer-supplied valuations and changes in value are recorded as unrealized appreciation (depreciation). Risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements.
- (c) Foreign currency transactions -- Transactions denominated in foreign currencies are recorded at the exchange rate prevailing when recognized. Assets and liabilities denominated in foreign currencies are valued at the exchange rate at the end of the period. Foreign currency transactions are the result of settling (realized) or valuing (unrealized) assets or liabilities expressed in foreign currencies to U.S. dollars. Realized and unrealized gains or losses from investments include the effects of foreign exchange rates on investments.
- (d) Income taxes -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.
- (e) Security transactions and investment income -- Security transactions are

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

(f) Dividends and distributions -- Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(g) Securities lending -- The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it collects a fee from the borrower. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

19

Notes to Financial Statements (continued)

other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

(h) Custodian bank -- The Fund recorded an amount payable to the custodian bank reflecting an overnight overdraft, which resulted from a failed trade that settled the next day.

(i) Reclassification -- U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$152,959 has been reclassified between undistributed net investment income and accumulated net realized capital losses as a result of permanent differences attributable to amortization methods on fixed income securities, accounting for swap agreements, and foreign currency transactions. This reclassification has no effect on net assets or net asset values per share.

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

an annual rate of .60% of the Fund's average weekly net assets plus the proceeds of any outstanding principal borrowed. FAM has entered into a Sub-Advisory Agreement with Merrill Lynch Asset Management U.K. Limited ("MLAM U.K."), an affiliate of FAM, pursuant to which MLAM U.K. provides investment advisory services to FAM with respect to the Fund. There is no increase in the aggregate fees paid by the Fund for these services.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), an affiliate of FAM, or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by FAM or its affiliates.

In addition, MLPF&S received \$13,266 in commissions on the execution of portfolio security transactions for the Fund for the year ended May 31, 2005.

For the year ended May 31, 2005, the Fund reimbursed FAM \$7,195 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, MLAM U.K., and/or ML & Co.

3. Investments:

Purchases and sales (including paydowns) of investments, excluding short-term securities, for the year ended May 31, 2005 were \$237,628,974 and \$246,906,589, respectively.

4. Capital Share Transactions:

The Fund is authorized to issue 200,000,000 shares of capital stock, par value \$.10, all of which were initially classified as Common Stock. The Board of Directors is authorized, however, to classify and reclassify any unissued shares of capital stock without approval of the holders of Common Stock.

Shares issued and outstanding during the years ended May 31, 2005 and May 31, 2004 increased by 90,900 and 325,778, respectively, as a result of dividend reinvestment.

5. Short-Term Borrowings:

The Fund is party to a \$160,000,000 revolving securitization facility with certain conduit lenders and certain secondary backstop lenders (the "Lenders") and Citicorp North America, Inc., as agent for the Lenders. The Fund may borrow money under the facility at rates based on the cost of funding of the conduit lenders incurred through the issuance by the conduit lenders of highly rated commercial paper. The Fund also pays additional borrowing costs which include a backstop commitment fee for this facility at the annual rate of .10% on the total amount of the facility and a program fee of .21% on the borrowings outstanding. As security for its obligations to the Lenders under the revolving securitization facility, the Fund has granted a security interest in substantially all of its assets to and in favor of the Lenders.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Notes to Financial Statements (concluded)

For the year ended May 31, 2005, the average amount borrowed was approximately \$112,501,000 and the daily weighted average interest rate was 2.38%.

6. Distributions to Shareholders:

The Fund paid an ordinary income dividend in the amount of \$.066000 per share on June 30, 2005 to shareholders of record on June 14, 2005.

The tax character of distributions paid during the fiscal years ended May 31, 2005 and May 31, 2004 was as follows:

	5/31/2005	5/31/2004
Distributions paid from:		
Ordinary Income	\$33,146,162	\$33,172,274
Total taxable distributions	\$33,146,162	\$33,172,274

As of May 31, 2005, the components of accumulated losses on a tax basis were as follows:

Undistributed ordinary income--net	\$ 3,153,607
Undistributed long-term capital gains--net	--
Total undistributed earnings--net	3,153,607
Capital loss carryforward	(229,863,075) *
Unrealized losses--net	(2,137,502) **
Total accumulated losses--net	\$(228,846,970)

* On May 31, 2005, the Fund had a net capital loss carryforward of \$229,863,075, of which \$21,292,692 expires in 2008, \$34,200,029 expires in 2009, \$52,918,036 expires in 2010, \$119,513,437 expires in 2011 and \$1,938,881 expires in 2012. These amounts will be available to offset like amounts of any future taxable gains.

