

Edgar Filing: AGIC Convertible & Income Fund II - Form N-Q

AGIC Convertible & Income Fund II
Form N-Q
July 19, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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APPROVAL
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FORM N-Q
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act File Number: 811-21338

AGIC Convertible & Income Fund II

(Registrant Name)

1633 Broadway, New York, NY

10019

(Address of Principal Executive Offices)

(Zip code)

Lawrence G. Altadonna 1633 Broadway, New York, NY 10019

(Name and Address of Agent for Service)

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

Date of Fiscal Year End: February 29, 2012

Date of Reporting Period: May 31, 2011

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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Item 1. Schedule of Investments

AGIC Convertible & Income Fund II Schedule of Investments

May 31, 2011 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
CORPORATE BONDS & NOTES 45.8%			
Advertising 1.0%			
\$7,835	Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	\$8,187,575
Aerospace & Defense 0.1%			
620	BE Aerospace, Inc., 8.50%, 7/1/18	Ba3/BB	688,200
Airlines 0.6%			
4,750	United Airlines, Inc., 12.00%, 11/1/13 (a)(b)	B3/CCC+	5,153,750
Apparel 0.1%			
750	Quiksilver, Inc., 6.875%, 4/15/15	Caa1/CCC+	736,875
Chemicals 0.8%			
6,330	Momentive Performance Materials, Inc., 11.50%, 12/1/16	Caa2/CCC	6,852,225
Commercial Services 3.5%			
5,000	ACE Cash Express, Inc., 11.00%, 2/1/19 (a)(b)	B3/B	5,100,000
1,485	Cardtronics, Inc., 8.25%, 9/1/18	B2/BB-	1,629,787
8,255	Cenveo Corp., 10.50%, 8/15/16 (a)(b)	Caa1/CCC+	8,358,188
4,295	DynCorp International, Inc., 10.375%, 7/1/17 (a)(b)	B1/B	4,574,175
7,625	National Money Mart Co., 10.375%, 12/15/16	B2/B+	8,549,531
			28,211,681
Construction & Engineering 1.1%			
8,380	MasTec, Inc., 7.625%, 2/1/17	B1/B+	8,589,500
Consumer Finance 0.4%			
3,075	Springleaf Finance Corp., 6.90%, 12/15/17	B3/B	2,936,625
Distribution/Wholesale 0.7%			
5,580	KAR Auction Services, Inc., 8.75%, 5/1/14	B3/B	5,768,325
Diversified Consumer Services 0.1%			
1,000	Cambium Learning Group, Inc., 9.75%, 2/15/17 (a)(b)	B2/B	1,010,000

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Diversified Financial Services 0.4%			
3,005	International Lease Finance Corp., 6.375%, 3/25/13	B1/BBB-	3,170,275
Diversified Telecommunications 0.9%			
7,705	Cincinnati Bell, Inc., 8.75%, 3/15/18	B3/CCC+	7,473,850
Electric 1.5%			
6,780	Edison Mission Energy, 7.00%, 5/15/17	B3/B-	5,644,350
7,800	Texas Competitive Electric Holdings Co. LLC, 15.00%, 4/1/21 (a)(b)	Caa3/CC	6,825,000
			12,469,350
Electronic Equipment, Instruments & Components 0.9%			
6,315	Kemet Corp., 10.50%, 5/1/18	B1/B+	7,151,738
Energy Equipment & Services 1.1%			
8,005	Pioneer Drilling Co., 9.875%, 3/15/18	NR/B	8,715,444
Food & Staples Retailing 0.8%			
7,090	Rite Aid Corp., 8.625%, 3/1/15	Caa3/CCC	6,611,425
Health Care Providers & Services 1.3%			
5,685	HCA, Inc., 9.25%, 11/15/16	B2/BB-	6,097,162
4,090	Rotech Healthcare, Inc., 10.50%, 3/15/18 (a)(b)	B3/B	4,120,675
			10,217,837
Healthcare-Services 0.5%			
4,435	Alliance HealthCare Services, Inc., 8.00%, 12/1/16	NR/B	4,385,106

