

BEACON ROOFING SUPPLY INC
Form 10-Q
August 08, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO.: 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

36-4173371

(I.R.S. Employer
Identification No.)

**One Lakeland Park Drive,
Peabody, Massachusetts**

(Address of principal executive offices)

01960

(Zip Code)

978-535-7668

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 1, 2008, there were 44,297,906 outstanding shares of the registrant's common stock, \$.01 par value per share.

BEACON ROOFING SUPPLY, INC.
Form 10-Q
For the Quarter Ended June 30, 2008
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BEACON ROOFING SUPPLY, INC.
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Consolidated Balance Sheets

	(Unaudited) June 30, 2008	(Unaudited) June 30, 2007	(Note) September 30, 2007
(Dollars in thousands)			
Assets			
Current assets:			
Cash and cash equivalents	\$ 11,503	\$ 7,232	\$ 6,469
Accounts receivable, less allowance of \$11,113 at June 30, 2008, \$6,695 at June 30, 2007, and \$7,970 at September 30, 2007	276,857	263,688	267,563
Inventories	203,101	192,735	165,848
Prepaid expenses and other assets	38,121	40,452	34,509
Deferred income taxes	17,601	13,578	13,196
Total current assets	547,183	517,685	487,585
Property and equipment, net	58,119	74,010	69,753
Goodwill	354,813	353,781	355,155
Other assets, net	78,465	98,310	94,167
Total assets	\$ 1,038,580	\$ 1,043,786	\$ 1,006,660
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 191,975	\$ 198,115	\$ 183,257
Accrued expenses	87,830	79,373	54,020
Current portion of long-term obligations	16,674	51,225	34,773
Total current liabilities	296,479	328,713	272,050
Senior notes payable, net of current portion	340,375	344,750	343,000
Deferred income taxes	36,516	32,651	36,490
Long-term obligations under equipment financing and other, net of current portion	26,581	23,021	31,270
Commitments and contingencies			
Stockholders' equity:			
Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 44,297,906 issued at June 30, 2008, 44,273,312 at June 30, 2007 and 44,273,312 at September 30, 2007	443	443	443
Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding	-	-	-
Additional paid-in capital	215,407	210,333	211,567
Retained earnings	122,013	95,332	106,640
Accumulated other comprehensive income	766	8,543	5,200
Total stockholders' equity	338,629	314,651	323,850
Total liabilities and stockholders' equity	\$ 1,038,580	\$ 1,043,786	\$ 1,006,660

Note: The balance sheet at September 30, 2007

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has been derived from the audited financial statements at that date.

The accompanying Notes are an integral part of the Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Operations

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Unaudited				
(Dollars in thousands, except per share data)				
Net sales	\$ 514,647	\$ 484,870	\$ 1,217,294	\$ 1,152,024
Cost of products sold	394,474	377,036	937,035	886,288
Gross profit	120,173	107,834	280,259	265,736
Operating expenses	83,240	81,183	234,489	222,249
Income from operations	36,933	26,651	45,770	43,487
Interest expense	5,977	7,401	19,714	20,110
Income before income taxes	30,956	19,250	26,056	23,377
Income tax expense	12,692	7,745	10,683	9,406
Net income	\$ 18,264	\$ 11,505	\$ 15,373	\$ 13,971
Net income per share:				
Basic	\$ 0.41	\$ 0.26	\$ 0.35	\$ 0.32
Diluted	\$ 0.41	\$ 0.26	\$ 0.34	\$ 0.31
Weighted average shares used in computing net income per share:				
Basic	44,291,478	44,263,602	44,281,768	44,020,089
Diluted	45,059,653	45,017,314	44,818,107	44,938,812

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the "Company") prepared the consolidated financial statements following accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. The balance sheet as of June 30, 2007 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition. Certain prior-year amounts have been reclassified to conform to the current-year presentation.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period (third quarter) and the nine-month period ended June 30, 2008 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2008 ("2008").

The Company's fiscal year ends on the last day in September of each year. Each of the Company's 2008 and 2007 quarters ends or ended on the last day of the respective third calendar month. Both this year's and last year's third quarter had 64 business days, while the nine-month periods ended June 30, 2008 and June 30, 2007 both had 189 business days.

During the first quarter of 2007, the Company refinanced its prior credit facilities and invested the associated excess funds in a money market account, which were classified as cash equivalents. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include unsettled credit card transactions.

You should also read the financial statements and notes included in the Company's 2007 Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

Accounting Change

Prior to October 1, 2007, the Company recognized income tax accruals with respect to uncertain tax positions based upon Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." Under SFAS No. 5, the Company recorded a liability (including interest and penalties) associated with an uncertain tax position if the liability was both probable and estimable.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" and requires expanded disclosure with respect to the uncertainty in income taxes. This Interpretation seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes.

The Company is subject to U.S. federal income tax and to income tax of multiple state jurisdictions. The Company is open to tax audits in the various jurisdictions until the respective statutes of limitations expire. The Company is no

longer subject to U.S. federal tax examinations for tax years prior to 2004. For the majority of states, the Company is no longer subject to tax examinations for tax years before 2004. In connection with the adoption of FIN No. 48, the Company analyzed its filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as

BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****1. Basis of Presentation (Continued)**

well as all open tax years in these jurisdictions. There was no material impact on the consolidated financial statements upon adoption of FIN No. 48.

As of October 1, 2007, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$168,000. Of this total, \$109,000 (net of the federal benefit received from state positions) represents the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense in the consolidated statements of operations. There were no significant accrued interest and penalty amounts resulting from such unrecognized tax benefits at October 1, 2007. The Company does not anticipate a significant change in its unrecognized tax benefits during the next twelve months.

2. Earnings Per Share

The Company calculates basic income per share by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effects of outstanding stock awards.

The following table reflects the calculation of weighted-average shares outstanding for each period presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Weighted-average common shares outstanding for basic	44,291,478	44,263,602	44,281,768	44,020,089
Dilutive effect of employee stock options	768,175	753,712	536,339	918,723
Weighted-average shares assuming dilution	45,059,653	45,017,314	44,818,107	44,938,812

3. Stock-Based Compensation

The Company records stock-based compensation under Statement of Financial Accounting Standards ("SFAS") 123R, *Share-Based Payments*, using the modified-prospective transition method. Under this method, compensation expense recognized in 2008 and 2007 included: (a) compensation cost for all unvested share-based awards granted prior to adoption of SFAS 123R, based on the grant date fair value estimated in accordance with SFAS 123, *Accounting For Stock-Based Compensation*, and (b) compensation cost for all subsequent share-based awards granted subsequent to September 24, 2005, based on the grant date fair value estimated in accordance with SFAS 123R. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation.

Compensation cost arising from stock options granted to employees and non-employee directors is recognized as an expense using the straight-line method over the vesting period. As of June 30, 2008, there was \$6.2 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.9 years. The Company recorded stock-based compensation expense of \$1.2 million (\$0.7 million net of tax) and \$1.3 million (\$0.8 million net of tax) for the three months ended June 30, 2008 and 2007, respectively, and \$3.8 million (\$2.2 million net of tax) and \$3.9 million (\$2.4 million net of tax) for the nine months

ended June 30, 2008 and 2007, respectively.

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BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****3. Stock-Based Compensation (Continued)**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants issued in the first three quarters of 2008 and 2007:

	Nine Months Ended June 30,	
	2008	2007
Risk free interest rate	2.76 - 4.08%	4.52 - 4.81%
Expected life	6.0 years	5.0 years
Expected volatility	45%	45%
Expected dividend yield	0%	0%

Expected lives of the options granted and expected volatilities are based on the expected lives and historical volatilities of the options and stocks of comparable public companies and other factors. Estimated cumulative forfeiture rates of 0%-12% were used for expensing the fair value of unvested options during both of the periods above.

The following table summarizes stock options outstanding as of June 30, 2008, as well as activity during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at September 30, 2007	3,045,120	\$ 12.15		
Granted	749,023	9.33		
Exercised	(24,594)	1.93		
Forfeited	(118,926)	17.38		
Outstanding at June 30, 2008	3,650,623	\$ 11.47	6.94	\$ 10.8
Vested and expected to vest at June 30, 2008	3,572,070	\$ 11.40	6.89	\$ 10.7
Exercisable at June 30, 2008	2,341,404	\$ 9.66	5.91	\$ 9.8

As of June 30, 2008, there were remaining options to purchase 2,448,825 shares of common stock available for grants under the Company's Amended and Restated 2004 Stock Plan (inclusive of 1,750,000 additional shares approved by stockholders under the plan on February 7, 2008). The weighted-average grant date fair values of stock options granted during the nine months ended June 30, 2008 and 2007 were \$4.54 and \$10.07, respectively. The intrinsic values of stock options exercised during the nine months ended June 30, 2008 and June 30, 2007 were \$0.2 and \$5.7 million, respectively. At June 30, 2008, the Company had \$10.4 million of excess tax benefits available for potential deferred tax write-offs related to option accounting.

BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****4. Comprehensive Income**

Comprehensive income or loss consists of net income or loss and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income or loss. For the Company, these currently consist of the following items:

Unaudited (Dollars in thousands, except per share data)	Three Months Ended June 30,		One Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 18,264	\$ 11,505	\$ 15,373	\$ 13,971
Foreign currency translation adjustment, net of tax effect	112	2,559	(766)	1,432
Unrealized gain (loss) on financial derivatives, net of tax effect	3,029	1,571	(3,668)	1,175
Comprehensive income	\$ 21,405	\$ 15,635	\$ 10,939	\$ 16,578

5. Acquisitions***North Coast Commercial Roofing Systems, Inc.***

On April 2, 2007, the Company purchased 100% of the outstanding stock of North Coast Commercial Roofing Systems, Inc. and certain of its subsidiaries and affiliates (together "North Coast"), a Twinsburg, Ohio-based distributor of commercial roofing systems and related accessories, with 16 locations in eight U.S. states at the time of the acquisition. North Coast has branches in Ohio, Illinois, Indiana, Kentucky, Michigan, New York, Pennsylvania and West Virginia. This purchase was funded with cash on hand along with funds borrowed under the Company's U.S. revolving line of credit. North Coast had net sales of \$235 million (unaudited) for the year ended June 30, 2006. A total of \$8.1 million of cash remains in escrow at June 30, 2008 for post-closing indemnification claims, with \$3.6 million included in other current assets and accrued expenses and \$4.5 million included in other long-term assets and liabilities. The Company has included the results of operations for North Coast from the date of acquisition and applied purchase accounting, which, along with certain purchase price adjustments, resulted in recorded goodwill of \$62.3 million as per below (in 000's). The Company finalized the purchase accounting in the second quarter of 2008.

Accounts receivable	\$ 31,706
Inventories	13,349
Prepaid expenses and other	982
Property and equipment	4,150
Deferred taxes	(10,400)
Accounts payable and accrued expenses	(19,189)
Net assets	20,598
Non-compete	3,300
Customer relationships	29,550
Goodwill	62,282

Purchase price	\$ 115,730
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BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

5. Acquisitions (Continued)

Other Recent Acquisitions

On May 18, 2007, the Company purchased certain assets of Wholesale Roofing Supply ("WRS"), a single location distributor of residential and commercial roofing products located in Knoxville, Tennessee.

6. Debt

The Company currently has the following credit facilities:

- a senior secured credit facility in the U.S.;
- a Canadian senior secured credit facility; and
- two equipment financing facilities.

Senior Secured Credit Facilities

On November 2, 2006, the Company entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility consists of a U.S. revolving credit facility of \$150 million, which includes a sub-facility of \$20 million for letters of credit, and an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company. As of June 30, 2008, the Company was in compliance with the covenants under the Credit Facility. Substantially all of the Company's assets, including the capital stock and assets of wholly-owned subsidiaries, secure obligations under the Credit Facility.

Equipment Financing Facilities

The Company has two equipment financing facilities that allow for the financing of purchased transportation and material handling equipment totaling \$32.9 million with \$7.5 million of remaining availability as of June 30, 2008. There was \$25.4 million of equipment financing loans outstanding at June 30, 2008, with fixed interest rates ranging from 5.5% to 7.4%.

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

7. Foreign Sales

Foreign (Canadian) sales totaled \$68.6 and \$69.4 million in the nine months ended June 30, 2008 and June 30, 2007, respectively.

8. Financial Derivatives

The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest rates. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual, amount of the Company's derivative financial instruments is used to measure interest to be paid or received and does not represent the Company's exposure due to credit risk. The Company's current derivative instruments are with counterparties rated very highly by nationally recognized credit rating agencies.