** The difference between book-basis and tax-basis net unrealized losses is attributable primarily to the tax deferral of losses on wash sales, the difference between book and tax amortization methods for premiums and discounts on fixed income securities, book/tax differences in the accrual of income on securities in default, the realization for tax purposes of unrealized gains/losses on certain futures contracts and other book/tax temporary differences.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Corporate High Yield Fund III, Inc.:

We have audited the accompanying statement of assets, liabilities and capital, including the schedule of investments, of Corporate High Yield Fund III, Inc. as of May 31, 2005, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of May 31, 2005, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Corporate High Yield Fund III, Inc. as of May 31, 2005, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Deloitte & Touche LLP
Princeton, New Jersey
July 20, 2005

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

21

Automatic Dividend Reinvestment Plan

The following description of the Fund's Automatic Dividend Reinvestment Plan (the "Plan") is sent to you annually as required by federal securities laws.

Pursuant to the Fund's Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions will be automatically reinvested by EquiServe (the "Plan Agent"), as agent for shareholders in administering the Plan, in additional shares of Common Stock of the Fund. Holders of Common Stock who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by EquiServe, as dividend paying agent. Such participants may elect not to participate in the Plan and to receive all distributions of dividends and capital gains in cash by sending written instructions to EquiServe, as dividend paying agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend record date; otherwise such termination will be effective with respect to any subsequently declared dividend or distribution.

Whenever the Fund declares an income dividend or capital gains distribution (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of Common Stock. The shares will be acquired by the Plan Agent for the participant's account, depending upon the circumstances

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

described below, either (i) through receipt of additional unissued but authorized shares of Common Stock from the Fund ("newly issued shares") or (ii) by purchase of outstanding shares of Common Stock on the open market ("open-market purchases") on the New York Stock Exchange or elsewhere. If on the payment date for the dividend, the net asset value per share of the Common Stock is equal to or less than the market price per share of the Common Stock plus estimated brokerage commissions (such conditions being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participant. The number of newly issued shares of Common Stock to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If, on the dividend payment date, the net asset value per share is greater than the market value (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases.

In the event of a market discount on the dividend payment date, the Plan Agent will have until the last business day before the next date on which the shares trade on an "ex-dividend" basis or in no event more than 30 days after the dividend payment date (the "last purchase date") to invest the dividend amount in shares acquired in open-market purchases. It is contemplated that the Fund will pay monthly income dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next "ex-dividend" date, which typically will be approximately ten days. If, before the Plan Agent has completed its open-market purchases, the market price of a share of Common Stock exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisitions of fewer shares than if the dividend had been paid in newly issued shares on the dividend payment date. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend amount in newly issued shares at the close of business on the last purchase date determined by dividing the uninvested portion of the dividend by the net asset value per share.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held pursuant to the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares of others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the record

22 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There will be no brokerage charges with respect to shares issued directly by the

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Shareholders participating in the Plan may receive benefits not available to shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants will receive distributions in shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

The value of shares acquired pursuant to the Plan will generally be excluded from gross income to the extent that the cash amount reinvested would be excluded from gross income. If, when the Fund's shares are trading at a premium over net asset value, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of such discount (which may not exceed 5% of the fair market value of the Fund's shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at EquiServe, P.O. Box 43010, Providence, RI 02940-3010, Telephone: 800-426-5523.