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Home Builders 1.6%			
	K Hovnanian Enterprises, Inc.,		
\$5,575	7.50%, 5/15/16	Caa2/CCC-	\$3,707,375
9,140	10.625%, 10/15/16	B1/CCC+	9,231,400
			12,938,775
Hotels, Restaurants & Leisure 1.6%			
4,730	DineEquity, Inc., 9.50%, 10/30/18 (a)(b)	B3/CCC+	5,203,000
6,395	MGM Resorts International, 11.375%, 3/1/18	Caa1/CCC+	7,386,225
			12,589,225
Household Durables 0.6%			
3,920	Beazer Homes USA, Inc., 9.125%, 5/15/19 (a)(b)	Caa2/CCC	3,733,800
1,390	Jarden Corp., 7.50%, 5/1/17	B2/B	1,487,300
			5,221,100
Internet Software & Services 0.8%			
6,540	Earthlink, Inc., 8.875%, 5/15/19 (a)(b)	B2/B-	6,204,825
IT Services 0.9%			
1,985	Stream Global Services, Inc., 11.25%, 10/1/14	B1/B+	2,163,650
	Unisys Corp., (a)(b)		
2,705	12.75%, 10/15/14	Ba1/BB+	3,208,806
1,931	14.25%, 9/15/15	Ba2/BB+	2,309,959
			7,682,415
Leisure Time 2.1%			
	NCL Corp. Ltd.,		
810	9.50%, 11/15/18 (a)(b)	Caa1/B+	874,800
7,570	11.75%, 11/15/16	B2/BB	8,885,287
8,145	Travelport LLC, 11.875%, 9/1/16	Caa2/CCC	7,126,875

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			16,886,962
	Lodging 1.2%		
9,455	Caesars Entertainment Operating Co., Inc., 12.75%, 4/15/18	Caa3/CCC	9,845,019
	Media 1.5%		
4,525	McClatchy Co., 11.50%, 2/15/17	B1/B	4,977,500
5,100	Media General, Inc., 11.75%, 2/15/17	B2/B-	5,163,750
2,045	Sirius XM Radio, Inc., 8.75%, 4/1/15 (a)(b)	B2/BB-	2,295,512
			12,436,762
	Miscellaneous Manufacturing 0.9%		
7,715	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	7,367,825
	Oil & Gas 2.2%		
7,000	Energy XXI Gulf Coast, Inc., 9.25%, 12/15/17 (a)(b)	Caa1/B	7,560,000
5,220	Milagro Oil & Gas, 10.50%, 5/15/16 (a)(b)	Caa2/B-	5,011,200
5,290	United Refining Co., 10.50%, 2/28/18 (a)(b)	B3/B	5,422,250
			17,993,450
	Oil & Gas Services 0.1%		
500	Allis-Chalmers Energy, Inc., 9.00%, 1/15/14	Caa1/B-	512,500
	Oil, Gas & Consumable Fuels 1.9%		
6,970	OPTI Canada, Inc., 8.25%, 12/15/14	Ca/CCC	3,502,425
6,250	SandRidge Energy, Inc., 9.875%, 5/15/16 (a)(b)	B3/B	6,921,875
4,740	Western Refining, Inc., 11.25%, 6/15/17 (a)(b)	B3/B	5,379,900
			15,804,200

