

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND
Form N-CSR
May 08, 2006

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 811-21284

Nicholas-Applegate Convertible & Income Fund
(Exact name of registrant as specified in charter)

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

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

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

Date of fiscal year end: February 28, 2006

Date of reporting period: February 28, 2006

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

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORT TO SHAREHOLDERS

Nicholas-Applegate Convertible & Income Fund

Nicholas-Applegate Convertible & Income Fund II

Annual Report
February 28, 2006

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Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 17, 2006

Dear Shareholder:

We are pleased to provide you with the annual report for Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (the "Funds") for the fiscal periods ended February 28, 2006. Please note that Nicholas-Applegate Convertible & Income Fund II changed its fiscal year-end from June 30 to February 28. Accordingly, the accompanying financial statements cover the eight-month period from July 1, 2005 to February 28, 2006.

The convertible market finished the twelve-month period ended February 28, 2006 on a positive note, as the Merrill Lynch All-Convertible Index increased 11.60%. For this period, the convertible market outperformed the Dow Jones Industrial Average but lagged both the S&P 500 Index and NASDAQ Composite Index. U.S. debt markets, as represented by the Lehman Brothers Aggregate Bond Index, produced positive, though modest, returns during the twelve-month period.

In this environment, Nicholas-Applegate Convertible & Income had a net asset value and market price return of 5.44% and 14.30%, respectively, for the reporting period. Nicholas-Applegate Convertible & Income II had a net asset value and market price return of 9.90% and 12.10%, respectively, for the eight-month period. Careful security selection was a key driver of the Funds' performance. In the convertible portion of the portfolios, top performers were companies with improving operating statistics and those exceeding expectations, while exposure to automotive and transport issues proved to be a drag on performance. In the high-yield portion of the portfolios, upgrades exceeded downgrades across many industries, which was a positive for performance. Some of the more duration-sensitive holdings, however, detracted from performance as interest rates rose slightly over the reporting period.

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

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Nicholas-Applegate Capital Management, the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your financial needs.

Robert E. Connor
Chairman

Brian S. Shlissel
President & Chief Executive Officer

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2006 (unaudited)

<p>Symbol: NCV</p> <p>Objective: Seeks to provide total return through a combination of capital appreciation and high current income.</p>	<p>Primary Investments: At least 50% of total assets in convertible securities.</p>	<p>Inception Date: March 31, 2003</p> <p>Net Assets⁽¹⁾ : \$1,542.8 million</p> <p>Portfolio Manager: Douglas Forsyth</p>
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Total Return⁽²⁾ :	Market Price	Net Asset Value (NAV)
1 year	14.30	5.44%
Commencement of Operations (3/31/03) to 2/28/06	15.35	14.55%

Common Share Market Price/NAV Performance:	Market Price/NAV:	
Commencement of Operations (3/31/03) to 2/28/06	Market Price	\$15.69
	NAV	\$14.69
	Premium to NAV	6.81%
	Market Price Yield ⁽³⁾	9.56%

(1) Inclusive of net assets attributable to Preferred Shares outstanding.

(2) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that

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all income dividends and capital gain distributions have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual return.

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

(3) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at February 28, 2006.

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Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2006 (unaudited)

Symbol:

NCZ

Primary Investments:

At least 50% of total assets in convertible securities.

Inception Date:

July 31, 2003

Objective:

Seeks to provide total return through a combination of capital appreciation and high current income.

Total Net Assets⁽¹⁾:

\$1,355.8 million

Portfolio Manager:

Douglas Forsyth

Total Return⁽²⁾ :

Market Price Net Asset Value (NAV)

8 months ended February 28, 2006	12.10	9.90%
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Commencement of Operations (7/31/03) to 2/28/06	10.26	12.40%
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Common Share Market Price/NAV Performance:

Market Price/NAV:

Commencement of Operations (7/31/03) to 2/28/06	Market Price	\$15.14
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	NAV	\$14.70
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	Premium to NAV	2.99%
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	Market Price Yield(3)	9.16%
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(1) Inclusive of net assets attributable to Preferred Shares outstanding.

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

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

(3) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at February 28, 2006.