The Company is using interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. There were interest rate derivative instruments outstanding in a total notional amount of \$300 million at June 30, 2008, which consisted of: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; and c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%. The combined fair market value of the agreements resulted in a recorded liability of approximately \$8.2 million at June 30, 2008, which was determined based on current interest rates and expected future trends. The Company entered into

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

8. Financial Derivatives (Continued)

these instruments during the second quarter of 2007 and cancelled the prior interest rate derivative instruments that had notional amounts totaling \$150 million. The current derivative instruments are designated as cash flow hedges, for which the Company records the effective portions of changes in their fair value, net of tax, in other comprehensive income (Note 4). Any ineffective portion of the hedges is recognized in earnings, of which there has been none to date. The prior derivative instruments were not designated as hedges and therefore changes in their fair values were recorded in interest expense.

9. Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an Amendment of FASB Statement No. 133," which requires enhanced disclosures about an entity's derivative and hedging activities. In addition to disclosing the fair values of derivative instruments and their gains and losses in a tabular format, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 does not change the accounting for derivative instruments.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141R") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company believes the adoption of SFAS 141R will have a significant impact on the accounting for future acquisitions. The adoption of SFAS 160 is not expected to have a material impact on the financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective for the Company in the fiscal year beginning October 1, 2008. The Company has not completed assessing the impact that the adoption of SFAS 159 will have on its consolidated financial statements, although the impact is not currently expected to be material.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which addresses how fair value should be measured when required for recognition or disclosure purposes under GAAP. It also establishes a fair value hierarchy and will require expanded disclosures on fair value measurements where applicable. SFAS 157 is effective for the Company in the fiscal year beginning October 1, 2008. The Company has not completed assessing the impact that SFAS 157 will have on its consolidated financial statements, although the impact is not currently expected to be material.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2007 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to "2008" and "YTD 2008" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2008, respectively, of our fiscal year ending September 30, 2008, and all references to "2007" and "YTD 2007" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2007, respectively, of our fiscal year ended September 30, 2007. Certain tabular information may not foot due to rounding.

Overview

We are one of the largest distributors of residential and non-residential roofing materials in the United States and Canada. We are also a distributor of other complementary building products, including siding, windows, specialty lumber products and waterproofing systems for residential and non-residential building exteriors. We purchase products from a large number of manufacturers and then distribute these goods to a customer base consisting of contractors and, to a lesser extent, general contractors, retailers and building materials suppliers.

We distribute up to 10,000 SKUs through 176 branches in the United States and Canada. We had 2,503 employees as of June 30, 2008, including our sales and marketing team of 956 employees.

In fiscal year 2007, approximately 94% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

Execution of the operating plan at each of our branches drives our financial results. Revenues are impacted by the relative strength of the residential and non-residential roofing markets we serve. We allow each of our branches to develop its own marketing plan and mix of products based upon its local market. We differentiate ourselves from the competition by providing customer services, including job site delivery, tapered insulation layouts and design and metal fabrication, and by providing credit. We consider customer relations and our employees' knowledge of roofing and exterior building materials to be very important to our ability to increase customer loyalty and maintain customer satisfaction. We invest significant resources in training our employees in sales techniques, management skills and product knowledge. Although we consider these attributes important drivers of our business, we continually pay close attention to controlling operating costs.

Our growth strategy includes both internal growth (opening branches, growing sales with existing customers, adding new customers and introducing new products) and acquisition growth. Our main acquisition strategy is to target market leaders in geographic areas that we do not service. Our April 2007 acquisition of North Coast Commercial Roofing Systems, Inc. ("North Coast") is one example of this approach. North Coast is a distributor of commercial roofing systems and related accessories that operated 16 branches in eight states in the Midwest and Northeast. North Coast had minimal branch overlap with our existing operations at the time of the acquisition. In addition, we also acquire smaller companies to supplement branch openings within existing markets. Our August 2006 acquisition of Roof Depot, Inc. ("Roof Depot"), which operated two branches and was integrated into our Midwest region, is one example of such an acquisition.

Results of Operations

The following table shows, for the periods indicated, information derived from our consolidated statements of operations expressed as a percentage of net sales for the periods presented. Percentages may not foot due to rounding.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	76.6	77.8	77.0	76.9
Gross profit	23.4	22.2	23.0	23.1
Operating expenses	16.2	16.7	19.3	19.3
Income from operations	7.2	5.5	3.8	3.8
Interest expense	(1.2)	(1.5)	(1.6)	(1.7)
Income before income taxes	6.0	4.0	2.1	2.0
Income tax expense	(2.5)	(1.6)	(0.9)	(0.8)
Net income	3.5%	2.4%	1.3%	1.2%

In managing our business, we consider all growth, including the opening of new branches, to be internal (organic) growth unless it results from an acquisition. When we refer to growth in existing markets or internal growth in our discussion and analysis of financial condition and results of operations, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. At June 30, 2008, we had a total of 177 branches in operation. Acquired markets for the quarter ended June 30, 2008 include only the one branch at Wholesale Roofing Supply. For YTD 2008, 160 of the 177 branches, along with two branches closed in October 2007 and February 2008, respectively, were included in our existing market calculations. The other 17 branches were excluded because they were acquired in fiscal 2007. Percentages in the tables below may not foot due to rounding.

Three Months Ended June 30, 2008 ("2008") Compared to the Three Months Ended June 30, 2007 ("2007")

Existing and Acquired Markets

For the Three Months Ended
(Dollars in thousands)

	Existing Markets		Acquired Markets		Consolidated	
	June 30, 2008	2007	June 30, 2008	2007	June 30, 2008	2007
Net Sales	\$ 512,491	\$ 483,979	\$ 2,156	\$ 891	\$ 514,647	\$ 484,870
Gross Profit	119,541	107,629	632	205	120,173	107,834
Gross Margin	23.3%	22.2%	29.3%	23.0%	23.4%	22.2%
Operating Expenses	82,875	81,031	365	152	83,240	81,183
	16.2%	16.7%	16.9%	17.1%	16.2%	16.7%

Operating
Expenses as a %
of Net Sales

Operating Income	\$	36,666	\$	26,598	\$	267	\$	53	\$	36,933	\$	26,651
Operating Margin		7.2%		5.5%		12.4%		5.9%		7.2%		5.5%

Net Sales

Consolidated net sales increased \$29.8 million, or 6.1%, to \$514.6 million in 2008 from \$484.9 million in 2007. Both this year's and last year's third quarter had 64 business days. Existing market sales increased \$28.5 million or 5.9%, while acquired markets contributed an increase of \$1.3 million. We attribute the existing market sales increase primarily to the following factors:

- a rapid rise in prices, especially in residential roofing products;
 - strong re-roofing activity in storm-affected regions; and
 - continued strength in non-residential roofing activity in most markets;
- partially offset by the negative impact of:
- continued weakness in new residential roofing activity in most markets; and
 - weak complementary product sales in certain markets where we have had historically higher levels of new residential construction.

We did not open or close any branches in our existing markets during the third quarter of 2008, but opened one branch in existing markets during the third quarter of 2007. For 2008, our acquired markets had combined product group sales of \$1.9 and \$0.2 million in residential roofing products and non-residential roofing products, respectively, while the product group sales for our existing markets were as follows:

Existing Markets

For the Three Months Ended

	June 30, 2008		June 30, 2007			
	Sales	Mix	Sales	Mix	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (e)	8,506,260
			17,396,031			
Commercial Services & Supplies 0.7%	95,317	United Rentals, Inc., 6.50%, 8/1/28	5,123,289			
Diversified Financial Services 3.3%	11,515	Bank of America Corp., 7.25%, 1/30/13, Ser. L (e)	10,854,039			
	62,710	Citigroup, Inc., 7.50%, 12/15/12	6,211,426			
	144,625	Credit Suisse Securities USA LLC, 7.00%, 8/9/12 (Baxter International, Inc.) (c)	7,800,349			

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24,865,814

Electric Utilities	2.2%			
			NextEra Energy, Inc.,	
		25,000	7.00%, 9/1/13	1,355,000
		136,925	8.375%, 6/1/12	6,869,527
		158,835	PPL Corp., 9.50%, 7/1/13	8,727,984
				16,952,511
Food Products	1.0%			
		77,130	Bunge Ltd., 4.875%, 12/1/49 (e)	7,861,090
Health Care Providers & Services	1.1%			
		8,660	HealthSouth Corp., 6.50%, 12/31/49, Ser. A (e)	8,608,040
Household Durables	2.2%			
		200,850	Newell Financial Trust I, 5.25%, 12/1/27	9,289,313
		58,450	Stanley Black & Decker, Inc., 4.75%, 11/17/15	7,323,200
				16,612,513

Table of Contents**AGIC Convertible & Income Fund II Schedule of Investments**

February 29, 2012 (continued)

Shares		Value
Insurance 2.1%		
104,380	Assured Guaranty Ltd., 8.50%, 6/1/12	\$7,049,303
123,390	MetLife, Inc., 5.00%, 9/11/13	8,932,202
		15,981,505
IT Services 0.4%		
49,485	Unisys Corp., 6.25%, 3/1/14	2,917,636
Multi-Utilities 1.2%		
186,560	AES Trust III, 6.75%, 10/15/29	9,251,510
Oil, Gas & Consumable Fuels 2.1%		
111,500	Apache Corp., 6.00%, 8/1/13	6,766,935
27,600	ATP Oil & Gas Corp., 8.00%, 10/1/14 (a)(b)(e)	1,197,150
93,350	Chesapeake Energy Corp., 5.00%, 12/31/49 (e)	8,028,100
		15,992,185
Professional Services 1.0%		
130,210	Nielsen Holdings NV, 6.25%, 2/1/13	7,478,611
Real Estate Investment Trust 3.4%		
335,200	Alexandria Real Estate Equities, Inc., 7.00%, 4/20/13 (e)	8,708,496
330,475	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A (e)	8,460,160
159,235	Health Care REIT, Inc., 6.50%, 4/20/18, Ser. I (e)	8,455,379
		25,624,035
Road & Rail 1.1%		
735,100	2010 Swift Mandatory Common Exchange Security Trust, 6.00%, 12/31/13 (b)	8,664,109
Total Convertible Preferred Stock (cost-\$209,401,573)		222,097,812
Principal Amount (000s)		
CONVERTIBLE BONDS & NOTES 23.7%		
Aerospace & Defense 1.0%		
\$7,975	GenCorp, Inc., 4.063%, 12/31/39	7,855,375
Capital Markets 1.8%		
8,165	Ares Capital Corp., 5.75%, 2/1/16 (a)(b)	8,695,725
5,370	BGC Partners, Inc., 4.50%, 7/15/16 (a)(b)	5,229,037
		13,924,762
Diversified Telecommunication Services 1.1%		
6,925	Level 3 Communications, Inc., 15.00%, 1/15/13	8,405,219

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Electrical Equipment 1.7%

7,175	EnerSys, 3.375%, 6/1/38 (f)	8,251,250
5,760	JA Solar Holdings Co., Ltd., 4.50%, 5/15/13	4,975,200

13,226,450

Electronic Equipment, Instruments & Components 0.9%

5,620	Anixter International, Inc., 1.00%, 2/15/13	6,898,550
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Health Care Equipment & Supplies 0.7%

5,675	NuVasive, Inc., 2.75%, 7/1/17	4,915,969
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Table of Contents**AGIC Convertible & Income Fund II Schedule of Investments**

February 29, 2012 (continued)

Principal Amount (000s)		Value
Hotels, Restaurants & Leisure 2.0%		
\$6,935	MGM Resorts International, 4.25%, 4/15/15	\$7,455,125
9,025	Morgans Hotel Group Co., 2.375%, 10/15/14	7,874,312
		15,329,437
Internet Software & Services 1.2%		
2,000	Digital River, Inc., 2.00%, 11/1/30	1,885,000
5,630	Equinix, Inc., 2.50%, 4/15/12	7,044,537
		8,929,537
IT Services 1.1%		
5,130	Alliance Data Systems Corp., 1.75%, 8/1/13	8,060,513
Machinery 2.7%		
1,745	AGCO Corp., 1.25%, 12/15/36	2,381,925
9,225	Greenbrier Cos., Inc., 3.50%, 4/1/18 (a)(b)	9,559,406
9,545	Meritor, Inc., 4.625%, 3/1/26 (f)	8,518,913
		20,460,244
Marine 0.4%		
3,655	DryShips, Inc., 5.00%, 12/1/14	3,111,319
Media 1.1%		
830	Interpublic Group of Cos., Inc., 4.25%, 3/15/23	837,262
6,420	Liberty Interactive LLC, 3.125%, 3/30/23	7,720,050
		8,557,312
Metals & Mining 0.3%		
2,045	Steel Dynamics, Inc., 5.125%, 6/15/14	2,336,413
Oil, Gas & Consumable Fuels 1.0%		
4,825	Peabody Energy Corp., 4.75%, 12/15/41	4,867,219
2,815	Petroleum Development Corp., 3.25%, 5/15/16 (a)(b)	2,924,081
		7,791,300
Pharmaceuticals 0.8%		
5,595	Mylan, Inc., 1.25%, 3/15/12	5,664,938
Real Estate Investment Trust 1.5%		
4,550	Boston Properties LP, 3.75%, 5/15/36	5,141,500
5,480	Health Care REIT, Inc., 4.75%, 12/1/26	6,377,350
		11,518,850

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Semiconductors & Semiconductor Equipment 2.5%

11,635	Advanced Micro Devices, Inc., 5.75%, 8/15/12	11,911,331
7,550	SunPower Corp., 4.75%, 4/15/14	7,134,750

19,046,081

Software 1.0%

4,835	Nuance Communications, Inc., 2.75%, 8/15/27	7,179,975
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Thriffs & Mortgage Finance 0.9%

9,320	MGIC Investment Corp., 5.00%, 5/1/17	7,059,900
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Total Convertible Bonds & Notes (cost-\$156,075,461)	180,272,144
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AGIC Convertible & Income Fund II Schedule of Investments

February 29, 2012 (continued)

Principal Amount (000s)		Value
SHORT-TERM INVESTMENT 2.4%		
Time Deposit 2.4%		
\$18,450	Bank of America-London, 0.03%, 3/1/12 (cost-\$18,449,868)	\$18,449,868
Total Investments (cost-\$729,087,107) 100.0%		\$761,706,423

Notes to Schedules of Investments:

- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of \$134,457,151 and \$102,807,964, representing 13.4% and 13.5% of total investments in Convertible & Income and Convertible & Income II, respectively.
- (b) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (c) Securities exchangeable or convertible into securities of an entity different than the issuer or structured by the issuer to provide exposure to securities of an entity different than the issuer (synthetic convertible securities). Such entity is identified in the parenthetical.
- (d) Fair-Valued Security with a value of \$10,038,528 and \$7,599,611, representing 1.0% and 1.0% of total investments in Convertible & Income and Convertible & Income II, respectively. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (e) Perpetual maturity. Maturity date shown is the next call date.
- (f) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.

