

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II
Form N-CSR
May 09, 2008

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 811-21338

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

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

New York 10105
(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 29, 2008

Date of reporting period: February 29, 2008

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 29, 2008

Contents

Letter to Shareholders	1
Fund Insights/Performance & Statistics	2-4
Schedules of Investments	5-16
Statements of Assets and Liabilities	17
Statements of Operations	18
Statements of Changes in Net Assets	19
Notes to Financial Statements	20-25
Financial Highlights	26-27
Report of Independent Registered Public Accounting Firm	28
Tax Information/Annual Shareholder Meetings Results	29
Privacy Policy/Proxy Voting Policies & Procedures	30
Dividend Reinvestment Plan	31
Board of Trustees	32-33
Principal Officers	34

Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 16, 2008

Dear Shareholder:

We are pleased to provide you with the annual reports of the Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (collectively, the Funds) for the fiscal year ended February 29, 2008.

The convertible market finished the reporting period with relatively flat returns, falling 0.58%, as measured by the Merrill Lynch All-Convertible Index. The convertible market outperformed the S&P 500 Index, which returned (3.59)% for the period. It trailed the Dow Jones Industrial Average, which advanced 2.23%.

During February 2008, industry-wide developments in the auction-rate preferred markets caused auctions for the Funds' auction-rate preferred shares (ARPS) to fail, as described in Note 5 in the accompanying notes to Financial Statements. At the time this report is being prepared, it is not possible to predict how and when full or partial liquidity will return, if at all, to the closed-end fund ARPS market. Additional information regarding ARPS, failed auctions and potential solutions to address the unprecedented lack of liquidity of the ARPS due to recent failed auctions can be accessed on the Funds' website <http://www.allianzinvestors.com/closedendfunds>.

Please refer to 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 LLC, the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman

Brian S. Shlissel

President & Chief Executive Officer
2.29.08 | Nicholas-Applegate Convertible & Income Funds Annual Report 1

Nicholas-Applegate Convertible & Income Fund
Nicholas-Applegate Convertible & Income Fund II
Fund Insights

February 29, 2008 (unaudited)

For the 12-months ended February 29, 2008, Nicholas-Applegate Convertible & Income Fund returned (6.33)% on net asset value and (13.63)% on market price.

For the 12-months ended February 29, 2008, Nicholas-Applegate Convertible & Income II Fund returned (7.13)% on net asset value and (12.08)% on market price.

The convertible and high yield markets followed the broad equity market lower in the period as there were no significant catalysts to drive the market higher. Slowing corporate profits, widening credit spreads, recession fears, high oil prices, and continued negative subprime news were responsible for the broad equity market pull-back.

Industry performance was mixed and driven by broad market themes. Financial issuer underperformance was clearly the most severe of any industry in the broad markets. The consumer sector also performed poorly. The best performing industries during the twelve month period were healthcare, utilities and energy. These sectors performed well because of favorable operating performance as well as an expected flight to quality.

The Funds' convertible positions were helped by many industries during the period. Healthcare companies rallied in response to better-than-expected corporate profits and positive outlooks. Consumer staple companies benefited from record commodity prices as well as an investor rotation into more defensive industries. Material companies were higher on impressive quarterly results despite a slowing economy.

Select sectors within the Funds' the convertible portfolio's hindered performance in the period. Despite positive performance for the year, select technology issuers pulled back during the period on fears of slowing earnings growth. Automotive companies moved lower on concerns that weaker-than-expected consumer spending would cause auto sales to fall below expectations in 2008. Retail companies continued their move lower as the challenging economic backdrop weighed on consumer spending.

Remarkably, with all of the financial chaos and headlines, the fundamentals of the majority of issuers in the high yield market remained intact. The default rate for 2007 was a record setting low.

Throughout the continued volatility, relative high yield performance was driven by stringent credit selection. We continued to have bonds tendered for as well as companies, demonstrated improving fundamentals, upgraded.

There were negative high yield contributors during the period. In the auto industry, bonds traded lower across the board. Other negative movers included certain retail-related issuers.

2 Nicholas-Applegate Convertible & Income Funds Annual Report | 2.29.08

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 29, 2008 (unaudited)

Total Return ⁽¹⁾ :	Market Price	Net Asset Value (NAV)
1 year	(13.63)%	(6.33)%
3 year	4.22%	3.87%
Commencement of Operations (3/31/03) to 2/29/08	8.62%	9.74%

Common Share Market Price/NAV Performance:

Commencement of Operations (3/31/03) to 2/29/08

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	12.50
NAV	\$	12.52
Discount to NAV		(0.16)%
Market Price Yield ⁽²⁾		12.00%

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

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

Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods; returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares or changes in Fund distributions.

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An investment in the Fund involves risk, including the loss of principal. Total return, price, market yield and market 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 typically 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 equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at February 29, 2008.

2.29.08 | Nicholas-Applegate Convertible & Income Funds Annual Report **3**

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 29, 2008 (unaudited)

Total Return ⁽¹⁾ :	Market Price	Net Asset Value (NAV)
1 year	(12.08)%	(7.13)%
3 year	4.77%	3.69%
Commencement of Operations (7/31/03) to 2/29/08	6.47%	8.07%

Common Share Market Price/NAV Performance:

Commencement of Operations (7/31/03) to 2/29/08

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	12.09
NAV	\$	12.38
Discount to NAV		(2.34)%
Market Price Yield ⁽²⁾		11.79%

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

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

Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods; returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares or changes in Fund distributions.