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Paper & Forest Products 0.2%			
\$1,509	Louisiana-Pacific Corp., 13.00%, 3/15/17	Ba3/BBB-	\$1,593,881
Real Estate 0.3%			
1,750	CB Richard Ellis Services, Inc., 11.625%, 6/15/17	Ba2/B+	2,073,750
Retail 1.1%			
7,165	Neiman Marcus Group, Inc., 10.375%, 10/15/15	Caa1/B-	7,576,988
885	Sally Holdings LLC, 10.50%, 11/15/16	B3/B+	964,650
			8,541,638
Semiconductors & Semiconductor Equipment 2.3%			
2,705	Advanced Micro Devices, Inc., 8.125%, 12/15/17	Ba3/B+	2,874,063
5,070	Amkor Technology, Inc., 9.25%, 6/1/16	Ba3/BB	5,342,512
	Freescale Semiconductor, Inc., (a)(b)		
4,305	10.125%, 3/15/18	B1/B-	4,923,844
5,015	10.75%, 8/1/20	Caa2/CCC+	5,792,325
			18,932,744
Software 1.2%			
9,055	First Data Corp., 9.875%, 9/24/15	Caa1/B-	9,394,562
Telecommunications 5.4%			
6,500	Hughes Network Systems LLC, 9.50%, 4/15/14	B1/B	6,727,500
4,755	Intelsat Jackson Holdings S.A., 9.50%, 6/15/16	B3/B	5,016,525
3,835	ITC Deltacom, Inc., 10.50%, 4/1/16	B1/B-	4,256,850
6,130	Nextel Communications, Inc., 7.375%, 8/1/15	Ba3/BB-	6,198,963
3,860	NII Capital Corp., 8.875%, 12/15/19	B2/B+	4,294,250
8,370	West Corp., 11.00%, 10/15/16	Caa1/B-	9,029,138
7,325	WireCo WorldGroup, 9.50%, 5/15/17 (a)(b)	B3/B-	7,819,437
			43,342,663
Textiles Apparel & Luxury Goods 0.6%			

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4,535	Oxford Industries, Inc., 11.375%, 7/15/15	B1/BB-	5,192,575
Trading Companies & Distributors 0.3%			
2,145	Aircastle Ltd., 9.75%, 8/1/18	Ba3/BB+	2,429,213
Transportation 2.5%			
7,175	Quality Distribution LLC, 9.875%, 11/1/18 (a)(b)	Caa1/B-	7,569,625
6,590	Swift Services Holdings, Inc., 10.00%, 11/15/18 (a)(b)	Caa1/B-	7,347,850
5,750	Western Express, Inc., 12.50%, 4/15/15 (a)(b)	Caa1/CCC+	5,620,625
			20,538,100
Wireless Telecommunication Services 0.7%			
4,820	Crown Castle International Corp., 9.00%, 1/15/15	B1/B-	5,374,300
	Total Corporate Bonds & Notes (cost-\$351,164,551)		371,226,265

Shares
(000s)

CONVERTIBLE PREFERRED STOCK 32.0%

Airlines 0.8%			
154	Continental Airlines Finance Trust II, 6.00%, 11/15/30	Caa1/NR	5,962,348
Auto Components 1.1%			
156	Goodyear Tire & Rubber Co., 5.875%, 4/1/14	NR/NR	9,146,866
Automobiles 1.1%			
182	General Motors Co., 4.75%, 12/1/13	NR/NR	9,093,651
Capital Markets 2.8%			
126	AMG Capital Trust I, 5.10%, 4/15/36	NR/BB	6,135,249
	The Goldman Sachs Group, Inc., (c)		
127	6.00%, 3/2/12 (Wellpoint, Inc.)	A1/A	9,214,919
359	7.00%, 8/1/11 (Weatherford Corp.)	A1/A	7,182,163
			22,532,331

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May 31, 2011 (unaudited)