Fund Certification

In September 2004, the Fund filed its Chief Executive Officer Certification for the prior year with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

As of May 31, 2005

=====

Ten Largest Holdings

Sierra Pacific Resources*	Sierra Pacific Resources is the holding company for two utility Power Company and Sierra Pacific Power Company. Both utilities are located in the State of Nevada.
The AES Corp.*	AES is a worldwide power producer with operations in the United States, Europe, Latin America and Asia. Electricity generation and distribution to wholesale customers, although the company has a direct sales business to end users.
Building Materials Corp. of America*	Building Materials is a manufacturer of residential roofing products with Timberline as its major brand.
Calpine Corp.*	Calpine owns, develops and operates power generation facilities and sells electricity in the United States. The company also provides energy for industrial customers.
Adelphia Communications Corp.*	Adelphia is a cable television operator, with systems in large- and medium-sized cities in the United States. Our primary focus is in loans to Adelphia's Century Cable subsidiary to pay interest through the bankruptcy proceedings.
Liberty Media Corp.	These bonds are an obligation of Liberty Media, but upon conversion are exchangeable into shares of media giant Time Warner common stock.
Alpharma Inc.*	Alpharma manufactures generic and proprietary human pharmaceutical health products. Products include liquid and topical pharmaceuticals, specialty antibiotics, animal health feed additives for poultry and as well as vaccines for farmed fish.
Intelsat*	Intelsat owns and operates a global communications satellite system that offers satellite service for voice, data, video and Internet access over 200 countries and territories.
Time Warner Telecom*	Time Warner Telecom offers local telephone service and a variety of telephony products to medium- and large-sized businesses in metropolitan areas. The company operates a fiber optic network.
Felcor Lodging LP	Felcor is a real estate investment trust holding upscale hotels, primarily in Texas, California and Florida. The hotels include Embassy Suites, Crowne Plaza, Holiday Inn and Doubletree Sheraton and Westin.

*Includes combined holdings and/or affiliates.

Portfolio Profile

Five Largest Industries*	Percent of Total Investments
Utility	8.6%
Cable--U.S.	7.5
Chemicals	7.0
Health Care	5.9

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Diversified Media 5.8

* For Fund compliance purposes, "Industries" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease. These industry classifications are unaudited.

Five Largest Foreign Countries*	Percent of Total Investments
Canada	7.3%
United Kingdom	1.8
Bermuda	1.6
Netherlands	1.2
Norway	0.9

* All holdings are denominated in U.S. dollars.

Quality Ratings by S&P/Moody's	Percent of Total Investments
BBB/Baa	2.8%
BB/Ba	17.8
B/B	59.8
CCC/Caa	12.9
CC/Ca	0.3
NR (Not Rated)	4.1
Other*	2.3

* Includes portfolio holdings in common stocks, preferred stocks, warrants, other interests and short-term investments.

Average Portfolio Maturity 6.3 Years

24 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Officers and Directors

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years

Interested Director				

Robert C. Doll, Jr.*	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 50	President and Director	2005 to present	President of the MLIM/FAM-advised funds since 2005; President of MLIM and FAM since 2001; Co-Head (Americas Region) thereof from 2000 to 2001 and Senior Vice President from 1999 to 2001; President and Director of Princeton Services, Inc. ("Princeton Services") since 2001; President of Princeton

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Administrators, L.P. ("Princeton Administrators" since 2001; Chief Investment Officer of Oppenheimer Funds, Inc. in 1999 and Executive Vice President thereof from 1991 to 1999.

* Mr. Doll is a director, trustee or member of an advisory board of certain other investment funds. Mr. Doll is an "interested person," as defined in the Investment Advisers Act of 1940, in connection with the Fund based on his current positions with MLIM, FAM, Princeton Services and Princeton Investment Services until their resignation, removal or death, or until December 31 of the year in which Mr. Doll serves at the pleasure of the Board of Directors.

=====
Independent Directors*

James H. Bodurtha P.O. Box 9095 Princeton, NJ 08543-9095 Age: 61 Director 2002 to present Director, The China Business Group, Inc. since 1996 and Executive Vice President thereof from 1996 to 2003; Chairman of the Board, Berkshire Holding Corporation since 1980; Partner, Squire, Sanders & Dempsey from 1980 to 1993.