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4 Nicholas-Applegate Convertible & Income Funds Annual Report | 2.29.08

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
CONVERTIBLE PREFERRED STOCK 43.1%			
Agriculture 1.9%			
	Bunge Ltd.,		
136	4.875%, 12/31/49	Ba1/BB	\$ 18,615,156
8	5.125%, 12/1/10	NR/BB	8,280,000
			26,895,156
Automotive 2.0%			
	General Motors Corp.,		
785	5.25%, 3/6/32, Ser. B	Caa1/B	14,216,350
700	6.25%, 7/15/33, Ser. C	Caa1/B	13,538,000
			27,754,350
Banking 3.7%			
17	Bank of America Corp., 7.25%, 12/31/49, Ser. L	Aa3/A+	18,695,854
315	Washington Mutual Capital Trust, 5.375%, 5/1/41, Ser. UNIT	Baa3/BBB-	11,047,406
181	Wells Fargo Co., 8.00%, 6/1/08, Ser. AAPL (Apple, Inc.) (e)	Aa1/AA+	21,595,110
			51,338,370
Commercial Services 0.7%			
305	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	10,516,014
Electric 4.6%			
441	AES Trust III, 6.75%, 10/15/29	B3/B-	20,891,550
322	Entergy Corp., 7.625%, 2/17/09	NR/BBB	20,051,760
68	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	24,314,800
			65,258,110
Financial Services 11.7%			
366	Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (Genworth Financial, Inc.) (d) (e)	Aa3/AA-	8,724,248
35	Citigroup, Inc., 6.50%, 12/31/49, Ser. T	A2/A	1,733,788
1,216	Eksportfinans A/S, 13.00%, 11/1/08, Ser. TWX (Time Warner, Inc.) (e)	Aaa/A+	19,037,442
830	Goldman Sachs Group, Inc., 9.75%, 12/19/08, Ser. CSCO (Cisco Systems, Inc.) (e)	Aa3/NR	21,088,432
505	20.00%, 3/6/08, Ser. DISH (Echostar Communications Corp.) (e)	Aa3/NR	15,792,188
281	Lazard Ltd., 6.625%, 5/15/08 Lehman Brothers Holdings, Inc.,	Ba1/NR	9,034,635
892	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.) (e)	A1/A+	21,915,528
255	8.50%, 8/25/08, Ser. UTX (United Technologies Corp.) (e)	A1/A+	17,255,893
139	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.) (e) Morgan Stanley,	A1/A+	19,660,570

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36	20.00%, 3/8/08, Ser. GOOG (Google, Inc.) (e)	Aa3/NR	14,866,702
554	20.00%, 3/24/08, Ser. DIS (The Walt Disney Co.) (e)	Aa3/NR	15,155,966
			164,265,392
	Hand/Machine Tools 1.1%		
18	Stanley Works, 5.125%, 5/17/12 (d)	A2/A	15,656,550

2.29.08 | Nicholas-Applegate Convertible & Income Funds Annual Report 5

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
	Insurance 3.5%		
629	Metlife, Inc., 6.375%, 8/15/08	NR/BBB+	\$ 18,172,320
687	Platinum Underwriters Holdings Ltd., 6.00%, 2/15/09, Ser. A	NR/BB+	21,211,125
687	XL Capital Ltd., 7.00%, 2/15/09	Baa1/A-	9,793,313
			49,176,758
	Investment Company 1.7%		
356	Vale Capital Ltd., 5.50%, 6/15/10, Ser. RIO (Companhia Vale do Rio Doce) (e)	NR/NR	23,951,813
	Metals & Mining 1.8%		
169	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/B+	24,899,245
	Oil & Gas 1.9%		
203	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	26,486,337
	Packaging & Containers 0.8%		
201	Owens-Illinois, Inc., 4.75%, 12/31/49	Caa1/B	11,109,968
	Pharmaceuticals 1.0%		
71	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	14,608,388
	Real Estate (REIT) 1.2%		
867	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B2/B-	17,214,912
	Sovereign 3.1%		
511	Svensk Exportkredit AB, 10.00%, 10/20/08, Ser. TEVA (Teva Pharmaceutical Industries Ltd.) (e)	Aa1/AA+	23,547,630
226	12.50%, 12/12/08, Ser. XOM (Exxon Mobil Corp.) (e)	Aa1/AA+	19,463,836
			43,011,466
	Telecommunications 1.3%		
330	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	18,562,500
	Waste Disposal 1.1%		
57	Allied Waste Industries, Inc., 6.25%, 3/1/08, Ser. D	B3/B	14,816,182
	Total Convertible Preferred Stock (cost-\$618,771,333)		605,521,511

CORPORATE BONDS & NOTES 40.0%

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Principal Amount (000)				
\$	11,450	Advertising 0.8% Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	10,591,250
	3,990	Apparel 0.7% Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	3,980,025
	6,090	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B	5,876,850
				9,856,875

6 Nicholas-Applegate Convertible & Income Funds Annual Report | 2.29.08

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Principal Amount (000)	Credit Rating (Moody s/S&P)*	Value
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