Shares (000s)		Credit Rating (Moody's/S&P)	Value*
Commercial Banks 2.0%			
54	Fifth Third Bancorp, 8.50%, 6/30/13, Ser. G (d)	Ba1/BB	\$7,714,287
8	Wells Fargo & Co., 7.50%, 3/15/13, Ser. L (d)	Baa3/A-	8,397,900
			16,112,187
Commercial Services & Supplies 0.5%			
94	United Rentals, Inc., 6.50%, 8/1/28	Caa1/CCC	4,321,019
Diversified Financial Services 5.5%			
8	Bank of America Corp., 7.25%, 1/30/13, Ser. L (d)	Ba3/BB+	8,431,500
50	Citigroup, Inc., 7.50%, 12/15/12	NR/NR	5,990,657
	Credit Suisse Securities USA LLC, (c)		
153	7.00%, 7/27/11 (Target Corp.)	Aa2/A	7,535,898
270	8.00%, 9/20/11 (Bristol-Myers Squibb Co.)	Aa2/A	7,137,450
	JP Morgan Chase & Co., (c)		
112	7.00%, 7/25/11 (McDonald's Corp.)	Aa3/A+	8,690,197
383	7.00%, 8/16/11 (Cisco Systems)	Aa3/A+	7,050,035
			44,835,737
Electric Utilities 2.0%			
	NextEra Energy, Inc.,		
25	7.00%, 9/1/13	NR/NR	1,272,500
137	8.375%, 6/1/12	NR/NR	7,111,884
126	PPL Corp., 9.50%, 7/1/13	NR/NR	7,294,654
			15,679,038
Food Products 2.0%			
188	Archer-Daniels-Midland Co., 6.25%, 6/1/11	NR/NR	7,686,406
77	Bunge Ltd., 4.875%, 12/1/11 (d)	Ba1/BB	8,137,215
			15,823,621
Health Care Providers & Services 1.0%			
6	Healthsouth Corp., 6.50%, 7/20/11, Ser. A (d)	NR/CCC+	7,665,724

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Household Durables 2.3%			
201	Newell Financial Trust I, 5.25%, 12/1/27	WR/BB	9,439,950
74	Stanley Black & Decker, Inc., 4.75%, 11/17/15	Baa3/BBB+	8,951,343
			18,391,293
Insurance 2.4%			
781	American International Group, Inc., 8.50%, 8/1/11	Baa2/NR	1,334,740
49	Assured Guaranty Ltd., 8.50%, 6/1/12	NR/NR	3,440,578
93	MetLife, Inc., 5.00%, 9/11/13	NR/BBB-	7,680,451
221	XL Group PLC, 10.75%, 8/15/11	Baa2/BBB-	7,049,679
			19,505,448
IT Services 0.5%			
49	Unisys Corp., 6.25%, 3/1/14	NR/NR	4,079,543
Multi-Utilities 1.1%			
187	AES Trust III, 6.75%, 10/15/29	B3/B	9,169,424
Oil, Gas & Consumable Fuels 2.4%			
112	Apache Corp., 6.00%, 8/1/13	NR/NR	7,418,095
28	ATP Oil & Gas Corp., 8.00%, 10/1/14 (a)(b)(d)	NR/NR	2,973,900
93	Chesapeake Energy Corp., 5.00%, 12/31/49 (d)	NR/B+	9,335,000
			19,726,995

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May 31, 2011 (unaudited)

Shares (000s)		Credit Rating (Moody s/S&P)	Value*
Professional Services 1.0%			
130	Nielsen Holdings NV, 6.25%, 2/1/13	NR/B	\$8,280,054
Real Estate Investment Trust 2.5%			
335	Alexandria Real Estate Equities, Inc., 7.00%, 4/20/13 (d)	NR/NR	9,016,880
330	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A (d)	Caa3/CCC-	8,919,520
45	Health Care REIT, Inc., 6.50%, 4/20/18, Ser. I (d)	Baa3/BB	2,438,609
			20,375,009
Road & Rail 1.0%			
595	2010 Swift Mandatory Common Exchange Security Trust, 6.00%, 12/31/13 (b)	NR/NR	8,063,376
	Total Convertible Preferred Stock (cost-\$234,387,964)		258,763,664

Principal
Amount
(000s)