Glossary:

REIT - Real Estate Investment Trust

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Table of Contents**AGIC Convertible & Income Funds Statements of Assets and Liabilities**

February 29, 2012

	Convertible & Income	Convertible & Income II
Assets:		
Investments, at value (cost-\$960,786,654 and \$729,087,107, respectively)	\$1,003,052,667	\$761,706,423
Interest and dividends receivable	16,438,103	12,590,513
Receivable for investments sold	4,646,456	3,559,202
Prepaid expenses	81,445	86,957
Total Assets	1,024,218,671	777,943,095
Liabilities:		
Dividends payable to common and preferred shareholders	6,800,685	5,331,264
Payable for investments purchased	6,301,451	4,877,633
Investment management fees payable	555,592	421,734
Accrued expenses	180,407	173,759
Total Liabilities	13,838,135	10,804,390
Preferred Shares (\$0.00001 par value and \$25,000 liquidation preference per share applicable to an aggregate of 14,280 and 10,960 shares issued and outstanding, respectively)	357,000,000	274,000,000
Net Assets Applicable to Common Shareholders	\$653,380,536	\$493,138,705
Composition of Net Assets Applicable to Common Shareholders:		
Common Shares:		
Par value (\$0.00001 per share)	\$755	\$627
Paid-in-capital in excess of par	1,058,190,866	871,202,982
Dividends in excess of net investment income	(3,345,078)	(3,150,163)
Accumulated net realized loss	(443,732,020)	(407,534,057)
Net unrealized appreciation of investments	42,266,013	32,619,316
Net Assets Applicable to Common Shareholders	\$653,380,536	\$493,138,705
Common Shares Issued and Outstanding	75,529,934	62,702,070
Net Asset Value Per Common Share	\$8.65	\$7.86

See accompanying Notes to Financial Statements 2.29.12 AGIC Convertible & Income Fund/AGIC Convertible & Income Fund II Annual Report 23

Table of Contents**AGIC Convertible & Income Funds Statements of Operations**

Year ended February 29, 2012

	Convertible & Income	Convertible & Income II
Investment Income:		
Interest	\$67,409,074	\$51,135,751
Dividends	20,568,331	15,634,686
Consent fees	297,335	218,765
Total Investment Income	88,274,740	66,989,202
Expenses:		
Investment management fees	7,040,630	5,340,868
Auction agent fees and commissions	568,080	428,322
Custodian and accounting agent fees	183,656	156,794
Shareholder communications	155,750	125,237
Trustees fees and expenses	105,415	79,953
Audit and tax services	80,534	86,704
New York Stock Exchange listing fees	62,177	52,132
Transfer agent fees	50,186	45,252
Legal fees	36,684	31,182
Insurance expense	25,877	19,662
Miscellaneous	16,650	22,369
Total Expenses	8,325,639	6,388,475
Net Investment Income	79,949,101	60,600,727
Realized and Change in Unrealized Gain (Loss):		
Net realized loss on investments	(46,570,290)	(40,107,582)
Net change in unrealized appreciation/depreciation of investments	(31,756,205)	(20,446,400)
Net realized and change in unrealized loss on investments	(78,326,495)	(60,553,982)
Net Increase in Net Assets Resulting from Investment Operations	1,622,606	46,745
Dividends on Preferred Shares from Net Investment Income	(389,239)	(298,741)
Net Increase (Decrease) in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$1,233,367	\$(251,996)

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See accompanying Notes to
Financial Statements

Table of Contents**AGIC Convertible & Income Fund Statements of Changes in Net Assets****Applicable to Common Shareholders**

	Year ended February 29, 2012	Year ended February 28, 2011
Investment Operations:		
Net investment income	\$79,949,101	\$88,827,808
Net realized gain (loss) on investments	(46,570,290)	17,016,915
Net change in unrealized appreciation/depreciation of investments	(31,756,205)	58,883,196
Net increase in net assets resulting from investment operations	1,622,606	164,727,919
Dividends on Preferred Shares from Net Investment Income	(389,239)	(1,000,836)
Net increase in net assets applicable to common shareholders resulting from investment operations	1,233,367	163,727,083
Dividends to Common Shareholders from Net Investment Income	(84,616,959)	(92,560,741)
Common Share Transactions:		
Reinvestment of dividends	9,535,092	11,654,905
Total increase (decrease) in net assets applicable to common shareholders	(73,848,500)	82,821,247
Net Assets Applicable to Common Shareholders:		
Beginning of year	727,229,036	644,407,789
End of year (including dividends in excess of net investment income of \$(3,345,078) and \$(2,990,392), respectively)	\$653,380,536	\$727,229,036
Common Shares Issued in Reinvestment of Dividends	1,039,617	1,223,249

See accompanying Notes to Financial Statements 2.29.12 AGIC Convertible & Income Fund/AGIC Convertible & Income Fund II Annual Report 25

Table of Contents**AGIC Convertible & Income Fund II Statements of Changes in Net Assets****Applicable to Common Shareholders**

	Year ended February 29, 2012	Year ended February 28, 2011
Investment Operations:		
Net investment income	\$60,600,727	\$66,837,025
Net realized gain (loss) on investments	(40,107,582)	12,876,927
Net change in unrealized appreciation/depreciation of investments	(20,446,400)	44,849,910
Net increase in net assets resulting from investment operations	46,745	124,563,862
Dividends on Preferred Shares from Net Investment Income	(298,741)	(768,148)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(251,996)	123,795,714
Dividends to Common Shareholders from Net Investment Income	(63,538,750)	(71,084,197)
Common Share Transactions:		
Reinvestment of dividends	7,799,411	9,288,834
Total increase (decrease) in net assets applicable to common shareholders	(55,991,335)	62,000,351
Net Assets Applicable to Common Shareholders:		
Beginning of year	549,130,040	487,129,689
End of year (including dividends in excess of net investment income of \$(3,150,163) and \$(3,259,356), respectively)	\$493,138,705	\$549,130,040
Common Shares Issued in Reinvestment of Dividends	913,523	1,061,710

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

1. Organization and Significant Accounting Policies

AGIC Convertible & Income Fund (Convertible & Income) and AGIC Convertible & Income Fund II (Convertible & Income II), each a Fund and collectively referred to as the Funds , were organized as Massachusetts business trusts on January 17, 2003 and April 22, 2003, respectively. Prior to commencing operations on March 31, 2003, and July 31, 2003, respectively, the Funds had no operations other than matters relating to their organization and registration as diversified, closed-end management investment companies under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Funds investment manager and is an indirect, wholly-owned subsidiary of Allianz Asset Management of America L.P. (AAM) formerly Allianz Global Investors of America L.P. prior to December 31, 2011. AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has authorized an unlimited amount of common shares with \$0.00001 par value.

Each Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Funds attempt to achieve this objective by investing in a portfolio of convertible securities and non-convertible income-producing securities. There can be no assurance that the Funds will meet their stated objectives.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund s financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred.

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRSs). FASB concluded that the amendments in this ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRSs. The ASU is effective prospectively for interim or annual periods beginning on or after December 15, 2011. Fund management is evaluating the implications of this change.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures About Offsetting Assets and Liabilities , which requires enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments are effective for fiscal years beginning on or after January 1, 2013. The Funds are currently evaluating the effect that the guidance may have on their financial statements.

The following is a summary of significant accounting policies consistently followed by the Funds:

(a) Valuation of Investments

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Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available, or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures approved by the Board of Trustees, or persons acting at their discretion pursuant to procedures approved by the Board of Trustees. The Funds' investments are valued daily using prices supplied by an

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

1. Organization and Significant Accounting Policies (continued)

independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Synthetic convertible securities are valued based on quotations obtained from unaffiliated brokers who are the principal market-makers in such securities. Such valuations are derived by the brokers from proprietary models which are generally based on readily available market information including valuations of the common stock underlying the synthetic security. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold, and these differences could be material to each Fund's financial statements. Each Fund's net asset value (NAV) is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

(b) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.* the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

- Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access
- Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges
- Level 3 valuations based on significant unobservable inputs (including the Funds' own assumptions in determining the fair value of investments)

An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique used.

The valuation techniques used by the Funds to measure fair value during the year ended February 29, 2012 maximized the use of observable inputs and minimized the use of unobservable inputs. When fair-valuing securities, the Funds utilized multi-dimensional relational pricing models.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with GAAP.

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Equity Securities (Common and Preferred Stock) Equity securities traded in inactive markets are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Convertible Bonds & Notes Convertible bonds and notes are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are

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Table of Contents**AGIC Convertible & Income Funds Notes to Financial Statements**

February 29, 2012

1. Organization and Significant Accounting Policies (continued)

supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of convertible bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

Corporate Bonds & Notes Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

The Funds policy is to recognize transfers between levels at the end of the reporting period.

A summary of the inputs used at February 29, 2012 in valuing Convertible & Income s assets and liabilities is listed below (refer to the Schedules of Investments for more detailed information on Investments in Securities):

	Level 1	Level 2	Level 3	Value at
	Quoted Prices	Other Significant Observable Inputs	Significant Unobservable Inputs	2/29/12
Investments in Securities Assets				
Corporate Bonds & Notes		\$ 450,794,831		\$ 450,794,831
Convertible Preferred Stock:				
Airlines		10,480,483		10,480,483
Capital Markets		9,753,537	\$ 10,038,528	19,792,065
Commercial Banks	\$ 10,451,490	11,680,987		22,132,477
Commercial Services & Supplies		8,076,260		8,076,260
Diversified Financial Services	22,359,034	10,227,963		32,586,997
Health Care Providers & Services		11,271,960		11,271,960
Household Durables	9,600,973	11,996,325		21,597,298
Insurance	11,702,567	9,247,230		20,949,797
Oil, Gas & Consumable Fuels	9,535,916	10,960,344		20,496,260
Professional Services		9,809,324		9,809,324
Road & Rail		11,354,450		11,354,450
All Other	102,209,704			102,209,704
Convertible Bonds & Notes		237,325,781		237,325,781

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Short-Term Investment			24,174,980		24,174,980
Total Investments in Securities	Assets	\$ 165,859,684	\$ 827,154,455	\$ 10,038,528	\$ 1,003,052,667

There were no significant transfers between Levels 1 and 2 during the year ended February 29, 2012.