Joe Grills P.O. Box 9095 Princeton, NJ 08543-9095 Age: 70 Director 1998 to present Member of the Committee of Investment of Employee Benefit Assets of the Association of Financial Professionals ("CIEBA") since 1986; Member of CIEBA's Executive Committee since 1988 and its Chairman from 1991 to 1992; Assistant Treasurer of International Business Machines Corporation ("IBM") and Chief Investment Officer of IBM Retirement Funds from 1986 to 1993; Member of the Investment Advisory Committee of the State of New York Common Retirement Fund since 1989; Member of the Investment Advisory Committee of the Howard Hughes Medical Institute from 1997 to 2000; Director, Duke University Management Company from 1992 to 2004, Vice Chairman thereof from 1999 to 2004 and Director Emeritus thereof since 2004; Director, LaSalle Street Fund from 1995 to 2001; Director, Kimco Realty Corporation since 1997; Member of the Investment Advisory Committee of the Virginia Retirement System since 1998; Vice Chairman thereof from 2002 to 2005 and Chairman thereof since 2005; Director, Montpelier Foundation since 1998 and its Vice Chairman thereof since 2002; Member of the Investment Committee of the Woodberry Forest School since 2000; Member of the Investment Committee of the National Trust for Historic Preservation since 2000.

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

25

Officers and Directors (continued)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
=====				

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Independent Directors* (concluded)

Herbert I. London	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 66	Director	2002 to present	John M. Olin Professor of Humanities, New York University since 1993 and Professor thereof since 1980; President, Hudson Institute since 1997 and Trustee thereof since 1980; Dean, Gallatin Division of New York University from 1976 to 1999 Distinguished Fellow, Herman Kahn Chair, Hudson Institute from 1984 to 1985; Director, Damon Cor from 1991 to 1995; Overseer, Center for Naval Analyses from 1983 to 1993.
Roberta Cooper Ramo	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 62	Director	2002 to present	Shareholder, Modrall, Sperling, Roehl, Harris & P.A. since 1993; President, American Bar Association from 1995 to 1996 and Member of the Board of Governors thereof from 1994 to 1997; Shareholder Poole, Kelly & Ramo, Attorneys at Law, P.C. from 1977 to 1993; Director, ECMC Group (service provider to students, schools and lenders) since 2001; Director, United New Mexico Bank (now Wells Fargo) from 1983 to 1988; Director, First National Bank of New Mexico (now Wells Fargo) from 1975 to 1976; Vice President, American Law Institute since 2004.
Robert S. Salomon, Jr.	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 68	Director	1998 to present	Principal of STI Management (investment adviser) since 1994; Chairman and CEO of Salomon Brothers Asset Management from 1992 to 1995; Chairman of Salomon Brothers Equity Mutual Funds from 1992 to 1995; regular columnist with Forbes Magazine 1992 to 2002; Director of Stock Research and U.S. Equity Strategist at Salomon Brothers Inc. from 1991 to 1991; Trustee, Commonfund from 1980 to 2001.
Stephen B. Swensrud	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 71	Director	1998 to present	Chairman of Fernwood Advisors, Inc. (investment adviser) since 1996; Principal, Fernwood Associates (financial consultants) since 1975; Chairman of R.P.P. Corporation (manufacturing company) since 1978; Director of International Mobile Communications, Incorporated (telecommunications) since 1998.

* Directors serve until their resignation, removal or death, or until December 31 of

26 CORPORATE HIGH YIELD FUND III, INC. MAY 31, 2005

Officers and Directors (concluded)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Fund Officers*				
Donald C.	P.O. Box 9011	Vice	1998 to	First Vice President of MLIM and FAM since 1997

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Burke	Princeton, NJ 08543-9011 Age: 45	President and Treasurer	present and 1999 to present	Senior Vice President and Treasurer of Princeton since 2004; Vice President of FAMD since 1999; Vice President of MLIM from 1990 to 1997; Director of Taxation of MLIM from 1999 to present; Treasurer and Secretary of the IQ Funds since 2004.

Elizabeth M. Phillips	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 55	Vice President	1998 to present	Director (Global Fixed Income) of MLIM since 2004; Director of MLIM from 1994 to 2001.