CONVERTIBLE BONDS & NOTES 20.8%

Building Products 0.2%			
\$1,960	Griffon Corp., 4.00%, 1/15/17 (a)(b)	NR/NR	1,991,850
Capital Markets 1.0%			
7,865	Ares Capital Corp., 5.75%, 2/1/16 (a)(b)	NR/BBB	8,258,250
Diversified Telecommunication Services 0.5%			
3,305	tw telecom, Inc., 2.375%, 4/1/26	B3/B-	4,213,875
Electrical Equipment 1.8%			
7,035	EnerSys, 3.375%, 6/1/38 (e)	B1/BB	8,090,250
7,055	JA Solar Holdings Co., Ltd., 4.50%, 5/15/13	NR/NR	6,808,075
			14,898,325

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Electronic Equipment, Instruments & Components 0.9%			
5,620	Anixter International, Inc., 1.00%, 2/15/13	NR/B+	6,870,450
Hotels, Restaurants & Leisure 1.0%			
6,935	MGM Resorts International, 4.25%, 4/15/15	Caa1/CCC+	8,087,944
Internet Software & Services 0.8%			
6,130	Equinix, Inc., 2.50%, 4/15/12	NR/B-	6,528,450
IT Services 0.8%			
5,130	Alliance Data Systems Corp., 1.75%, 8/1/13	NR/NR	6,579,225
Machinery 1.1%			
5,795	AGCO Corp., 1.25%, 12/15/36	NR/BB+	8,026,075
565	Greenbrier Cos, Inc., 3.50%, 4/1/18 (a)(b)	NR/NR	581,950
			8,608,025
Media 2.7%			
5,920	Interpublic Group of Cos, Inc., 4.25%, 3/15/23	Ba2/BB+	6,726,600
	Liberty Media LLC,		
6,420	3.125%, 3/30/23	B1/BB-	7,776,225
12,895	3.50%, 1/15/31	B1/BB-	7,301,794
			21,804,619
Metals & Mining 0.6%			
3,785	Steel Dynamics, Inc., 5.125%, 6/15/14	NR/BB+	4,650,819
Oil, Gas & Consumable Fuels 1.6%			
6,325	Peabody Energy Corp., 4.75%, 12/15/41	Ba3/B+	8,001,125
2,915	Western Refining, Inc., 5.75%, 6/15/14	NR/CCC+	5,214,206
			13,215,331

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May 31, 2011 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value*
	Pharmaceuticals 0.8%		
\$5,595	Mylan, Inc., 1.25%, 3/15/12	NR/BB	\$6,182,475
	Real Estate Investment Trust 2.2%		
4,550	Boston Properties LP, 3.75%, 5/15/36	NR/A-	5,488,437
5,480	Health Care REIT, Inc., 4.75%, 12/1/26	Baa2/BBB-	6,302,000
6,065	ProLogis, 2.25%, 4/1/37	NR/BBB-	6,095,325
			17,885,762
	Semiconductors & Semiconductor Equipment 3.2%		
11,635	Advanced Micro Devices, Inc., 5.75%, 8/15/12	NR/B+	12,085,856
4,790	ON Semiconductor Corp., zero coupon, 4/15/24	NR/BB	5,837,813
7,550	SunPower Corp., 4.75%, 4/15/14	NR/NR	8,238,937
			26,162,606
	Software 0.9%		
5,285	Nuance Communications, Inc., 2.75%, 8/15/27	NR/BB-	7,042,263
	Thriffs & Mortgage Finance 0.7%		
5,635	MGIC Investment Corp., 5.00%, 5/1/17	NR/CCC+	5,860,400
	Total Convertible Bonds & Notes (cost-\$131,536,167)		168,840,669
	YANKEE BOND 0.3%		
	Marine 0.3%		
2,790	DryShips, Inc., 5.00%, 12/1/14 (cost-\$3,139,464)	NR/NR	2,500,538
	SHORT-TERM INVESTMENT 1.1%		
	Time Deposit 1.1%		
8,523	Citibank-London, 0.03%, 6/1/11 (cost-\$8,523,186)		8,523,186

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Total Investments (cost-\$728,751,332)(f) **100.0%**

\$809,854,322

Notes to Schedule of Investments:

* 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 established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Fund's investments are valued daily using prices supplied by an 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 Fund to value securities may differ from the value that would be realized if the securities were sold and these differences could be material. The Fund's net asset value 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.

