

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II  
Form N-CSRS  
November 03, 2006

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

**FORM N-CSRS**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES**

Investment Company Act file number 811-21238

Nicholas-Applegate Convertible & Income Fund II  
(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, 2007

Date of reporting period: August 31, 2006

Form N-CSRS 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

Semi-Annual Report  
August 31, 2006

## Contents

Letter to Shareholders	1
Performance & Statistics	2-3
Schedules of Investments	4-15
Statements of Assets and Liabilities	16
Statements of Operations	17
Statements of Changes in Net Assets	18-19
Notes to Financial Statements	20-24
Financial Highlights	25-26
Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements	27-29
Annual Shareholders Meeting Results	30



**Nicholas-Applegate Convertible & Income Funds Letter to Shareholders** (unaudited)

October 4, 2006

Dear Shareholder:

We are pleased to provide you with the semi-annual report for Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (the "Funds") for the fiscal six months ended August 31, 2006.

The convertible market finished the six-month fiscal period ended August 31, 2006 on a positive note, as the Merrill Lynch All-Convertible Index increased 2.04%. For this period, the convertible market lagged the S&P 500 Index but outperformed the NASDAQ Composite Index. The Merrill Lynch Master II Index, a gauge for the high yield market, returned 3.55%. For information on how the Funds fared in this environment, please review the following pages.

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

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

We remain dedicated to serving your financial needs.

Sincerely,

Robert E. Connor  
*Chairman*

Brian S. Shlissel  
*President & Chief Executive Officer*

**Nicholas-Applegate Convertible & Income Fund Performance & Statistics**

August 31, 2006 (unaudited)

- \* Nicholas-Applegate Convertible & Income Fund had a net asset value (NAV) return of 3.70% and a market price return of 7.39% for the six-month reporting period.
- \* In the convertibles portion of the Fund's portfolio, performance was affected by a broad-based sell-off in the market. In this environment, cyclicals were hit the hardest, particularly airlines and materials. This reflects investor anticipation of a slowing economy, which would likely see less business and leisure travel as well as lower demand for housing-related materials.
- \* The healthcare industry was a positive contributor to Fund performance, based on strong first-quarter earnings and a broad rotation into defensive growth areas such as biotechnology and healthcare services.
- \* Insurance companies aided Fund performance, rising on solid corporate profits and low catastrophe occurrences year-to-date.
- \* High yield bond performance was solid for the period. Investors were drawn to energy, telecommunications and consumer products, reassured by ratings increases in these sectors.
- \* Given investor confidence in the high yield bond market, lower-quality issuers turned in the best performance during the reporting period.

<b>Total Return<sup>(1)</sup> :</b>	<b>Market Price</b>	<b>Net Asset Value (NAV)</b>
6 months	7.39%	3.70%
1 year	15.30%	7.61%
Commencement of Operations (3/31/03) to 8/31/06	15.32%	13.48%

**Common Share Market Price/NAV Performance:**

Commencement of Operations (3/31/03) to 8/31/06

**Market Price/NAV:**

Market Price	\$16.03
NAV	\$14.47
Premium to NAV	10.78%
Market Price Yield <sup>(2)</sup>	9.36%

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

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

## Edgar Filing: NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II - Form N-CSRS

(2) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at August 31, 2006.

2 Nicholas-Applegate Convertible & Income Funds Semi-Annual Report | 8.31.06

---

**Nicholas-Applegate Convertible & Income Fund II Performance & Statistics**

August 31, 2006 (unaudited)

- \* Nicholas-Applegate Convertible & Income Fund II had a net asset value (NAV) return of 3.79% and a market price return of 7.43% for the six months ended August 31, 2006.
- \* In the convertibles portion of the Fund's portfolio, performance was affected by a broad-based sell-off in the market. In this environment cyclicals were hit the hardest, particularly airlines and materials. This reflects investor anticipation of a slowing economy, which would likely see less business and leisure travel as well as lower demand for housing-related materials.
- \* The healthcare industry was a positive contributor to the Fund, based on strong first quarter earnings and a broad rotation into defensive growth areas such as biotechnology and healthcare services.
- \* Insurance companies aided Fund performance, rising on solid corporate profits and low catastrophe occurrences year-to-date.
- \* High yield bond performance was solid for the period. Investors were drawn to energy, telecommunications and consumer products, reassured by ratings increases in these sectors.
- \* Given investor confidence in the high yield bond market, lower-quality issuers turned in the best performance during the reporting period.