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

1. Organization and Significant Accounting Policies (continued)

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for Convertible & Income for the year ended February 29, 2012, was as follows:

	Beginning Balance 2/28/11	Purchases	Sales	Accrued Discounts (Premiums)	Net Realized Loss	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3	Ending Balance 2/29/12
Investments in Securities Assets									
Corporate Bonds & Notes:									
Hotels, Restaurants & Leisure	\$ 2,575,929		\$ (2,069,091)		\$ (1,298,981)	\$ 792,143			
Convertible Preferred Stock:									
Capital Markets	4,759,862	\$ 11,425,502	(8,414,747)		(33,912,502)	36,180,413			\$ 10,038,528
Total Investments	\$ 7,335,791	\$ 11,425,502	\$ (10,483,838)		\$ (35,211,483)	\$ 36,972,556			\$ 10,038,528

A summary of the inputs used at February 29, 2012 in valuing Convertible & Income II s assets and liabilities is listed below (refer to the Schedules of Investments for more detailed information on Investments in Securities):

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 2/29/12
Investments in Securities Assets				
Corporate Bonds & Notes		\$ 340,886,599		\$ 340,886,599
Convertible Preferred Stock:				
Airlines		8,018,145		8,018,145
Capital Markets		7,385,678	\$ 7,599,611	14,985,289
Commercial Banks	\$ 8,506,260	8,889,771		17,396,031
Commercial Services & Supplies		5,123,289		5,123,289
Diversified Financial Services	17,065,465	7,800,349		24,865,814
Health Care Providers & Services		8,608,040		8,608,040
Household Durables	7,323,200	9,289,313		16,612,513
Insurance	8,932,202	7,049,303		15,981,505
Oil, Gas & Consumable Fuels	6,766,935	9,225,250		15,992,185
Professional Services		7,478,611		7,478,611

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Road & Rail		8,664,109		8,664,109
All Other	78,372,281			78,372,281
Convertible Bonds & Notes		180,272,144		180,272,144
Short-Term Investment		18,449,868		18,449,868
Total Investments in Securities Assets	\$ 126,966,343	\$ 627,140,469	\$ 7,599,611	\$ 761,706,423

There were no significant transfers between Levels 1 and 2 during the year ended February 29, 2012.

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Table of Contents**AGIC Convertible & Income Funds Notes to Financial Statements**

February 29, 2012

1. Organization and Significant Accounting Policies (continued)

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for Convertible & Income II for the year ended February 29, 2012, was as follows:

	Beginning Balance 2/28/11	Purchases	Sales	Accrued Discounts (Premiums)	Net Realized Loss	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3	Transfers out of Level 3	Ending Balance 2/29/12
Investments in Securities Assets									
Corporate Bonds & Notes:									
Hotels, Restaurants & Leisure:	\$ 2,314,523		\$ (1,859,119)		\$ (1,167,161)	\$ 711,757			
Convertible Preferred Stock:									
Capital Markets	4,252,590	\$ 8,649,612	(7,521,464)		(30,250,744)	32,469,617			\$ 7,599,611
Total Investments	\$ 6,567,113	\$ 8,649,612	\$ (9,380,583)		\$ (31,417,905)	\$ 33,181,374			\$ 7,599,611

The net change in unrealized appreciation/depreciation of Level 3 investments, which Convertible & Income and Convertible & Income II held at February 29, 2012 was \$(1,386,974) and \$(1,050,001), respectively. Net realized loss and net change in unrealized appreciation/depreciation are reflected on the Statements of Operations.

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income adjusted for the accretion of discount and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income by using the yield-to-worst methodology, using the lower of either the yield to maturity or the yield to call on every possible call date over the lives of the respective securities. Conversion premium is not amortized. Dividend income is recorded on the ex-dividend date. Payments received on synthetic convertible securities are generally included in dividends. Consent fees are related to corporate actions and recorded when received. Payments received from certain investments may be comprised of dividends, realized gains and return of capital. These payments may initially be recorded as dividend income and may subsequently be reclassified as realized gains and/or return of capital upon receipt of information from the issuer.

(d) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain

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expanded tax disclosures. The Funds' management has determined that its evaluation has resulted in no material impact to the Funds' financial statements at February 29, 2012. The Funds' federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions - Common Shares

The Funds declare dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions to their respective shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment. Temporary differences do not require reclassification. To the extent dividends

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

1. Organization and Significant Accounting Policies (continued)

and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital.

(f) Convertible Securities

It is the Funds' policy to invest a portion of their assets in convertible securities. Although convertible securities do derive part of their value from that of the securities into which they are convertible, they are not considered derivative financial instruments. However, certain of the Funds' investments in convertible securities include features which render them more sensitive to price changes in their underlying securities. The value of structured/synthetic convertible securities can be affected by interest rate changes and credit risks of the issuer. Such securities may be structured in ways that limit their potential for capital appreciation and the entire value of the security may be at risk of loss depending on the performance of the underlying equity security. Consequently, the Funds are exposed to greater downside risk than traditional convertible securities, but still less than that of the underlying stock.

2. Principal Risk

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds also are exposed to other risks such as, but not limited to, interest rate, credit and leverage risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Funds are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.* yield) movements.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater market price volatility than fixed income securities.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Funds' sub-adviser, Allianz Global Investors Capital LLC (AGIC or the Sub-Adviser), an affiliate of the Investment Manager, seeks to minimize the Funds' counterparty risks by performing reviews of each counterparty

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and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

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Table of Contents**AGIC Convertible & Income Funds Notes to Financial Statements**

February 29, 2012

2. Principal Risk (continued)

The Funds are exposed to risks associated with leverage. Leverage causes the value of the Funds' shares to be more volatile than if the Funds did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the Funds' portfolio securities. The Funds may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, to the extent the Funds employ leverage, interest costs may not be recovered by any appreciation of the securities purchased with the leverage proceeds and could exceed the Funds' investment returns, resulting in greater losses.

The Funds held synthetic convertible securities with Lehman Brothers entities as counterparty at the time the relevant Lehman Brothers entity filed for protection or was placed in administration. On April 8, 2011, the Funds sold these synthetic convertible securities.

3. Investment Manager/Sub-Adviser

Each Fund has an Investment Management Agreement (each an "Agreement") with the Investment Manager. Subject to the supervision of the Funds' Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at the annual rate of 0.70% of each Fund's average daily total managed assets. Total managed assets refer to the total assets of each Fund (including assets attributable to any Preferred Shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).

The Investment Manager has retained the Sub-Adviser to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. The Investment Manager, and not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

4. Investment in Securities

For the year ended February 29, 2012, purchases and sales of investments, other than short-term securities were as follows:

	Purchases	Sales
Convertible & Income	\$ 329,415,893	\$ 335,396,127
Convertible & Income II	242,128,017	249,020,709

5. Income Tax Information

The tax character of dividends paid were:

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	Year ended	Year ended
	February 29, 2012	February 28, 2011
	Ordinary	Ordinary
	Income	Income
Convertible & Income	\$ 85,006,198	\$ 93,561,577
Convertible & Income II	63,837,491	71,852,345

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

5. Income Tax Information (continued)

At February 29, 2012, the components of distributable earnings were as follows:

	Ordinary	Capital Loss	Post-October Capital Loss ⁽²⁾	
	Income	Carryforward ⁽¹⁾	Short-Term	Long-Term
Convertible & Income	\$ 1,758,846	\$ 434,368,678	\$ 3,981,562	\$ 3,035,706
Convertible & Income II	1,433,257	400,740,283	2,303,299	2,807,394

- (1) Capital loss carryforwards available as a reduction, to the extent provided in the regulations, of any future net realized gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be disbursed.
- (2) Capital losses realized during the period November 1, 2011 through February 29, 2012 which the Funds elected to defer to the following taxable year pursuant to income tax regulations.

Under the recently enacted Regulated Investment Company Modernization Act of 2010 (the Act), the Funds will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term capital losses.

At February 29, 2012, the Funds had capital loss carryforward amounts as follows:

	2016	Year of Expiration		No Expiration ⁽³⁾	
		2017	2018	Short-Term	Long-Term
Convertible & Income	\$ 1,183,341	\$ 131,342,119	\$ 257,800,431	\$ 2,065,168	\$ 41,977,619
Convertible & Income II	3,821,101	130,798,418	227,668,297	1,675,683	36,776,784

- (3) Carryforward amounts are subject to the provisions of the Act.

For the year ended February 29, 2012, permanent book tax adjustments were as follows:

	Dividends in Excess of	
	Net Investment Income	Accumulated Net Realized Loss
Convertible & Income ^{(a)(b)(c)(d)}	\$ 4,702,411	\$ (4,702,411)

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Convertible & Income II ^{(a)(b)(c)(d)}	3,345,957	(3,345,957)
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These permanent book-tax differences were primarily attributable to:

- (a) Treatment of bond premium amortization
- (b) Convertible preferred securities
- (c) Consent payments
- (d) Treatment of investments in Real Estate Investment Trusts (REITS)

Net investment income, net realized gains or losses and net assets were not affected by these adjustments.

At February 29, 2012, the aggregate cost basis and the net unrealized appreciation of investments for federal income tax purposes were as follows:

	Federal Tax	Unrealized	Unrealized	Net Unrealized
	Cost Basis ⁽⁴⁾	Appreciation	Depreciation	Appreciation
Convertible & Income	\$ 967,714,245	\$ 81,608,525	\$ (46,270,103)	\$ 35,338,422
Convertible & Income II	734,940,586	63,398,391	(36,632,554)	26,765,837

- (4) The difference between book and tax cost basis is attributable to wash sale loss deferrals, REITS and the differing treatment of bond premium amortization and convertible securities.

Table of Contents**AGIC Convertible & Income Funds Notes to Financial Statements**

February 29, 2012

6. Auction-Rate Preferred Shares

Convertible & Income has 2,856 shares of Preferred Shares Series A, 2,856 shares of Preferred Shares Series B, 2,856 shares of Preferred Shares Series C, 2,856 shares of Preferred Shares Series D and 2,856 shares of Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

Convertible & Income II has 2,192 shares of Preferred Shares Series A, 2,192 shares of Preferred Shares Series B, 2,192 shares of Preferred Shares Series C, 2,192 shares of Preferred Shares Series D and 2,192 shares of Preferred Shares Series E outstanding, each with a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures (or through default procedures in the event of failed auctions). Distributions of net realized capital gains, if any, are paid annually.

For the year ended February 29, 2012, the annualized dividend rates for the Funds ranged from:

	High	Low	At February 29, 2012
Series A	0.225%	0.030%	0.075%
Series B	0.240%	0.030%	0.030%
Series C	0.225%	0.045%	0.060%
Series D	0.240%	0.030%	0.030%
Series E	0.240%	0.030%	0.075%

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference plus any accumulated, unpaid dividends.

Preferred shareholders, who are entitled to one vote per share, generally vote together with the common shareholders but vote separately as a class to elect two Trustees and on any matters affecting the rights of the Preferred Shares.

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate, equal to the 7-day AA Composite Commercial Paper Rate multiplied by 150%, depending on the credit rating of the ARPS (which is a function of short-term

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interest rates and typically higher than the rate that would have otherwise been set through a successful auction). If the Funds' ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds' common shareholders could be adversely affected.

See Note 7. Legal Proceedings for a discussion of shareholder demand letters received by the Funds and certain other closed end funds managed by the Investment Manager.

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AGIC Convertible & Income Funds Notes to Financial Statements

February 29, 2012

7. Legal Proceedings

Beginning in May 2010, several closed-end funds managed by the Investment Manager, including the Funds, each received a demand letter from a law firm on behalf of certain common shareholders. The demand letters alleged that the Investment Manager and certain officers and trustees of the funds breached their fiduciary duties in connection with the redemption at par of a portion of the funds ARPS and demanded that the boards of trustees take certain action to remedy those alleged breaches. After conducting an investigation in August 2010, the independent trustees of the Funds rejected the demands made in the demand letters.

The Investment Manager and the Sub-Adviser believe that this matter is not likely to have a material adverse effect on the Funds or their ability to perform their respective investment advisory activities relating to the Funds.

8. Subsequent Events

On March 1, 2012 the following monthly dividends were declared to common shareholders, payable April 2, 2012 to shareholders of record on March 12, 2012:

Convertible & Income	\$0.09 per common share
Convertible & Income II	\$0.085 per common share

On April 2, 2012 the following monthly dividends were declared to common shareholders, payable May 1, 2012 to shareholders of record on April 12, 2012:

Convertible & Income	\$0.09 per common share
Convertible & Income II	\$0.085 per common share

There were no other subsequent events that require recognition or disclosure. In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Table of Contents**AGIC Convertible & Income Fund Financial Highlights**

For a common share outstanding throughout each year:

	February 29, 2012	February 28, 2011	Year ended February 28, 2010	February 28, 2009	February 29, 2008
Net asset value, beginning of year	\$9.76	\$8.80	\$4.80	\$12.52	\$14.84
Investment Operations:					
Net investment income	1.07	1.20	1.07	1.56	1.62
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(1.04)	1.02	4.02	(7.75)	(2.05)
Total from investment operations	0.03	2.22	5.09	(6.19)	(0.43)
Dividends on Preferred Shares from Net investment income	(0.01)	(0.01)	(0.01)	(0.17)	(0.39)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.02	2.21	5.08	(6.36)	(0.82)
Dividends to Common Shareholders from Net investment income	(1.13)	(1.25)	(1.08)	(1.36)	(1.50)
Net asset value, end of year	\$8.65	\$9.76	\$8.80	\$4.80	\$12.52
Market price, end of year	\$9.70	\$11.00	\$9.39	\$4.05	\$12.50
Total Investment Return (1)	(0.15)%	33.53%	166.37%	(61.55)%	(13.63)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	\$653,381	\$727,229	\$644,408	\$348,544	\$895,043
Ratio of expenses to average net assets (2)	1.28%	1.27%	1.39%	1.56%(3)	1.26%
Ratio of net investment income to average net assets (2)	12.32%	13.25%	14.21%	16.87%	11.26%
Preferred shares asset coverage per share	\$70,755	\$75,925	\$70,125	\$49,406	\$67,626
Portfolio turnover rate	33%	52%	58%	62%	33%

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Ratio of expenses to average net assets of common shareholders, excluding excise tax expense was 1.53% for the year ended February 28, 2009.