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- (a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate market value of \$142,147,371, representing 17.6% of total investments.
- (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 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. Such entity is identified in the parenthetical.
- (d) Perpetual maturity. Maturity date shown is the first call date.
- (e) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (f) At May 31, 2011, the cost basis of portfolio securities for federal income tax purposes was \$729,434,324. Gross unrealized appreciation was \$93,968,326, gross unrealized depreciation was \$13,548,328 and net unrealized appreciation was \$80,419,998. The difference between book and tax cost basis was primarily attributable to wash sales.

Glossary:

NR Not Rated

REIT Real Estate Investment Trust

WR Withdrawn Rating

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 Fund has 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 Fund's 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 Fund to measure fair value during the three months ended May 31, 2011 maximized the use of observable inputs and minimized the use of unobservable inputs.

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 Fund generally uses to evaluate how to classify each major category of assets and liabilities, for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles.

Equity Securities (Common and Preferred Stock) Equity securities traded in inactive markets and certain foreign equity securities 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.

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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 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 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: consisting of 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 options 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 are categorized as Level 2. To the extent that these inputs are unobservable the values are categorized as Level 3.

The Fund's policy is to recognize transfers between levels at the end of the reporting period.

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A summary of the inputs used at May 31, 2010 in valuing Fund's assets and liabilities is listed below:

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 5/31/11
Investments in Securities - Assets				
Corporate Bonds & Notes		\$ 371,226,265		\$ 371,226,265
Convertible Preferred Stock:				
Airlines		5,962,348		5,962,348
Capital Markets		22,532,331		22,532,331
Commercial Banks	\$ 8,397,900	7,714,287		16,112,187
Commercial Services & Supplies		4,321,019		4,321,019
Diversified Financial Services	14,422,157	30,413,580		44,835,737
Household Durables	8,951,343	9,439,950		18,391,293
Oil, Gas & Consumable Fuels	7,418,095	12,308,900		19,726,995
Professional Services		8,280,054		8,280,054
Road/Rail		8,063,376		8,063,376
All Other	110,538,324			110,538,324
Convertible Bonds & Notes		168,840,669		168,840,669
Yankee Bond		2,500,538		2,500,538
Short-Term Investment		8,523,186		8,523,186
Total Investments in Securities - Assets	\$ 149,727,819	\$ 660,126,503	\$	\$ 809,854,322

There were no significant transfers between Levels 1 and 2 during the three months ended May 31, 2011.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the three months ended May 31, 2011, was as follows:

	Beginning		Accrued		Net Realized		Net Change		Ending
	Balance	Net	Net	Discounts/	Gains/	in Unrealized	Transfers	Transfers	Balance
	2/28/11	Purchases	Sales	(Premiums)	(Losses)	Appreciation/ Depreciation	into Level 3	out of Level 3	5/31/11
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		(7,521,464)		(30,250,744)	33,519,618			
Total Investments	\$ 6,567,113		\$ (9,380,583)		\$ (31,417,905)	\$ 34,231,375			

Item 2. Controls and Procedures

- (a) The registrant's President & 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))), as amended 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 controls over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a -3(d))) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits

- (a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
-

SIGNATURES

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.

Registrant: AGIC Convertible & Income Fund II

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date: July 19, 2011

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: July 19, 2011

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 & Chief Executive Officer

Date: July 19, 2011

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: July 19, 2011

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RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

The Audit Committee has selected KPMG LLP as its independent registered public accounting firm for Rimage's fiscal year ending December 31, 2009 and has asked the shareholders to ratify such appointment. Representatives of KPMG LLP, which has served as our independent auditors since 1989, are expected to be present at the Meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders.