<b>Total Return<sup>(1)</sup> :</b>	<b>Market Price</b>	<b>Net Asset Value (NAV)</b>
6 months	7.43%	3.79%
1 year	13.32%	8.11%
Commencement of Operations (7/31/03) to 8/31/06	12.26%	11.61%

<b>Common Share Market Price/NAV Performance:</b>	<b>Market Price/NAV:</b>	
Commencement of Operations (7/31/03) to 8/31/06	Market Price	\$15.52
	NAV	\$14.55
	Premium to NAV	6.67%
	Market Price Yield <sup>(2)</sup>	8.94%

**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 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 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 per share dividend to common shareholders by the market price per common share at August 31, 2006.





**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

Principal			
Amount (000)		Credit Rating (Moody's/S&P)*	Value
<b>CORPORATE BONDS &amp; NOTES 40.7%</b>			
<b>Advertising 0.7%</b>			
\$10,700	Affinion Group, Inc., 11.50%, 10/15/15 (a)	Caa1/B-	\$ 10,807,000
<b>Apparel 1.0%</b>			
2,000	Levi Strauss & Co, 9.75%, 1/15/15	B3/B-	2,080,000
10,295	12.25%, 12/15/12	B3/B-	11,530,400
1,975	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B	1,994,750
			15,605,150
<b>Automotive 1.6%</b>			
7,485	General Motors Corp., 8.375%, 7/15/33	Caa1/B-	6,268,687
10,890	Goodyear Tire & Rubber Co., 11.25%, 3/1/11	B3/B-	12,033,450
8,308	HLI Operating Co., Inc., 10.50%, 6/15/10	Caa3/CCC	6,397,160
			24,699,297
<b>Chemicals 2.7%</b>			
4,703	Huntsman LLC, 11.625%, 10/15/10	Ba3/BB-	5,220,330
5,115	Lyondell Chemical Co., 10.875%, 5/1/09	B2/B	5,217,300
5,435	11.125%, 7/15/12	Ba3/BB	5,924,150
13,590	Mosaic Global Holdings, Inc., 11.25%, 6/1/11	Ba3/BB	14,354,438
5,125	PolyOne Corp., 10.625%, 5/15/10	B3/B+	5,496,562
4,830	Rhodia S.A., 10.25%, 6/1/10	B2/B-	5,325,075
			41,537,855
<b>Coal 0.9%</b>			
3,595	International Coal Group, Inc., 10.25%, 7/15/14 (a)	B3/CCC+	3,711,837
10,445	James River Coal Co., 9.375%, 6/1/12	Caa2/CCC-	9,687,738
			13,399,575
<b>Commercial Services 1.8%</b>			
3,800	Cenveo Corp., 7.875%, 12/1/13	B3/B-	3,591,000
5,400	Hertz Corp., 10.50%, 1/1/16 (a)	B3/B	5,818,500
4,444	Rent-Way, Inc., 11.875%, 6/15/10	B3/NR	4,966,170
12,335	Vertrue, Inc., 9.25%, 4/1/14	B2/B	12,766,725
			27,142,395
<b>Computers 0.5%</b>			
8,515	Unisys Corp., 8.00%, 10/15/12	B2/B+	7,887,019
<b>Electric 2.7%</b>			
13,025	AES Corp., 9.50%, 6/1/09	B/B1	13,936,750
12,750	Mission Energy Holdings Co., 13.50%, 7/15/08	B/B-2	14,264,063
12,630	PSEG Energy Holdings LLC, 10.00%, 10/1/09	Ba/BB3-	13,640,400
			41,841,213
<b>Electronics 1.6%</b>			
13,405	IMAX Corp., 9.625%, 12/1/10	B3/B-	12,902,312
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B	11,835,325
			24,737,637