See accompanying Notes to Financial Statements 2.29.12 AGIC Convertible & Income Fund/AGIC Convertible & Income Fund II Annual Report 37

Table of Contents**AGIC Convertible & Income Fund II Financial Highlights**

For a common share outstanding throughout each year:

	February 29, 2012	February 28, 2011	Year ended February 28, 2010	February 28, 2009	February 29, 2008
Net asset value, beginning of year	\$8.89	\$8.02	\$4.39	\$12.38	\$14.91
Investment Operations:					
Net investment income	0.97	1.09	0.98	1.55	1.70
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(0.98)	0.95	3.80	(8.05)	(2.17)
Total from investment operations	(0.01)	2.04	4.78	(6.50)	(0.47)
Dividends on Preferred Shares from Net investment income	(0.00)(4)	(0.01)	(0.01)	(0.20)	(0.45)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.01)	2.03	4.77	(6.70)	(0.92)
Dividends to Common Shareholders from Net investment income	(1.02)	(1.16)	(1.14)	(1.29)	(1.61)
Net asset value, end of year	\$7.86	\$8.89	\$8.02	\$4.39	\$12.38
Market price, end of year	\$8.84	\$10.21	\$8.76	\$3.73	\$12.09
Total Investment Return (1)	(2.27)%	32.85%	174.62%	(63.34)%	(12.08)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, applicable to common shareholders, end of year (000s)	\$493,139	\$549,130	\$487,130	\$263,220	\$753,359
Ratio of expenses to average net assets (2)	1.31%	1.29%	1.42%	1.71%(3)	1.35%(3)
Ratio of net investment income to average net assets (2)	12.39%	13.20%	14.20%	17.26%	11.75%
Preferred shares asset coverage per share	\$69,994	\$75,102	\$69,445	\$49,015	\$61,410
Portfolio turnover rate	32%	54%	58%	57%	34%

- (1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Dividends are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.
- (2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.
- (3) Ratio of expenses to average net assets of common shareholders, excluding excise tax expense was 1.63% for the year ended February 28, 2009 and 1.34% for the year ended February 29, 2008.
- (4) Less than \$(0.01) per common share.

38 AGIC Convertible & Income Fund/AGIC Convertible & Income Fund II Annual Report 2.29.12 **See accompanying Notes to Financial Statements**

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AGIC Convertible & Income Funds

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees

AGIC Convertible & Income Fund

AGIC Convertible & Income Fund II

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets applicable to common shareholders and the financial highlights present fairly, in all material respects, the financial position of the AGIC Convertible & Income Fund and AGIC Convertible & Income Fund II (the Funds) at February 29, 2012, the results of each of their operations for the year then ended, changes in each of their net assets for each of the two years in the period then ended and their financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Funds management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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 are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at February 29, 2012 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

April 24, 2012

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AGIC Convertible & Income Funds

Tax Information (unaudited)

Subchapter M of the Internal Revenue Code of 1986, as amended, requires the Funds to advise shareholders within 60 days of the Funds' tax year ended February 29, 2012 as to the federal tax status of dividends and distributions received by shareholders during such tax year.

Pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Funds designate the following percentages of ordinary dividends paid (or the maximum amount allowable) during the fiscal year ended February 29, 2012, as qualified dividend income:

Convertible & Income	17.31%
Convertible & Income II	17.59%

The Funds designate the following percentages of ordinary dividends paid (or the maximum amount allowable) during the fiscal year ended February 29, 2012, as qualifying for the dividend received deduction:

Convertible & Income	15.09%
Convertible & Income II	15.36%

Since the Funds' tax year is not the calendar year, another notification will be sent with respect to calendar year 2012. In January 2013, shareholders will be advised on IRS Form 1099 DIV as to the federal tax status of dividends and distributions received during calendar 2012. The amount that will be reported will be the amount to use on the shareholders' 2012 federal income tax return and may differ from the amount which must be reported in connection with the Funds' tax year ended February 29, 2012. Shareholders are advised to consult their tax advisers as to the federal, state and local tax status of the dividend income received from the Funds.

Table of Contents**AGIC Convertible & Income Funds****Annual Shareholder Meeting Results/Changes to Board of Trustees/Proxy Voting Policies & Procedures (unaudited)****Annual Shareholder Meeting Results:**

The Funds held their joint annual meeting of shareholders on July 20, 2011. Common/Preferred shareholders voted as indicated below:

		Withheld
Convertible & Income:	Affirmative	Authority
Election of Bradford K. Gallagher Class II to serve until 2014	64,571,286	1,871,232
Re-election of James A. Jacobson* Class II to serve until 2014	10,470	98
Election of Deborah A. DeCotis Class III to serve until 2012	64,542,220	1,900,298

		Withheld
Convertible & Income II:	Affirmative	Authority
Election of Bradford K. Gallagher Class II to serve until 2014	51,676,124	1,269,719
Re-election of James A. Jacobson* Class II to serve until 2014	7,924	82
Election of Deborah A. DeCotis Class II to serve until 2014	51,671,466	1,274,377

The other members of the Funds Board of Trustees at the time of the meeting, namely Messrs. Hans W. Kertess, John C. Maney, William B. Ogden, IV and Alan Rappaport* continued to serve as Trustees of the Funds.

* Preferred Shares Trustee
Interested Trustee

Changes to Board of Trustees:

Effective March 7, 2011, the Funds Board of Trustees appointed Deborah A. DeCotis as a Class III Trustee of Convertible & Income and a Class II Trustee of Convertible & Income II to serve until 2011.

Paul Belica retired from the Funds Board of Trustees on December 31, 2011.

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds' shareholder servicing agent at (800) 254-5197; (ii) on the Funds' website at www.allianzinvestors.com/closedendfunds; and (iii) on the Securities and Exchange Commission's website at www.sec.gov.

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AGIC Convertible & Income Funds

A Note Regarding Matters Relating to the Trustees' Consideration of the Investment Management & Portfolio Management Agreements (unaudited)

Reference is made to the section of the Funds' August 31, 2011 Semi-Annual Report (the "August Semi-Annual Report") entitled "Matters Relating to the Trustees' Consideration of the Investment Management & Portfolio Management Agreements," which discussed the material factors and conclusions that formed the basis for the Boards' approval, at their June 14-15, 2011 in-person meetings (the "June 2011 contract review meeting"), of the continuance of the Funds' Management Agreements with the Investment Manager (the "Advisory Agreements") and Portfolio Management Agreements between the Investment Manager and the Sub-Advisers (the "Sub-Advisory Agreements") for a one-year period commencing July 1, 2011.

Subsequent to the date of the June 2011 contract review meeting, it was discovered that there were certain inaccuracies in the information provided to the Boards by Morningstar Associates LLC ("Morningstar") with respect to the performance and/or expense figures shown for the Funds and their related rankings among peer group funds. In consultation with the Investment Manager, Morningstar produced a revised version of the information correcting the identified inaccuracies, which was provided to the Trustees for their consideration at a meeting held on December 13-14, 2011.

In considering the revised information, the Trustees noted, among other differences, that the following information from the revised Morningstar materials differed from information summarized in the August Semi-Annual Report as having been considered by the Trustees at the June 2011 contract review meeting:

Convertible & Income

The Fund actually ranked fifth, rather than sixth, out of sixteen funds in the expense peer group for total net expense ratio based on common share assets and fourth, rather than second, out of sixteen funds in the expense peer group for total net expense ratio based on common and leveraged assets combined. The Fund actually ranked fifth out of sixteen funds, rather than fourth out of fifteen funds, in actual management fees.

With respect to Fund performance (based on net asset value) the Fund actually ranked third out of seventeen funds, rather than second out of sixteen funds; fifth out of seventeen funds, rather than fourth out of sixteen funds, and sixth out of fifteen funds, rather than fifth out of fourteen funds, for the one year, three-year and five-year periods ended February 28, 2011, respectively.

Convertible & Income II

The Fund actually ranked seventh, rather than eighth, out of sixteen funds in the expense peer group for total net expense ratio based on common share assets and fourth, rather than second, out of sixteen funds for the total net expense ratio based on common and leveraged assets combined. The Fund actually ranked fifth out of sixteen funds, rather than fourth out of fifteen funds in actual management fees.

With respect to Fund performance (based on net asset value) the Fund actually ranked second out of seventeen, rather than sixteen funds, eighth out of seventeen funds, rather than seventh out of sixteen funds, and ninth out of fifteen funds, rather than eighth out of fourteen funds for the one year, three-year and five-year periods ended February 28, 2011, respectively.

After considering the revised Morningstar information and taking into account the other information and factors considered as part of the June 2011 contract review meeting, the Trustees, including the non-interested Trustees, determined at their December 2011 meeting that the revised Morningstar information, if it had been considered at the time of the June 2011 contract review meeting, would not have changed their determination to approve the continuance of the Funds

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Advisory Agreements and Sub-Advisory Agreements for a one-year period commencing July 1, 2011, as specified in the August Semi-Annual Report.

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AGIC Convertible & Income Funds

Privacy Policy (unaudited)

Our Commitment to You

We consider customer privacy to be a fundamental aspect of our relationship with shareholders and are committed to maintaining the confidentiality, integrity, and security of our current, prospective and former shareholders' personal information. To ensure our shareholders' privacy, we have developed policies that are designed to protect this confidentiality, while allowing shareholders' needs to be served.

Obtaining Personal Information

In the course of providing shareholders with products and services, we may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

Respecting Your Privacy

As a matter of policy, we do not disclose any personal or account information provided by shareholders or gathered by us to non-affiliated third parties, except as required for everyday business purposes, such as to process transactions or service a shareholder's account, or as otherwise permitted by law. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, and gathering shareholder proxies. We may also retain non-affiliated financial services providers, such as broker-dealers, to market our shares and products and we may enter in joint-marketing agreements with them and other financial companies. We may also retain marketing and research service firms to conduct research on shareholder satisfaction. These companies may have access to a shareholder's personal and account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. We may also provide a shareholder's personal and account information to their respective brokerage or financial advisory firm, Custodian, and/or to their financial adviser or consultant.

Sharing Information with Third Parties

We reserve the right to disclose or report personal information to non-affiliated third parties, in limited circumstances, where we believe in good faith that disclosure is required under law to cooperate with regulators or law enforcement authorities, to protect our rights or property or upon reasonable request by any Fund in which a shareholder has chosen to invest. In addition, we may disclose information about a shareholder or shareholder's accounts to a non-affiliated third party only if we receive a shareholder's written request or consent.

Sharing Information with Affiliates

We may share shareholder information with our affiliates in connection with our affiliates' everyday business purposes, such as servicing a shareholder's account, but our affiliates may not use this information to market products and services to you except in conformance with applicable laws or regulations. The information we share includes information about our experiences and transactions with a shareholder and may include, for example, shareholder's participation in one of the Funds or in other investment programs, a shareholder's ownership of certain types of accounts (such as IRAs), or other data about a shareholder's transactions or accounts. Our affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

Procedures to Safeguard Private Information

We take seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, we have also implemented procedures that are designed to restrict access to a shareholder's non-public personal information only to internal personnel who need to know that information in order to provide

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products or services to such shareholders. In addition, we have physical, electronic and procedural safeguards in place to guard a shareholder's non-public personal information.

Disposal of Confidential Records

We will dispose of records, if any, that are knowingly derived from data received from a consumer reporting agency regarding a shareholder that is an individual in a manner that ensures the confidentiality of the data is maintained. Such records include, among other things, copies of consumer reports and notes of conversations with individuals at consumer agencies.

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Table of Contents**AGIC Convertible & Income Funds****Dividend Reinvestment Plan (unaudited)**

Each Fund has adopted a Dividend Reinvestment Plan (the Plan) which allows common shareholders to reinvest Fund distributions in additional common shares of the Fund. BNY Mellon Investment Servicing (US) Inc. (the Plan Agent) serves as agent for common shareholders in administering the Plan. It is important to note that participation in the Plan and automatic reinvestment of Fund distributions does not ensure a profit, nor does it protect against losses in a declining market.

Automatic enrollment/voluntary participation. Under the Plan, common shareholders whose shares are registered with the Plan Agent (registered shareholders) are automatically enrolled as participants in the Plan and will have all Fund distributions of income, capital gains and returns of capital (together, distributions) reinvested by the Plan Agent in additional common shares of the applicable Fund, unless the shareholder elects to receive cash. Registered shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check and mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, to the nominee) by the Plan Agent.