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Accountant Fees and Services

The following is an explanation of the fees billed to us by KPMG LLP for professional services rendered for the fiscal years ended December 31, 2008 and December 31, 2007, which totaled approximately \$714,500 and \$688,400, respectively.

Audit Fees. The aggregate fees billed or estimated to be billed to us for professional services related to the audit of our annual financial statements, review of financial statements included in our Forms 10-Q, work relating to our internal controls over financial reporting and the attestations required by Section 404 of the Sarbanes-Oxley Act of 2002, or other services normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2008 and December 31, 2007 totaled approximately \$600,300 and \$580,400, respectively.

Audit-Related Fees. There were no fees billed to us for professional services for assurance and related services by KPMG LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Tax Fees. The aggregate fees billed to us by KPMG LLP for professional services related to tax compliance, tax advice, and tax planning, including preparation of federal and state tax returns for the fiscal years ended December 31, 2008 and December 31, 2007 totaled approximately \$114,200 and \$108,000, respectively.

All Other Fees. There were no fees billed to us by KPMG LLP for the fiscal years ended December 31, 2008 and December 31, 2007 other than those described above.

Audit Committee Pre-Approval Procedures

We have adopted pre-approval policies and procedures for the Audit Committee that require the Audit Committee to pre-approve all audit and all permitted non-audit engagements and services (including the fees and terms thereof) by the independent auditors, except that the Audit Committee may delegate the authority to pre-approve any engagement or service less than \$25,000 to one of its members, but requires that the member report such pre-approval at the next full Audit Committee meeting. The Audit Committee may not delegate its pre-approval authority for any services rendered by our independent auditors relating to internal controls. These pre-approval policies and procedures prohibit delegation of the Audit Committee's responsibilities to Company management. Under the policies and procedures, the Audit Committee may pre-approve specifically described categories of services which are expected to be conducted over the subsequent twelve months on its own volition, or upon application by management or the independent auditor.

All of the services described above for 2008 were pre-approved by the Audit Committee or a member of the Committee before KPMG LLP was engaged to render the services.

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SHAREHOLDER PROPOSALS FOR 2010 ANNUAL MEETING

The proxy rules of the Securities and Exchange Commission permit our shareholders, after timely notice to us, to present proposals for shareholder action in our proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by our action in accordance with the proxy rules. In order for a shareholder proposal to be considered for inclusion in the proxy statement for the 2010 Annual Meeting of Shareholders, the proposal must be received by the Secretary of Rimage Corporation in writing at our corporate offices, 7725 Washington Avenue South, Edina, Minnesota 55439, no later than December 12, 2009.

Pursuant to our bylaws, in order for any other proposal to be properly brought before the next annual meeting by a shareholder, including a nominee for director to be considered at such annual meeting, the shareholder must give written notice of such shareholder's intent to bring a matter before the annual meeting, or nominate the director, no later than December 12, 2009. Each such notice must set forth certain information with respect to the shareholder who intends to bring such matter before the meeting and the business desired to be conducted, as set forth in greater detail in the section of this proxy statement entitled Corporate Governance Director Nominations and in our bylaws. If we receive notice of a shareholder proposal after December 12, 2009, such proposal also will be considered untimely pursuant to Rules 14a-4 and 14a-5(e) and the persons named in proxies solicited by the Board of Directors for our 2010 Annual Meeting of Shareholders may exercise discretionary voting power with respect to such proposal.

OTHER BUSINESS

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At the date of this proxy statement, management knows of no other business that may properly come before the Meeting. However, if any other matters properly come before the Meeting, the persons named in the enclosed form of proxy will vote the proxies received in response to this solicitation in accordance with their best judgment on such matters.