**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
	<b>Financial Services</b> 2.4%		
\$11,080	Alamosa Delaware, Inc., 11.00%, 7/31/10	Baa3/BBB+	\$ 12,104,900
8,175	AMR Holdings Co., 10.00%, 2/15/15	Caa1/B-	8,747,250
10,795	Ford Motor Credit Co., 7.00%, 10/1/13	Ba3/B+	10,074,952
4,945	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	5,241,700
			36,168,802
	<b>Food Products</b> 0.9%		
12,805	Pilgrim's Pride Corp., 9.625%, 9/15/11	Ba2/BB-	13,413,237
	<b>Healthcare</b> 0.9%		
7,275	Alliance Imaging, Inc., 7.25%, 12/15/12	B/B- 3	6,765,750
6,475	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	B3/CCC+	6,491,187
			13,256,937
	<b>Home Builders</b> 0.7%		
12,160	William Lyon Homes, Inc., 10.75%, 4/1/13	B2/B	11,187,200
	<b>Home Furnishings</b> 1.8%		
11,370	Central Garden & Pet Co., 9.125%, 2/1/13	B2/B	11,767,950
14,600	Jarden Corp., 9.75%, 5/1/12	B3 /B-	15,111,000
			26,878,950
	<b>Machinery</b> 0.9%		
12,940	Case New Holland, Inc., 9.25%, 8/1/11	Ba3/BB	13,716,400
	<b>Manufacturing</b> 0.5%		
6,875	Clarke American Corp., 11.75%, 12/15/13	B2/B-	7,184,375
	<b>Metals &amp; Mining</b> 2.2%		
7,710	AK Steel Corp., 7.875%, 2/15/09	B1/B+	7,661,812
11,665	Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10	B1/B+	12,405,728
13,420	United States Steel LLC, 10.75%, 8/1/08	Ba1/BB	14,460,050
			34,527,590
	<b>Miscellaneous</b> 1.5%		
22,405	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)	NR/NR	22,460,670
	<b>Multi-Media</b> 1.7%		
12,870	CCH I LLC, 11.00%, 10/1/15	Caa3/CCC-	11,486,475
6,450	Lodgenet Entertainment Corp., 9.50%, 6/15/13	B3/B-	6,917,625
8,140	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa1/CCC	7,773,700
			26,177,800
	<b>Office/Business Equipment</b> 0.4%		
5,565	Xerox Corp., 9.75%, 1/15/09	Ba2 /BB+	6,010,200
	<b>Office Furnishings</b> 1.1%		
	Interface, Inc.,		
5,375	9.50%, 2/1/14	Caa1/CCC	5,549,687
6,490	10.375%, 2/1/10	B2/B-	7,065,988
3,791	Tempur-Pedic, Inc., 10.25%, 8/15/10	B2/B	3,971,072
			16,586,747

5,000	<b>Oil &amp; Gas</b> 0.4% Seitel, Inc., 11.75%, 7/15/11	B3/NR	5,775,000
-------	--	-------	-----------

**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

Principal Amount (000)		Credit Rating (Moody's/S&P)	Value
	<b>Paper Products</b> 1.2%		
\$ 5,096	Buckeye Technologies, Inc., 9.25%, 9/15/08	Caa1/B	\$ 5,096,000
12,945	NewPage Corp., 12.00%, 5/1/13	Caa2/CCC+	13,365,713
			18,461,713
	<b>Pharmaceuticals</b> 0.4%		
7,180	Leiner Health Products, Inc., 11.00%, 6/1/12	Caa1/CCC	6,821,000
	<b>Pipelines</b> 0.9%		
13,330	Sonat, Inc., 7.625%, 7/15/11	B2/B	13,629,925
	<b>Retail</b> 4.3%		
14,420	Bon-Ton Stores, Inc., 10.25%, 3/15/14	B2/B-	13,572,825
5,420	EPL Finance Corp., 11.75%, 11/15/13 (a)	Caa1/CCC+	6,056,850
4,790	GSC Holdings Corp., 8.00%, 10/1/12	Ba3/B+	4,891,788
8,325	Mothers Work, Inc., 11.25%, 8/1/10	Caa1/B-	8,793,281
9,710	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B/B- 3	10,389,700
10,000	R.H. Donnelley, Inc., 10.875%, 12/15/12	B2/B	10,950,000
10,770	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/B-	10,985,400
			65,639,844
	<b>Telecommunications</b> 3.9%		
7,395	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	Caa1/CCC+	7,561,388
12,400	Intelsat Bermuda Ltd, 11.25%, 6/15/16 (a)	Caa1/B	12,849,500
10,110	Level 3 Financing, Inc., 12.25%, 3/15/13 (a)	B3/CCC-	11,083,088
12,990	Millicom International Cellular S.A., 10.00%, 12/1/13	B3/B-	13,931,775
12,680	Nortel Networks Ltd, 10.75%, 7/15/16 (a)	B3/B-	13,123,800
			58,549,551