Jeffrey Hiller	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 53	Chief Compliance Officer	2004 to present	Chief Compliance Officer of the MLIM/FAM-advised Fund since 2004; Chief Compliance Officer of MLIM (Americas Region) since 2004; Chief Compliance Officer of the IQ Funds since 2004; Global Director of Investment Management from 2002 to 2004; Managing Director of Compliance at Citigroup Asset Management from 2000 to 2002; Chief Compliance Officer at Soros Fund Management in 2000; Chief Compliance Officer at Soros Fund Management from 1995 to 2000; Senior Counsel in the Enforcement Division of the SEC from 1990 to 1994.

Alice A. Pellegrino	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 45	Secretary	2004 to present	Director (Legal Advisory) of MLIM since 2002; Vice President of MLIM since 2002; Attorney associated with MLIM since 1997; Attorney at Princeton Services since 2004.

* Officers of the Fund serve at the pleasure of the Board of Directors.

Custodian

State Street Bank and Trust Company
P.O. Box 351
Boston, MA 02101

Transfer Agent

EquiServe Trust Company N.A.
(c/o Computershare Investor Services)
P.O. Box 43010
Providence, RI 02940-3010
1-800-426-5523

NYSE Symbol

CYE

Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this Web site at <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

CORPORATE HIGH YIELD FUND III, INC.

MAY 31, 2005

27

[LOGO] Merrill Lynch Investment Managers

www.mlim.ml.com

Mercury Advisors

A Division of Merrill Lynch Investment Managers

www.mercury.ml.com

Corporate High Yield Fund III, Inc. seeks to provide shareholders with current income by investing primarily in a diversified portfolio of fixed income securities that are rated in the lower rating categories of the established rating services (Ba or lower by Moody's Investors Service, Inc. or BB or lower by Standard & Poor's Corporation) or are unrated securities of comparable quality.

This report, including the financial information herein, is transmitted to shareholders of Corporate High Yield Fund III, Inc. for their information. It is not a prospectus. The Fund has leveraged its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) at www.mutualfunds.ml.com; and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at www.mutualfunds.ml.com and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Corporate High Yield Fund III, Inc.
Box 9011
Princeton, NJ 08543-9011

#COYIII -- 5/05

Item 2 - Code of Ethics - The registrant has adopted a code of ethics, as of the end of the period covered by this report, that applies to the registrant's principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. A copy of the code of ethics is available without charge upon request by calling toll-free 1-800-MER-FUND (1-800-637-3863).

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Item 3 - Audit Committee Financial Expert - The registrant's board of directors has determined that (i) the registrant has the following audit committee financial experts serving on its audit committee and (ii) each audit committee financial expert is independent: (1) Joe Grills, (2) Andre F. Perold (resigned as of October 1, 2004), (3) Robert S. Salomon, Jr., and (4) Stephen B. Swensrud.

Item 4 - Principal Accountant Fees and Services

(a) Audit Fees - Fiscal Year Ending May 31, 2005 - \$37,000
Fiscal Year Ending May 31, 2004 - \$35,000

(b) Audit-Related Fees - Fiscal Year Ending May 31, 2005 - \$0
Fiscal Year Ending May 31, 2004 - \$7,500

The nature of the services include assurance and related services reasonably related to the performance of the audit of financial statements not included in Audit Fees.

(c) Tax Fees - Fiscal Year Ending May 31, 2005 - \$5,700
Fiscal Year Ending May 31, 2004 - \$5,200

The nature of the services include tax compliance, tax advice and tax planning.

(d) All Other Fees - Fiscal Year Ending May 31, 2005 - \$0
Fiscal Year Ending May 31, 2004 - \$0

(e)(1) The registrant's audit committee (the "Committee") has adopted policies and procedures with regard to the pre-approval of services. Audit, audit-related and tax compliance services provided to the registrant on an annual basis require specific pre-approval by the Committee. The Committee also must approve other non-audit services provided to the registrant and those non-audit services provided to the registrant's affiliated service providers that relate directly to the operations and the financial reporting of the registrant. Certain of these non-audit services that the Committee believes are a) consistent with the SEC's auditor independence rules and b) routine and recurring services that will not impair the independence of the independent accountants may be approved by the Committee without consideration on a specific case-by-case basis ("general pre-approval"). However, such services will only be deemed pre-approved provided that any individual project does not exceed \$5,000 attributable to the registrant or \$50,000 for all of the registrants the Committee oversees. Any proposed services exceeding the pre-approved cost levels will require specific pre-approval by the Committee, as will any other services not subject to general pre-approval (e.g., unanticipated but permissible services). The Committee is informed of each service approved subject to general pre-approval at the next regularly scheduled in-person board meeting.