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2006

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CORPORATE BONDS & NOTES 40.7%			
Apparel 1.5%			
	Levi Strauss & Co.		
\$ 2,000	9.75%, 1/15/15	B3/B-	\$ 2,140,000
10,295	12.25%, 12/15/12	B3/B-	11,762,038
2,890	Oxford Industries, Inc., 8.875%, 6/1/11	B2/B	2,976,700
2,005	Phillips-Van Heusen Corp., 8.125%, 5/1/13	B1/BB	2,140,337
2,965	Warnaco, Inc., 8.875%, 6/15/13	B1/B+	3,172,550
			<u>22,191,625</u>
Automotive 0.6%			
11,543	HLI Operating Co., Inc., 10.50%, 6/15/10	Caa3/B-	<u>9,811,550</u>
Chemicals 4.0%			
5,713	Huntsman LLC, 11.625%, 10/15/10	Ba3/BB-	6,512,820
13,590	IMC Global, Inc., 11.25%, 6/1/11	Ba/BB	14,575,275
	Lyondell Chemical Co.,		
3,120	9.625%, 5/1/07, Ser. A	B1/BB-	3,229,200
5,115	10.875%, 5/1/09	B3/B	5,217,300
5,435	11.125%, 7/15/12	B1/BB-	6,005,675
5,125	PolyOne Corp., 10.625%, 5/15/10	B3/B+	5,496,563
12,450	Resolution Performance Products, Inc., 13.50%, 11/15/10	Caa2/B-	13,321,500
4,830	Rhodia S.A., 10.25%, 6/1/10	B3/CCC+	5,457,900
			<u>59,816,233</u>
Commercial Services 1.1%			
5,400	Hertz Corp., 10.50%, 1/1/16 (a)	B3/B	5,818,500
10,005	Vertrue, Inc., 9.25%, 4/1/14	B2/B	10,255,125
			<u>16,073,625</u>
Computers 0.0%			
600	Unisys Corp., 8.00%, 10/15/12	Ba3/BB-	<u>585,000</u>
Electric 2.8%			
13,025	AES Corp., 9.50%, 6/1/09	B1/B-	14,083,281
12,750	Mission Energy Holdings Co., 13.50%, 7/15/08	B2/CCC+	14,694,375
11,755	PSEG Energy Holdings LLC, 10.00%, 10/1/09	Ba3 /BB-	<u>13,165,600</u>

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			41,943,256
	Electronics	1.6%	
11,795	IMAX Corp., 9.625, 12/1/10	B3/B-	12,178,337
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B+	12,139,575
			24,317,912
	Environmental Control	0.8%	
10,495	Aleris International, Inc., 10.375%, 10/15/10	B2/B+	11,544,500
	Financial Services	2.0%	
11,080	Alamosa Delaware, Inc., 11.00%, 7/31/10	Caa1/A-	12,354,200
7,095	AMR Holdings Co., 10.00%, 2/15/15	Caa1/B-	7,591,650
10,795	Ford Motor Credit Co., 7.00%, 10/1/13	Ba2/BB-	9,486,959
1,000	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	1,038,750
			30,471,559
	Food Products	0.8%	
11,645	Pilgrim's Pride Corp., 9.625%, 9/15/11	Ba2/BB-	12,329,144

Nicholas-Applegate Convertible & Income Fund Schedule of Investments
February 28, 2006

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
	Healthcare 0.7%		
\$ 7,425	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	\$ 6,218,437
3,941	Hanger Orthopedic Group, Inc., 11.25%, 6/15/09	NR/CCC+	3,916,369
			10,134,806
	Home Builders 1.6%		
12,325	Ryland Group, Inc., 9.125%, 6/15/11	Ba2/BB+	12,973,714
11,620	William Lyon Homes, Inc., 10.75%, 4/1/13	B2/B	11,881,450
			24,855,164
	Home Furnishings 1.7%		
11,370	Central Garden & Pet Co., 9.125%, 2/1/13	B2/B	11,995,350
14,100	Jarden Corp., 9.75%, 5/1/12	B3/B-	14,452,500
			26,447,850
	Hotels/Gaming 0.7%		
10,500	Mandalay Resort Group, Inc., 10.25%, 8/1/07, Ser. B	Ba3/B+	11,143,125
	Machinery 0.9%		
12,940	Case New Holland, Inc., 9.25%, 8/1/11	Ba3/BB-	13,878,150
	Manufacturing 0.5%		
6,875	Clarke American Corp., 11.75%, 12/15/13 (a)	B2/B-	6,926,562
	Metals & Mining 2.7%		
7,710	AK Steel Corp., 7.875%, 2/15/09	B1/B+	7,497,975
11,665	Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10	B1/B+	12,569,038
6,040	Oregon Steel Mills, Inc., 10.00%, 7/15/09	Ba3/B+	6,417,500
13,420	United States Steel LLC, 10.75%, 8/1/08	Ba2/BB	14,829,100
			41,313,613
	Miscellaneous 2.2%		
32,825	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)	NR/NR	32,948,417
	Multi-Media 3.8%		
12,870	CCH I LLC, 11.00%, 10/1/15 (a)	Caa3/CCC-	10,826,888
2,715	CSC Holdings Inc., 10.50%, 5/15/16	B3/B+	2,891,475
5,700	Lodgenet Entertainment Corp., 9.50%, 6/15/13	B3/B-	6,156,000