Participation in the Plan is voluntary. Participants may terminate or resume their enrollment in the Plan at any time without penalty by notifying the Plan Agent online at www.bnymellon.com/shareowner/equityaccess, by calling (800) 254-5197, by writing to the Plan Agent, BNY Mellon Investment Servicing (US) Inc., at P.O. Box 358035, Pittsburgh, PA 15252-8035, or, as applicable, by completing and returning the transaction form attached to a Plan statement. A proper notification will be effective immediately and apply to the Funds' next distribution if received by the Plan Agent at least ten (10) days prior to the record date for the distribution; otherwise, a notification will be effective shortly following the Funds' next distribution and will apply to the Funds' next succeeding distribution thereafter. If you withdraw from the Plan and so request, the Plan Agent will arrange for the sale of your shares and send you the proceeds, minus a transaction fee and brokerage commissions.

How shares are purchased under the Plan. For each Fund distribution, the Plan Agent will acquire common shares for participants either (i) through receipt of newly issued common shares from the Fund (newly issued shares) or (ii) by purchasing common shares of the Fund on the open market (open market purchases). If, on a distribution payment date, the net asset value per common share of the Fund (NAV) is equal to or less than the market price per common share plus estimated brokerage commissions (often referred to as a market premium), the Plan Agent will invest the distribution amount on behalf of participants in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per common share on the payment date. If the NAV is greater than the market price per common share plus estimated brokerage commissions (often referred to as a market discount) on a distribution payment date, the Plan agent will instead attempt to invest the distribution amount through open market purchases. If the Plan Agent is unable to invest the full distribution amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any un-invested portion of the distribution in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per share as of the last business day immediately prior to the purchase date (which, in either case, may be a price greater or lesser than the NAV per common share on the distribution payment date). No interest will be paid on distributions awaiting reinvestment.

Under the Plan, the market price of common shares on a particular date is the last sales price on the exchange where the shares are listed on that date or, if there is no sale on the exchange on that date, the mean between the closing bid and asked quotations for the shares on the exchange on that date. The NAV per common share on a particular date is the amount calculated on that date (normally at the close of regular trading on the New York Stock Exchange) in accordance with the Funds' then current policies.

Fees and expenses. No brokerage charges are imposed on reinvestments in newly issued shares under the Plan. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. There are currently no direct service charges imposed on participants in the Plan, although the Funds reserve the right to amend the Plan to include such charges. The Plan Agent imposes a transaction fee (in addition to brokerage commissions that are incurred) if it arranges for the sale of your common shares held under the Plan.

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AGIC Convertible & Income Funds

Dividend Reinvestment Plan (continued) (unaudited)

Shares held through nominees. If your common shares are held through a broker, bank or other nominee (together, a nominee) and are not registered with the Plan Agent, neither you nor the nominee will be participants in or have distributions reinvested under the Plan. If you are a beneficial owner of common shares and wish to participate in the Plan, and your nominee is unable or unwilling to become a registered shareholder and a Plan participant on your behalf, you may request that your nominee arrange to have all or a portion of your shares re-registered with the Plan Agent in your name so that you may be enrolled as a participant in the Plan. Please contact your nominee for details or for other possible alternatives. Participants whose shares are registered with the Plan Agent in the name of one nominee firm may not be able to transfer the shares to another firm and continue to participate in the Plan.

Tax consequences. Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions i.e., automatic reinvestment in additional shares does not relieve shareholders of, or defer the need to pay, any income tax that may be payable (or that is required to be withheld) on Fund dividends and distributions.

The Funds and the Plan Agent reserve the right to amend or terminate the Plan. Additional information about the Plan, as well as a copy of the full Plan itself, may be obtained from the Plan Agent, BNY Mellon Investment Servicing (US) Inc., P.O. Box 358035, Pittsburgh, PA 15252-8035; telephone number: (800) 254-5197; web site: www.bnymellon.com/shareowner/equityaccess.

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AGIC Convertible & Income Funds

Board of Trustees (unaudited)

Name, Date of Birth, Position(s) Held with

Funds, Length of Service, Other Trusteeships/

Directorships Held by Trustee; Number of

Portfolios in Fund Complex/Outside Fund

Complexes Currently Overseen by Trustee

The address of each trustee is 1633 Broadway, New York, NY 10019.

Principal Occupation(s) During Past 5 Years:

Hans W. Kertess

President, H. Kertess & Co., a financial advisory company. Formerly, Managing Director, Royal Bank of Canada Capital Markets.

Date of Birth: 7/12/39

Chairman of the Board of Trustees since: 2007

Trustee since: 2004 - NCV/ 2003 - NCZ

Term of office: Expected to stand for re-election at 2013 - NCV/ 2012 - NCZ annual meeting of shareholders.

Trustee/Director of 57 funds in Fund Complex;

Trustee/Director of no funds outside of Fund Complex

Deborah A. DeCotis

Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Director, Helena Rubenstein Foundation (since 1997); Co-Chair Special Projects Committee, Memorial Sloan Kettering (since 2005); Board Member and Member of the Investment and Finance Committees, Henry Street Settlement (since 2007); Trustee, Stanford University (since 2010). Formerly, Advisory Council, Stanford Business School (2002-2008) and Director, Armor Holdings, a manufacturing company (2002-2007).

Date of Birth: 11/13/52

Trustee since: 2011

Term of office: Expected to stand for re-election at 2012 NCV/2014-NCZ annual meeting of shareholders.

Trustee/Director of 57 funds in Fund Complex

Trustee/Director of no funds outside of Fund Complex

Bradford K. Gallagher

Partner, New Technology Ventures Capital Management LLC, a venture capital fund (since 2011); Chairman and Trustee, Atlantic Maritime Heritage Foundation (since 2007); Trustee, The Common Fund (since 2005); Founder, Spyglass Investments LLC, a private investment vehicle (since 2001); and Founder, President and CEO of Cypress Holding Company and Cypress Tree Investment Management Company (since 1995).

Date of Birth: 2/28/44

Trustee since: 2010

Term of office: Expected to stand for re-election at 2014 annual meeting of shareholders.

Trustee/Director of 57 funds in Fund Complex

Trustee/Director of no funds outside of Fund Complex

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Formerly, Chairman and Trustee of Grail Advisors ETF Trust (2009-2010) and Trustee of Nicholas- Applegate Institutional Funds (2007-2010)

James A. Jacobson

Retired. Formerly, Vice Chairman and Managing Director of Spear, Leeds & Kellogg Specialists, LLC, a specialist firm on the New York Stock Exchange.

Date of Birth: 2/3/45

Trustee since: 2009

Term of office: Expected to stand for re-election at 2014 annual meeting of shareholders.

Trustee/Director of 57 funds in Fund Complex

Trustee/Director of 17 funds in Alpine Mutual Funds Complex

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AGIC Convertible & Income Funds

Board of Trustees (continued) (unaudited)

Name, Date of Birth, Position(s) Held with

Funds, Length of Service, Other Trusteeships/

Directorships Held by Trustee; Number of

Portfolios in Fund Complex/Outside Fund

Complexes Currently Overseen by Trustee

William B. Ogden, IV

Date of Birth: 1/11/45

Trustee since: 2006

Term of office: Expected to stand for re-election at 2013 annual meeting of shareholders

Trustee/Director of 57 funds in Fund Complex;

Trustee/Director of no funds outside of Fund Complex

Principal Occupation(s) During Past 5 Years:

Asset Management Industry Consultant. Formerly, Managing Director, Investment Banking Division of Citigroup Global Markets Inc.

Alan Rappaport

Date of Birth: 3/13/53

Trustee since: 2010

Term of office: Expected to stand for re-election at 2013 annual meeting of shareholders.

Trustee/Director of 57 funds in Fund Complex

Trustee/Director of no funds outside the Fund Complex

Vice Chairman, Roundtable Investment Partners (since 2009); Chairman (formerly President), Private Bank of Bank of America; Vice Chairman, US Trust (2001-2008); Trustee, American Museum of Natural History (since 2005) and Trustee, NYU Langone Medical Center (since 2007).

John C. Maney

Date of Birth: 8/3/59

Trustee since: 2006

Term of office: Expected to stand for re-election at 2012 annual meeting of shareholders.

Trustee/Director of 80 funds in Fund Complex

Trustee/Director of no funds outside the Fund Complex

Management Board, Managing Director and Chief Executive Officer of Allianz Global Investors Fund Management LLC; Management Board and Managing Director of Allianz Asset Management of America L.P. since January 2005 and also Chief Operating Officer of Allianz Asset Management of America L.P. since November 2006.

Mr. Maney is an interested person of the Funds, as defined in Section 2(a)(19) of the 1940 Act, due to his positions set forth in the table above, among others with the Funds Investment Manager and various affiliated entities.

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AGIC Convertible & Income Funds

Fund Officers (unaudited)

Name, Date of Birth, Position(s) Held with Fund.

Principal Occupation(s) During Past 5 Years:

Brian S. Shlissel

Management Board, Managing Director and Head of Mutual Fund Services, Allianz Global Investors Fund Management LLC; President and Chief Executive Officer of 27 funds in the Fund Complex; President of 53 funds in the Fund Complex; and Treasurer, Principal Financial and Accounting Officer of The Korea Fund, Inc. Formerly, Treasurer, Principal Financial and Accounting Officer of 50 funds in the Fund Complex.

Date of Birth: 11/14/64

President & Chief Executive Officer since: 2003

Lawrence G. Altadonna

Senior Vice President, Director of Fund Administration, Allianz Global Investors Fund Management LLC; Treasurer, Principal Financial and Accounting Officer of 80 funds in the Fund Complex; and Assistant Treasurer of The Korea Fund, Inc. Formerly, Assistant Treasurer of 50 Funds in the Fund Complex.

Date of Birth: 3/10/66

Treasurer, Principal Financial and Accounting Officer since: 2003

Thomas J. Fuccillo

Executive Vice President, Chief Legal Officer and Secretary, Allianz Global Investors Fund Management LLC; Executive Vice President, Allianz Asset Management of America L.P.; Vice President, Secretary and Chief Legal Officer of 80 funds in the Fund Complex; and Secretary and Chief Legal Officer of The Korea Fund, Inc.

Date of Birth: 3/22/68

Vice President, Secretary & Chief Legal Officer since: 2004

Scott Whisten

Senior Vice President, Allianz Global Investors Fund Management LLC; and Assistant Treasurer of 80 funds in the Fund Complex.

Date of Birth: 3/13/71

Assistant Treasurer since: 2007

Richard J. Cochran

Vice President, Allianz Global Investors Fund Management LLC; Assistant Treasurer of 80 funds in the Fund Complex and of The Korea Fund, Inc. Formerly, Tax Manager, Teachers Insurance Annuity Association/College Retirement Equity Fund (TIAA-CREF) (2002-2008).

Date of Birth: 1/23/61

Assistant Treasurer since: 2008

Orhan Dzemaili

Vice President, Allianz Global Investors Fund Management LLC; Assistant Treasurer of 80 funds in the Fund Complex.

Date of Birth: 4/18/74

Assistant Treasurer since: 2011

Youse E. Guia

Senior Vice President, Chief Compliance Officer, Allianz Asset Management of America L.P.; Chief Compliance Officer of 80 funds in the Fund Complex and of The Korea Fund, Inc.

Date of Birth: 9/3/72

Chief Compliance Officer since: 2004

Lagan Srivastava

Vice President of Allianz Asset Management of America L.P.; Assistant Secretary of 80 funds in the Fund Complex and of The Korea Fund, Inc.

Date of Birth: 9/20/77

Assistant Secretary since: 2006

Officers hold office at the pleasure of the Board and until their successors are appointed and qualified or until their earlier resignation or removal.

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Trustees

Hans W. Kertess
Chairman of the Board of Trustees

Deborah A. DeCotis

Bradford K. Gallagher

James A. Jacobson

John C. Maney

William B. Ogden, IV

Alan Rappaport

Fund Officers

Brian S. Shlissel
President & Chief Executive Officer

Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Thomas J. Fuccillo
Vice President, Secretary & Chief Legal Officer

Scott Whisten
Assistant Treasurer

Richard J. Cochran
Assistant Treasurer

Orhan Dzemaili
Assistant Treasurer

Youse E. Guia
Chief Compliance Officer

Lagan Srivastava
Assistant Secretary

Investment Manager

Allianz Global Investors Fund Management LLC

1633 Broadway

New York, NY 10019

Sub-Adviser

Allianz Global Investors Capital LLC

600 West Broadway, 30th Floor

San Diego, CA 92101

Custodian & Accounting Agent

Brown Brothers Harriman & Co.