(e)(2) 0%

(f) Not Applicable

(g) Fiscal Year Ending May 31, 2005 - \$9,030,943
Fiscal Year Ending May 31, 2004 - \$16,581,086

(h) The registrant's audit committee has considered and determined that the provision of non-audit services that were rendered to the registrant's investment adviser and any entity controlling, controlled

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

Regulation S-X Rule 2-01(c) (7) (ii) - \$945,000, 0%

Item 5 - Audit Committee of Listed Registrants - The following individuals are members of the registrant's separately-designated standing audit committee established in accordance with Section 3(a) (58) (A) of the Exchange Act (15 U.S.C. 78c(a) (58) (A)):

James H. Bodurtha
Joe Grills
Herbert I. London
Andre F. Perold (resigned as of October 1, 2004)
Roberta Cooper Ramo
Robert S. Solomon, Jr.
Stephen B. Swensrud

Item 6 - Schedule of Investments - Not Applicable

Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies -
Proxy Voting Policies and Procedures

Each Fund's Board of Directors/Trustees has delegated to Merrill Lynch Investment Managers, L.P. and/or Fund Asset Management, L.P. (the "Investment Adviser") authority to vote all proxies relating to the Fund's portfolio securities. The Investment Adviser has adopted policies and procedures ("Proxy Voting Procedures") with respect to the voting of proxies related to the portfolio securities held in the account of one or more of its clients, including a Fund. Pursuant to these Proxy Voting Procedures, the Investment Adviser's primary objective when voting proxies is to make proxy voting decisions solely in the best interests of each Fund and its shareholders, and to act in a manner that the Investment Adviser believes is most likely to enhance the economic value of the securities held by the Fund. The Proxy Voting Procedures are designed to ensure that the Investment Adviser considers the interests of its clients, including the Funds, and not the interests of the Investment Adviser, when voting proxies and that real (or perceived) material conflicts that may arise between the Investment Adviser's interest and those of the Investment Adviser's clients are properly addressed and resolved.

In order to implement the Proxy Voting Procedures, the Investment Adviser has formed a Proxy Voting Committee (the "Committee"). The Committee is comprised of the Investment Adviser's Chief Investment Officer (the "CIO"), one or more other senior investment professionals appointed by the CIO, portfolio managers and investment analysts appointed by the CIO and any other personnel the CIO deems appropriate. The Committee will also include two non-voting representatives from the Investment Adviser's Legal department appointed by the Investment Adviser's General Counsel. The Committee's membership shall be limited to full-time employees of the Investment Adviser. No person with any investment banking, trading, retail brokerage or research responsibilities for the Investment Adviser's affiliates may serve as a member of the Committee or participate in its decision making (except to the extent such person is asked by the Committee to present

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

information to the Committee, on the same basis as other interested knowledgeable parties not affiliated with the Investment Adviser might be asked to do so). The Committee determines how to vote the proxies of all clients, including a Fund, that have delegated proxy voting authority to the Investment Adviser and seeks to ensure that all votes are consistent with the best interests of those clients and are free from unwarranted and inappropriate influences. The Committee establishes general proxy voting policies for the Investment Adviser and is responsible for determining how those policies are applied to specific proxy votes, in light of each issuer's unique structure, management, strategic options and, in certain circumstances, probable economic and other anticipated consequences of alternate actions. In so doing, the Committee may determine to vote a particular proxy in a manner contrary to its generally stated policies. In addition, the Committee will be responsible for ensuring that all reporting and recordkeeping requirements related to proxy voting are fulfilled.