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9,340	Mediacom Broadband LLC, 11.00%, 7/15/13	B2/B	9,993,800
6,665	Salem Communications Holding Corp., 9.00%, 7/1/11, Ser. B	B2/B-	6,998,250
8,140	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa1/CCC	8,017,900
11,911	XM Satellite Radio, Inc., 12.00%, 6/15/10	Caa1/CCC+	13,310,543
			<hr/>
			58,194,856
			<hr/>
	Office/Business Equipment 0.4%		
5,565	Xerox Corp., 9.75%, 1/15/09	Ba2/BB+	6,107,587
			<hr/>
	Office Furnishings 1.1%		
	Interface, Inc.,		
5,375	9.50%, 2/1/14	Caa1/CCC	5,536,250
6,490	10.375%, 2/1/10	B2/B-	7,090,325
3,791	Tempur-Pedic, Inc., 10.25%, 8/15/10	B2/B	4,056,370
			<hr/>
			16,682,945
			<hr/>
	Oil & Gas 0.4%		
5,000	Seitel, Inc., 11.75%, 7/15/11	B3/NR	5,662,500
			<hr/>

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2006

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
Paper Products 0.6%			
\$ 5,096	Buckeye Technologies, Inc., 9.25%, 9/15/08	Caa1/B	\$ 5,096,000
3,240	Exopack Holdings Corp., 11.25%, 2/1/14 (a)	B2/B-	3,256,200
			8,352,200
Pharmaceuticals 0.7%			
10,955	Leiner Health Products, Inc., 11.00%, 6/1/12	Caa1/CCC+	10,763,288
Pipelines 1.2%			
4,275	Dynegy Holdings, Inc., 10.125%, 7/15/13 (a)	B1/B-	4,809,375
13,330	Sonat, Inc., 7.625%, 7/15/11	Caa1/B-	13,863,200
			18,672,575
Real Estate 0.2%			
2,715	Host Marriot L.P., 9.50%, 1/15/07, Ser. I, REIT	Ba2/BB-	2,799,844
Retail 3.1%			
5,420	EPL Finance Corp., 11.75%, 11/15/13 (a)	Caa1/CCC+	5,609,700
5,590	Mothers Work, Inc., 11.25%, 8/1/10	Caa1/B-	5,701,800
9,710	Neiman-Marcus Group, Inc., 10.375%, 10/15/15 (a)	B3/B-	10,219,775
10,000	R.H. Donnelley, Inc., 10.875%, 12/15/12	B2/B	11,250,000
13,575	Rite Aid Corp., 12.50%, 9/15/06	NR/B+	14,016,187
			46,797,462
Semi-Conductors 1.0%			
11,265	Amkor Technology, Inc., 10.50%, 5/1/09	Caa3/CCC	11,208,675
3,795	Avago Technologies Finance, 10.125%, 12/1/13 (a)	B3 /B	4,032,187
			15,240,862
Telecommunications 2.0%			
7,395	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15 (a)	Caa1/CCC+	7,006,762
12,180	Millicom International Cellular S.A., 10.00%, 12/1/13	B3/B-	13,413,225
8,860	Time Warner Telecom, Inc., 10.125%, 2/1/11	Caa1/CCC+	9,303,000
			29,722,987
Total Corporate Bonds & Notes (cost-\$611,209,801)			615,729,197

CONVERTIBLE BONDS & NOTES 31.5%

Airlines 1.3%			
20,572	Continental Airlines, Inc., 4.50%, 2/1/07	Caa2/CCC+	20,160,560
Automotive 1.9%			
10,890	Goodyear Tire & Rubber Co., 11.25%, 3/1/11	B3/NR	12,169,575
11,900	4.00%, 6/15/34 (a)	B3/B-	15,946,000
			28,115,575
Chemicals 0.7%			
6,760	Millennium Chemicals, Inc., 4.00%, 11/15/23	B1/BB-	11,272,300
Commercial Services 3.1%			
9,100	Bowne & Co., Inc., 5.00%, 10/1/33	B2/B-	9,786,140
20,614	Quebecor World USA, Inc., 6.00%, 10/1/07	B2/B	20,227,487
13,440	Memberworks, Inc., 5.50%, 10/1/10	NR/B-	16,497,600
			46,511,227
Computers 1.2%			
16,400	Maxtor Corp., 6.80%, 4/30/10	B2/NR	18,839,500

Nicholas-Applegate Convertible & Income Fund Schedule of Investments
February 28, 2006

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
	Electric 1.2%		
\$ 6,075	PG&E Corp., 9.50%, 6/30/10	NR/NR	\$ 17,382,094
	Electrical Components & Equipment 0.6%		
7,250	Artesyn Technologies, Inc., 5.50%, 8/15/10	NR/NR	9,823,750
	Financial Services 1.1%		
100	Citigroup Funding, Inc., 5.18%, 9/27/08 (c)	Aa1/AA-	3,199,000
11,800	E*Trade Financial Corp., 6.00%, 2/1/07	NR/B-	13,083,250
			16,282,250
	Household Products 0.7%		
7,300	American Greetings Corp., 7.00%, 7/15/06	Ba2/BB+	11,205,500
	Insurance 0.2%		
2,250	American Equity Investment Life Holding Co., 5.25%, 12/6/24	NR/BB+	