40 Water Street

Boston, MA 02109

Transfer Agent, Dividend Paying Agent and Registrar

BNY Mellon

P.O. Box 43027

Providence, RI 02940-3027

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, NY 10017

Legal Counsel

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

This report, including the financial information herein, is transmitted to the shareholders of AGIC Convertible & Income Fund and AGIC Convertible & Income Fund II for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase their common shares in the open market.

The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. Each Fund's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds' website at www.allianzinvestors.com/closedendfunds.

Information on the Funds is available at www.allianzinvestors.com/closedendfunds or by calling the Funds' shareholder servicing agent at (800) 254-5197.

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ITEM 2. CODE OF ETHICS

- (a) As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Section 406 Standards for Investment Companies Ethical Standards for Principal Executive and Financial Officers) that applies to the registrant's Principal Executive Officer and Principal Financial Officer; the registrant's Principal Financial Officer also serves as the Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-331-1710. The code of ethics is included as an Exhibit 99.CODEETH hereto.
- (b) During the period covered by this report, there were no amendments to a provision of the code of ethics adopted in 2(a) above.
- (c) During the period covered by this report, there were no waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The registrant's Board has determined that Mr. James A. Jacobson, a member of the Board's Audit Oversight Committee is an audit committee financial expert, and that he is independent, for purposes of this Item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

- a) Audit fees. The aggregate fees billed for each of the last two fiscal years (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods were \$54,000 in 2011 and \$55,890 in 2012.
- b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the principal accountant that are reasonably related to the performance of the audit registrant's financial statements and are not reported under paragraph (e) of this Item were \$10,000 in 2011 and \$10,000 in 2012. These services consist of accounting consultations, agreed upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares), attestation reports and comfort letters.
- c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax service and tax planning (Tax Services) were \$14,110 in 2011 and \$14,410 in 2012. These services consisted of review or preparation of U.S. federal, state, local and excise tax returns and calculation of excise tax distributions.
- d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor to the Registrant.
- e) 1. Audit Committee Pre-Approval Policies and Procedures. The Registrant's Audit Committee has established policies and procedures for pre-approval of all audit and permissible non-audit services

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by the Auditor for the Registrant, as well as the Auditor's engagements related directly to the operations and financial reporting of the Registrant. The Registrant's policy is stated below.
AGIC Convertible & Income Fund (The Fund)

AUDIT OVERSIGHT COMMITTEE POLICY FOR PRE-APPROVAL OF SERVICES PROVIDED BY THE INDEPENDENT ACCOUNTANTS

The Fund's Audit Oversight Committee (Committee) is charged with the oversight of the Funds' financial reporting policies and practices and their internal controls. As part of this responsibility, the Committee must pre-approve any independent accounting firm's engagement to render audit and/or permissible non-audit services, as required by law. In evaluating a proposed engagement by the independent accountants, the Committee will assess the effect that the engagement might reasonably be expected to have on the accountant's independence. The Committee's evaluation will be based on:

- a review of the nature of the professional services expected to be provided,
- the fees to be charged in connection with the services expected to be provided,
- a review of the safeguards put into place by the accounting firm to safeguard independence, and
- periodic meetings with the accounting firm.

POLICY FOR AUDIT AND NON-AUDIT SERVICES TO BE PROVIDED TO THE FUNDS

On an annual basis, the Fund's Committee will review and pre-approve the scope of the audits of the Funds and proposed audit fees and permitted non-audit (including audit-related) services that may be performed by the Fund's independent accountants. At least annually, the Committee will receive a report of all audit and non-audit services that were rendered in the previous calendar year pursuant to this Policy. In addition to the Committee's pre-approval of services pursuant to this Policy, the engagement of the independent accounting firm for any permitted non-audit service provided to the Fund will also require the separate written pre-approval of the President of the Fund, who will confirm, independently, that the accounting firm's engagement will not adversely affect the firm's independence. All non-audit services performed by the independent accounting firm will be disclosed, as required, in filings with the Securities and Exchange Commission.

AUDIT SERVICES

The categories of audit services and related fees to be reviewed and pre-approved annually by the Committee are:

- Annual Fund financial statement audits
- Seed audits (related to new product filings, as required)
- SEC and regulatory filings and consents
- Semiannual financial statement reviews

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AUDIT-RELATED SERVICES

The following categories of audit-related services are considered to be consistent with the role of the Fund's independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm's independence:

Accounting consultations

Fund merger support services

Agreed upon procedure reports (inclusive of the annual review of Basic Maintenance testing associated with issuance of Preferred Shares)

Other attestation reports

Comfort letters

Other internal control reports

Individual audit-related services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm's independence, by the Committee Chair (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

TAX SERVICES

The following categories of tax services are considered to be consistent with the role of the Fund's independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm's independence:

Tax compliance services related to the filing or amendment of the following:

Federal, state and local income tax compliance; and, sales and use tax compliance

Timely RIC qualification reviews

Tax distribution analysis and planning

Tax authority examination services

Tax appeals support services

Accounting methods studies

Fund merger support service

Other tax consulting services and related projects

Individual tax services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm's independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

PROSCRIBED SERVICES

The Fund's independent accountants will not render services in the following categories of non-audit services:

Bookkeeping or other services related to the accounting records or financial statements of the Funds
Financial information systems design and implementation

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Appraisal or valuation services, fairness opinions, or contribution-in-kind reports

Actuarial services

Internal audit outsourcing services

Management functions or human resources

Broker or dealer, investment adviser or investment banking services

Legal services and expert services unrelated to the audit

Any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible

PRE-APPROVAL OF NON-AUDIT SERVICES PROVIDED TO OTHER ENTITIES WITHIN THE FUND COMPLEX

The Committee will pre-approve annually any permitted non-audit services to be provided to Allianz Global Investors Fund Management LLC (Formerly, PA Fund Management LLC) or any other investment manager to the Funds (but not including any sub-adviser whose role is primarily portfolio management and is sub-contracted by the investment manager) (the Investment Manager) and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund (including affiliated sub-advisers to the Fund), provided, in each case, that the engagement relates directly to the operations and financial reporting of the Fund (such entities, including the Investment Manager, shall be referred to herein as the Accounting Affiliates). Individual projects that are not presented to the Committee as part of the annual pre-approval process, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting. Although the Committee will not pre-approve all services provided to the Investment Manager and its affiliates, the Committee will receive an annual report from the Funds independent accounting firm showing the aggregate fees for all services provided to the Investment Manager and its affiliates.

DE MINIMUS EXCEPTION TO REQUIREMENT OF PRE-APPROVAL OF NON-AUDIT SERVICES

With respect to the provision of permitted non-audit services to a Fund or Accounting Affiliates, the pre-approval requirement is waived if:

- (1) The aggregate amount of all such permitted non-audit services provided constitutes no more than (i) with respect to such services provided to the Fund, five percent (5%) of the total amount of revenues paid by the Fund to its independent accountant during the fiscal year in which the services are provided, and (ii) with respect to such services provided to Accounting Affiliates, five percent (5%) of the total amount of revenues paid to the Fund s independent accountant by the Fund and the Accounting Affiliates during the fiscal year in which the services are provided;
- (2) Such services were not recognized by the Fund at the time of the engagement for such services to be non-audit services; and
- (3) Such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this Committee Chairman or other delegate shall be reported to the full Committee at its next regularly scheduled meeting.

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- e) 2. No services were approved pursuant to the procedures contained in paragraph (C) (7) (i) (C) of Rule 2-01 of Registration S-X.

- f) Not applicable

- g) Non-audit fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to the Adviser, for the 2011 Reporting Period was \$2,712,320 and for the 2012 Reporting Period was \$3,134,739.

- h) Auditor Independence. The Registrant's Audit Oversight Committee has considered whether the provision of non-audit services that were rendered to the Adviser which were not pre-approved is compatible with maintaining the Auditor's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

The Fund has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee of the Fund is comprised of Hans W. Kertess, Alan Rappaport, William B. Ogden, IV, James A. Jacobson, Bradford K. Gallagher and Deborah A. DeCortis.

ITEM 6. INVESTMENTS

- (a) Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

- (b) Not applicable

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ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

AGIC Convertible & Income Fund (NCV)

AGIC Convertible & Income Fund II (NCZ)

(each a Trust)

PROXY VOTING POLICY

1. It is the policy of each Trust that proxies should be voted in the interest of its shareholders, as determined by those who are in the best position to make this determination. Each Trust believes that the firms and/or persons purchasing and selling securities for the Trust and analyzing the performance of the Trust's securities are in the best position and have the information necessary to vote proxies in the best interests of the Trust and its shareholders, including in situations where conflicts of interest may arise between the interests of shareholders, on one hand, and the interests of the investment adviser, a sub-adviser and/or any other affiliated person of the Trust, on the other. Accordingly, each Trust's policy shall be to delegate proxy voting responsibility to those entities with portfolio management responsibility for the Trust.
2. Each Trust delegates the responsibility for voting proxies to Allianz Global Investors Fund Management LLC (AGIFM), which will in turn delegate such responsibility to the sub-adviser of the particular Trust. AGIFM's Proxy Voting Policy Summary is attached as Appendix A hereto. A summary of the detailed proxy voting policies of the Trusts' current sub-adviser is set forth in Appendix B attached hereto. Such summary may be revised from time to time to reflect changes to the sub-adviser's detailed proxy voting policies.
3. The party voting the proxies (i.e., the sub-adviser) shall vote such proxies in accordance with such party's proxy voting policies and, to the extent consistent with such policies, may rely on information and/or recommendations supplied by others.
4. AGIFM and the sub-adviser of each Trust with proxy voting authority shall deliver a copy of its respective proxy voting policies and any material amendments thereto to the applicable Board of each Trust promptly after the adoption or amendment of any such policies.
5. The party voting the proxy shall: (i) maintain such records and provide such voting information as is required for the Trusts' regulatory filings including, without limitation, Form N-PX and the required disclosure of policy called for by Item 18 of Form N-2 and Item 7 of Form N-CSR; and (ii) shall provide such additional information as may be requested, from time to time, by the Board or the Trusts' Chief Compliance Officer.
6. This Proxy Voting Policy Statement, the Proxy Voting Policy Summary of AGIFM and summaries of the detailed proxy voting policies of the sub-adviser of the Trust with proxy voting authority and how the Trust voted proxies relating to portfolio securities held during the most recent twelve month period ending June 30, shall be made available (i) without charge, upon request, by calling 1-800-254-5197; (ii) on the Trust's website at www.allianzinvestors.com; and (iii) on the Securities and Exchange Commission's (SEC's) website at <http://www.sec.gov>. In addition, to the extent required by applicable law or determined by the Trusts' Chief Compliance Officer or Board of Trustees, the Proxy Voting Policy Summary of AGIFM and a summary of the detailed proxy voting policies of the sub-adviser with proxy voting authority shall also be included in the Trusts' Registration Statements or Form N-CSR filings.

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Appendix A

ALLIANZ GLOBAL INVESTORS FUND MANAGEMENT LLC (AGIFM)

PROXY VOTING POLICY SUMMARY

1. It is the policy of AGIFM that proxies should be voted in the interest of the shareholders of the applicable fund, as determined by those who are in the best position to make this determination. AGIFM believes that the firms and/or persons purchasing and selling securities for the funds and analyzing the performance of the funds' securities are in the best position and have the information necessary to vote proxies in the best interests of the funds and their shareholders, including in situations where conflicts of interest may arise between the interests of shareholders, on one hand, and the interests of the investment adviser, a sub-adviser and/or any other affiliated person of the fund, on the other. Accordingly, AGIFM's policy shall be to delegate proxy voting responsibility to those entities with portfolio management responsibility for the funds.
2. AGIFM, for each fund for which it acts as investment adviser, delegates the responsibility for voting proxies to the sub-adviser for the respective fund.
3. The party voting proxies (e.g., the sub-adviser) vote the proxies in accordance with their proxy voting policies and, to the extent consistent with their policies, may rely on information and/or recommendations supplied by others.
4. AGIFM and each sub-adviser of a fund will deliver a copy of their respective proxy voting policies and any material amendments thereto to the board of the relevant fund promptly after the adoption or amendment of any such policies.
5. The party voting the proxy will: (i) maintain such records and provide such voting information as is required for such funds' regulatory filings including, without limitation, Form N-PX and the required disclosure of policy called for by Item 18 of Form N-2 and Item 7 of Form N-CSR; and (ii) will provide additional information as may be requested, from time to time, by the funds' respective boards or chief compliance officers.
6. Summaries of the proxy voting policies for AGIFM and each sub-adviser of a fund advised by AGIFM and how each fund voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 will be available (i) without charge, upon request, by calling 1-800-254-5197; (ii) on the Allianz Global Investors Distributors Web site at www.allianzinvestors.com; and (iii) on the Securities and Exchange Commission's (SEC's) website at <http://www.sec.gov>. In addition, to the extent required by applicable law or determined by the relevant fund's board of directors/trustees or chief compliance officer, summaries of the detailed proxy voting policies of AGIFM, each sub-adviser and each other entity with proxy voting authority for a fund advised by AGIFM shall also be included in the Registration Statement or Form N-CSR filings for the relevant fund.