The Committee may determine that the subject matter of a recurring proxy issue is not suitable for general voting policies and requires a case-by-case determination. In such cases, the Committee may elect not to adopt a specific voting policy applicable to that issue. The Investment Adviser believes that certain proxy voting issues require investment analysis - such as approval of mergers and other significant corporate transactions - akin to investment decisions, and are, therefore, not suitable for general guidelines. The Committee may elect to adopt a common position for the Investment Adviser on certain proxy votes that are akin to investment decisions, or determine to permit the portfolio manager to make individual decisions on how best to maximize economic value for a Fund (similar to normal buy/sell investment decisions made by such portfolio managers). While it is expected that the Investment Adviser will generally seek to vote proxies over which the Investment Adviser exercises voting authority in a uniform manner for all the Investment Adviser's clients, the Committee, in conjunction with a Fund's portfolio manager, may determine that the Fund's specific circumstances require that its proxies be voted differently.

To assist the Investment Adviser in voting proxies, the Committee has retained Institutional Shareholder Services ("ISS"). ISS is an independent adviser that specializes in providing a variety of fiduciary-level proxy-related services to institutional investment managers, plan sponsors, custodians, consultants, and other institutional investors. The services provided to the Investment Adviser by ISS include in-depth research, voting recommendations (although the Investment Adviser is not obligated to follow such recommendations), vote execution, and recordkeeping. ISS will also assist the Fund in fulfilling its reporting and recordkeeping obligations under the Investment Company Act.

The Investment Adviser's Proxy Voting Procedures also address special circumstances that can arise in connection with proxy voting. For instance, under the Proxy Voting Procedures, the Investment Adviser generally will not seek to vote proxies related to portfolio securities that are on loan, although it may do so under certain circumstances. In addition, the Investment Adviser will vote proxies related to securities of foreign issuers only on a best efforts basis and may elect not to vote at all in certain countries where the Committee determines that the costs associated with voting generally outweigh the benefits. The Committee may at any time override these general policies if it determines that such action is in the best interests of a Fund.

From time to time, the Investment Adviser may be required to vote proxies in respect of an issuer where an affiliate of the Investment Adviser (each, an

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

"Affiliate"), or a money management or other client of the Investment Adviser (each, a "Client") is involved. The Proxy Voting Procedures and the Investment Adviser's adherence to those procedures are designed to address such conflicts of interest. The Committee intends to strictly adhere to the Proxy Voting Procedures in all proxy matters, including matters involving Affiliates and Clients. If, however, an issue representing a non-routine matter that is material to an Affiliate or a widely known Client is involved such that the Committee does not reasonably believe it is able to follow its guidelines (or if the particular proxy matter is not addressed by the guidelines) and vote impartially, the Committee may, in its discretion for the purposes of ensuring that an independent determination is reached, retain an independent fiduciary to advise the Committee on how to vote or to cast votes on behalf of the Investment Adviser's clients.

In the event that the Committee determines not to retain an independent fiduciary, or it does not follow the advice of such an independent fiduciary, the powers of the Committee shall pass to a subcommittee, appointed by the CIO (with advice from the Secretary of the Committee), consisting solely of Committee members selected by the CIO. The CIO shall appoint to the subcommittee, where appropriate, only persons whose job responsibilities do not include contact with the Client and whose job evaluations would not be affected by the Investment Adviser's relationship with the Client (or failure to retain such relationship). The subcommittee shall determine whether and how to vote all proxies on behalf of the Investment Adviser's clients or, if the proxy matter is, in their judgment, akin to an investment decision, to defer to the applicable portfolio managers, provided that, if the subcommittee determines to alter the Investment Adviser's normal voting guidelines or, on matters where the Investment Adviser's policy is case-by-case, does not follow the voting recommendation of any proxy voting service or other independent fiduciary that may be retained to provide research or advice to the Investment Adviser on that matter, no proxies relating to the Client may be voted unless the Secretary, or in the Secretary's absence, the Assistant Secretary of the Committee concurs that the subcommittee's determination is consistent with the Investment Adviser's fiduciary duties

In addition to the general principles outlined above, the Investment Adviser has adopted voting guidelines with respect to certain recurring proxy issues that are not expected to involve unusual circumstances. These policies are guidelines only, and the Investment Adviser may elect to vote differently from the recommendation set forth in a voting guideline if the Committee determines that it is in a Fund's best interest to do so. In addition, the guidelines may be reviewed at any time upon the request of a Committee member and may be amended or deleted upon the vote of a majority of Committee members present at a Committee meeting at which there is a quorum.

The Investment Adviser has adopted specific voting guidelines with respect to the following proxy issues:

- o Proposals related to the composition of the Board of Directors of issuers other than investment companies. As a general matter, the Committee believes that a company's Board of Directors (rather than shareholders) is most likely to have access to important, nonpublic information regarding a company's business and prospects, and is therefore best-positioned to set corporate policy and oversee management. The Committee, therefore, believes that the foundation of good corporate governance is the election of qualified, independent corporate directors who are likely to diligently represent the interests of shareholders and oversee management of the

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

corporation in a manner that will seek to maximize shareholder value over time. In individual cases, the Committee may look at a nominee's history of representing shareholder interests as a director of other companies or other factors, to the extent the Committee deems relevant.

- o Proposals related to the selection of an issuer's independent auditors. As a general matter, the Committee believes that corporate auditors have a responsibility to represent the interests of shareholders and provide an independent view on the propriety of financial reporting decisions of corporate management. While the Committee will generally defer to a corporation's choice of auditor, in individual cases, the Committee may look at an auditors' history of representing shareholder interests as auditor of other companies, to the extent the Committee deems relevant.
- o Proposals related to management compensation and employee benefits. As a general matter, the Committee favors disclosure of an issuer's compensation and benefit policies and opposes excessive compensation, but believes that compensation matters are normally best determined by an issuer's board of directors, rather than shareholders. Proposals to "micro-manage" an issuer's compensation practices or to set arbitrary restrictions on compensation or benefits will, therefore, generally not be supported.
- o Proposals related to requests, principally from management, for approval of amendments that would alter an issuer's capital structure. As a general matter, the Committee will support requests that enhance the rights of common shareholders and oppose requests that appear to be unreasonably dilutive.
- o Proposals related to requests for approval of amendments to an issuer's charter or by-laws. As a general matter, the Committee opposes poison pill provisions.
- o Routine proposals related to requests regarding the formalities of corporate meetings.
- o Proposals related to proxy issues associated solely with holdings of investment company shares. As with other types of companies, the Committee believes that a fund's Board of Directors (rather than its shareholders) is best-positioned to set fund policy and oversee management. However, the Committee opposes granting Boards of Directors authority over certain matters, such as changes to a fund's investment objective, that the Investment Company Act envisions will be approved directly by shareholders.
- o Proposals related to limiting corporate conduct in some manner that relates to the shareholder's environmental or social concerns. The Committee generally believes that annual shareholder meetings are inappropriate forums for discussion of larger social issues, and opposes shareholder resolutions "micromanaging" corporate conduct or requesting release of information that would not help a shareholder evaluate an investment in the corporation as an economic matter. While the Committee is generally supportive of proposals to require corporate disclosure of matters that seem relevant and material to the economic interests of shareholders, the Committee is generally not supportive of proposals to require disclosure of corporate matters for other purposes.

Item 8 - Portfolio Managers of Closed-End Management Investment Companies - Not Applicable at this time

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Item 9 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable

Item 10 - Submission of Matters to a Vote of Security Holders - Not Applicable

Item 11 - Controls and Procedures

11(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.

11(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal half-year of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12 - Exhibits attached hereto

12(a) (1) - Code of Ethics - See Item 2

12(a) (2) - Certifications - Attached hereto

12(a) (3) - Not Applicable

12(b) - Certifications - Attached hereto

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.

Corporate High Yield Fund III, Inc.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of
Corporate High Yield Fund III, Inc.

Date: July 15, 2005

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 dates indicated.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of
Corporate High Yield Fund III, Inc.

Edgar Filing: CORPORATE HIGH YIELD FUND III INC - Form N-CSR

Date: July 15, 2005

By: /s/ Donald C. Burke

Donald C. Burke,
Chief Financial Officer of
Corporate High Yield Fund III, Inc.

Date: July 15, 2005