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Appendix B

Allianz Global Investors Capital (AGI Capital)

Description of Proxy Voting Policy and Procedures

AGI Capital typically votes proxies as part of its discretionary authority to manage accounts, unless the client has explicitly reserved the authority for itself. When voting proxies, AGI Capital seeks to make voting decisions solely in the best interests of its clients and to enhance the economic value of the underlying portfolio securities held in its clients' accounts.

AGI Capital has adopted written Proxy Policy Guidelines and Procedures (the "Proxy Guidelines") that are reasonably designed to ensure that the firm is voting in the best interest of its clients. The Proxy Guidelines reflect AGI Capital's general voting positions on specific corporate governance issues and corporate actions. AGI Capital has retained an independent third party service provider (the "Proxy Provider") to assist in the proxy voting process by implementing the votes in accordance with the Proxy Guidelines as well as assisting in the administrative process. In certain circumstances, a client may request in writing that AGI Capital vote proxies for its account in accordance with a set of guidelines which differs from the Proxy Guidelines. In that case, AGI Capital will vote the shares held by such client accounts in accordance with their direction which may be different from the vote cast for shares held on behalf of other client accounts that vote in accordance with the Proxy Guidelines.

AGI Capital will generally refrain from voting proxies on foreign securities that are subject to share blocking restrictions. Certain countries require the freezing of shares for trading purposes at the custodian/sub-custodian bank level in order to vote proxies to ensure that shareholders voting at meetings continue to hold the shares through the actual shareholder meeting. However, because AGI Capital cannot anticipate every proxy proposal that may arise (including a proxy proposal that an analyst and/or portfolio manager believes has the potential to significantly affect the economic value of the underlying security, such as proxies relating to mergers and acquisitions), AGI Capital may, from time to time, instruct the Proxy Provider to cast a vote for a proxy proposal in a share blocked country.

The Proxy Guidelines also provide for oversight of the proxy voting process by a Proxy Committee. The Proxy Committee meets at a minimum on an annual basis and when necessary to address potential conflicts of interest. AGI Capital may have conflicts of interest that can affect how it votes its clients' proxies. In order to ensure that all material conflicts of interest are addressed appropriately while carrying out AGI Capital's obligation to vote proxies, the Proxy Committee is responsible for developing a process to identify proxy voting issues that may raise conflicts of interest between AGI Capital and its clients and to resolve such issues. Any deviations from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Investment Advisers Act.

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The Proxy Committee monitors the outsourcing of voting obligations to the Proxy Provider and AGI Capital's proxy voting recordkeeping practices; adheres to a process for resolution of voting issues that require a case-by-case analysis; and, to the extent the Proxy Guidelines do not cover potential proxy voting issues, determines a process for voting such issues.

In accordance with the Proxy Guidelines, AGI Capital may review additional criteria associated with voting proxies and evaluate the expected benefit to its clients when making an overall determination on how or whether to vote a proxy. Upon receipt of a client's written request, AGI Capital may also vote proxies for that client's account in a particular manner that may differ from the Proxy Guidelines. In addition, AGI Capital may refrain from voting a proxy on behalf of its clients' accounts due to de-minimis holdings, immaterial impact on the portfolio, items relating to non-U.S. issuers (such as those described below), non-discretionary holdings not covered by AGI Capital, timing issues related to the opening/closing of accounts, securities lending issues (see below), contractual arrangements with clients and/or their authorized delegate, the timing of receipt of information, or where circumstances beyond its control prevent it from voting.

These issues may include, but are not limited to: (i) proxy statements and ballots being written in a foreign language, (ii) untimely notice of a shareholder meeting, (iii) requirements to vote proxies in person, (iv) restrictions on foreigner's ability to exercise votes, (v) restrictions on the sale of securities for a period of time in proximity to the shareholder meeting, or (vi) requirements to provide local agents with power of attorney to facilitate the voting instructions. Such proxies are voted on a best-efforts basis.

If a client has decided to participate in a securities lending program, AGI Capital will defer to the client's determination and not attempt to recall securities on loan solely for the purpose of voting routine proxies as this could impact the returns received from securities lending and make the client a less desirable lender in the marketplace. If the participating client requests, AGI Capital will use reasonable efforts to notify the client of proxy measures that AGI Capital deems material.

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ITEM 8: PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT COMPANIES

(a)(1)

As of May 1, 2012, the following individuals constitute the team that has primary responsibility for the day-to-day implementation of the AGIC Convertible & Income Fund (NCV) and AGIC Convertible & Income Fund II (NCZ), with Mr. Forsyth serving as the lead portfolio manager:

Douglas G. Forsyth, CFA

Managing Director, Portfolio Manager

Doug Forsyth has portfolio manager and research responsibilities for the Income and Growth Strategies team and has been the lead portfolio manager since the Funds inception (March 2003 - NCV) and (July 2003 - NCZ) and oversees AGI Capital's Income and Growth Strategies portfolio management and research teams. Prior to joining AGI Capital via a predecessor affiliate in 1994, Mr. Forsyth was a securities analyst at AEGON USA. Mr. Forsyth was previously a research assistant at The University of Iowa, where he earned his B.B.A. in finance. He has over twenty years of investment industry experience.

Justin Kass, CFA

Managing Director, Portfolio Manager

Justin Kass has portfolio manager and research responsibilities for the Income and Growth Strategies team and has been a co-portfolio manager since the Funds inception (March 2003 - NCV) and (July 2003 - NCZ) and joined AGI Capital via a predecessor affiliate in 2000 with responsibilities for portfolio management and research on the Income and Growth Strategies team. He was previously an analyst and intern on the team, adding significant depth to the proprietary Upgrade Alert Model. He earned his M.B.A. in finance from the UCLA Anderson School of Management and his B.S. from the University of California, Davis. He has over fourteen years of investment industry experience.

(a)(2)

The following summarizes information regarding each of the accounts, excluding the Funds managed by portfolio managers as of February 29, 2012 including accounts managed by a team, committee, or other group that includes the portfolio managers.

NCV

PM	Other Registered		Other Accounts		Other Pooled	
	#	AUM(\$million)	#	AUM(\$million)	#	AUM(\$million)
Douglas G. Forsyth	7	3,786	10	1,513	7	962*
Justin Kass	7	3,786	10	1,513	7	962*

* Of these Other Pooled Investment Vehicles, two accounts totaling \$338 million pay and advisory fee that is based in part on the performance of the accounts.

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NCZ

PM	Other Registered		Other Accounts		Other Pooled	
	#	AUM(\$million)	#	AUM(\$million)	#	AUM(\$million)
Douglas G. Forsyth	7	4,031	10	1,513	7	962*
Justin Kass	7	4,031	10	1,513	7	962*

* Of these Other Pooled Investment Vehicles, two accounts totaling \$338 million pay and advisory fee that is based in part on the performance of the accounts.

Like other investment professionals with multiple clients, a Portfolio Manager for a Fund may face certain potential conflicts of interest in connection with managing both the Fund and other accounts at the same time. The paragraphs below describe some conflicts faced by investment professionals at most major financial firms.

The Investment Adviser has adopted compliance policies and procedures that address certain of these potential conflicts. The management of accounts with different advisory fee rates and/or fee structures, including accounts that pay advisory fees based on account performance (performance fee accounts) may raise potential conflicts of interest by creating an incentive to favor higher-fee accounts. These potential conflicts may include, among others:

The most attractive investments could be allocated to higher-fee accounts or performance fee accounts.

The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time.

The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation.

When the Investment Adviser considers the purchase or sale of a security to be in the best interests of a Fund as well as other accounts, the Investment Adviser's trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased. Aggregation of trades may create the potential for unfairness to a Fund or another account if one account is favored over another in allocating the securities purchased or sold for example, by allocating a disproportionate amount of a security that is likely to increase in value to a favored account. The Investment Adviser considers many factors when allocating securities among accounts, including the account's investment style, applicable investment restrictions, availability of securities, available cash and other current holdings. The Investment Adviser attempts to allocate investment opportunities among accounts in a fair and equitable manner. However, accounts are not assured of participating equally or at all in particular investment allocations due to such factors as noted above.

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Cross trades, in which one Investment Adviser account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest when cross trades are effected in a manner perceived to favor one client over another. For example, if the Investment Advisor crosses a trade between performance fee account and a fixed fee account that result in a benefit to the performance fee account and a detriment to the fixed fee account. The Investment Adviser has adopted compliance procedures that provide that all cross trades are to be made at an independent current market price, as required by law.

Another potential conflict of interest may arise from the different investment objectives and strategies of a Fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than a Fund. Depending on another account's objectives or other factors, a Portfolio Manager may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to a Fund. In addition, investment decisions are subject to suitability for the particular account involved. Thus, a particular security may not be bought or sold for certain accounts even though it was bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by a Portfolio Manager when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. The Investment Adviser maintains trading policies designed to provide portfolio managers an opportunity to minimize the effect that short sales in one portfolio may have on holdings in other portfolios.

A Portfolio Manager who is responsible for managing multiple accounts may devote unequal time and attention to the management of those accounts. As a result, the Portfolio Manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular Portfolio Manager have different investment strategies.

A Fund's Portfolio Manager(s) may be able to select or influence the selection of the broker/dealers that are used to execute securities transactions for the Fund. In addition to executing trades, some brokers and dealers provide the Investment Adviser with brokerage and research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934), which may result in the payment of higher brokerage fees than might have otherwise be available. These services may be more beneficial to certain funds or accounts than to others. In order to be assured of continuing to receive services considered of value to its clients, the Investment Adviser has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934. The Investment Adviser allocates the payment of brokerage commissions is subject to the requirement that the Portfolio Manager determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the Fund.

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A Fund's Portfolio Manager(s) may also face other potential conflicts of interest in managing a Fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the Funds and other accounts. In addition, a Fund's Portfolio Manager may also manage other accounts (including their personal assets or the assets of family members) in their personal capacity. The Investment Adviser's investment personnel, including each Fund's Portfolio Manager, are subject to restrictions on engaging in personal securities transactions pursuant to the Allianz Global Investors of America L.P.'s Code of Ethics, which contain provisions and requirements designed to identify and address conflicts of interest between personal investment activities and the interests of the Funds. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of the Investment Adviser will not interfere with (i) making decisions in the best interest of advisory clients (including the Funds) or (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

(a) (3)

As of February 29, 2012 the following explains the compensation structure of each individual who shares primary responsibility for day-to-day portfolio management of the Fund:

AGI Capital's compensation plan is designed specifically to be aligned with the interests of our clients. We aim to provide rewards for exceptional investment performance and build an enduring firm with a long-term culture of shared success. To that end, in addition to competitive base salaries, we offer both short- and long-term incentive plans.

Compensation and Investment Performance

Short-term incentive pools for investment teams are annual discretionary bonuses funded by the firm's revenue and allocated based on the performance of the strategies and the teams. The percentage allocated to an investment team is adjusted to reflect performance relative to the benchmark over a one-, three-, and five-year period (the timeframe may vary depending on the strategy). The team pools are then subjectively allocated to team members based on individual contributions to client accounts. This revenue sharing arrangement directly aligns compensation with investment performance.

Long-Term Incentive Plan

A Long-Term Incentive plan provides rewards to certain key staff and executives of Allianz Global Investors' companies to promote long-term growth and profitability. The plan is based on the operating earnings growth of Allianz Global Investors in the, U.S. and globally. The plan has a three-year vesting schedule and is paid in cash upon vesting.

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Overall, we believe that competitive compensation is essential to retaining top industry talent. With that in mind, we continually reevaluate our compensation policies against industry benchmarks. Our goal is to offer portfolio managers and analysts compensation and benefits in the top quartile for comparable experience, as measured by industry benchmarks surveyed by independent firms including McLagan Partners.

(a)(4)

Unless otherwise noted, the following summarizes the dollar range of securities the portfolio manager for the Fund beneficially owned of the Fund that he managed as of February 29, 2012.

AGIC Convertible & Income Fund		PM Ownership
Douglas G. Forsyth		\$100,001 - \$500,000
Justin Kass		\$10,001 - \$50,000
AGIC Convertible & Income Fund II		PM Ownership
Douglas G. Forsyth		\$ 0
Justin Kass		\$ 0

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ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES

None.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant 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 quarter 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.

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ITEM 12. EXHIBITS

- (a) (1) Exhibit 99.CODE ETH - Code of Ethics
- (a) (2) Exhibit 99.302 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (a) (3) Not applicable
- (b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Signature

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.

AGIC Convertible & Income Fund

By: /s/ Brian S. Shlissel
President and Chief Executive Officer
Date: May 1, 2012

By: /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer
Date: May 1, 2012

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/ Brian S. Shlissel
President and Chief Executive Officer
Date: May 1, 2012

By: /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer
Date: May 1, 2012