By Order of the Board of Directors

Bernard P. Aldrich
President and Chief Executive Officer

Edina, Minnesota
April 9, 2009

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APPENDIX A:

RIMAGE CORPORATION

AMENDED AND RESTATED

2007 STOCK INCENTIVE PLAN

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RIMAGE CORPORATION

AMENDED AND RESTATED

2007 STOCK INCENTIVE PLAN

SECTION 1

PURPOSE

The purpose of the Amended and Restated 2007 Stock Incentive Plan (the "Plan") is to enable Rimage Corporation (the "Company") and its Subsidiaries to attract and retain employees, directors and service providers of the Company by aligning financial interests of these individuals with the other stockholders of the Company.

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The Plan provides for the grant of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Restricted Stock Units, Stock Appreciation Rights, Performance Stock, Performance Units, and Other Awards to aid the Company in obtaining these goals, subject to the approval by the shareholders on May 13, 2009.

SECTION 2

DEFINITIONS

- 2.1 BOARD means the Board of Directors of the Company.
- 2.2 CAUSE shall mean, unless otherwise defined in the Stock Incentive Agreement or in a separate agreement with the Participant that governs Stock Incentives granted under this Plan, gross and willful misconduct during the course of his or her service to the Company, including but not limited to wrongful appropriation of funds or property of the Company, conviction of a Participant of a gross misdemeanor or felony or a material violation of any Company policy (including, without limitation, any policy contained in the Company's Code of Conduct), regardless of when facts resulting in a finding of Cause are discovered by the Company.
- 2.3 CODE means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute.
- 2.4 COMMITTEE means the Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan.
- 2.5 COMPANY means Rimage Corporation, a corporation organized under the laws of the State of Minnesota (or any successor corporation).
- 2.6 DISABILITY shall mean a physical or mental condition resulting from a bodily injury or disease or mental disorder rendering such person incapable of continuing to perform the essential employment or director duties of such person at the Company as such duties existed immediately prior to the bodily injury, disease or mental disorder.
- 2.7 EXCHANGE ACT means the Securities Exchange Act of 1934, as amended.
- 2.8 EXERCISE PRICE means the price that shall be paid to purchase one (1) Share upon the exercise of an Option granted under this Plan.
- 2.9 FAIR MARKET VALUE of one Share on any given date shall be determined by the Committee as follows: (a) if the Common Stock is listed for trading on one of more national securities exchanges, or is traded on the Nasdaq Stock Market, the last reported sales price on the such principal exchange or the Nasdaq Stock Market on the date in question, or if such Common Stock shall not have been traded on such principal exchange or on the Nasdaq Stock Market on such date, the last reported sales price on such principal exchange or the Nasdaq Stock Market on the first day prior thereto on which such Common Stock was so traded; or (b) if the Common Stock is not listed for trading on a national securities exchange or the Nasdaq Stock Market, but is traded in the over-the-counter market, including the Nasdaq Small Cap Market, the

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closing bid price for such Common Stock on the date in question, or if there is no such bid price for such Common Stock on such date, the closing bid price on the first day prior thereto on which such price existed; or (c) if neither (a) or (b) is applicable, with respect to any Option intended to qualify as an ISO, by any fair and reasonable determination made in good faith by the Committee, and, with respect to any other Stock Incentive that is intended to be exempt from the requirements of Code Section 409A, a value determined by the reasonable application of a reasonable valuation method as defined in regulations promulgated under Code Section 409A, which determination shall be final and binding on all parties.

- 2.10 INDEPENDENT DIRECTOR means a member of the Board who is not otherwise an employee of the Company or any Subsidiary.
- 2.11 INSIDER means an individual who is, on the relevant date, an officer, member of the Board or ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.
- 2.12 ISO means an Option granted under this Plan to purchase Shares that is intended by the Company to satisfy the requirements of Code Section 422 as an incentive stock option.
- 2.13 KEY EMPLOYEE means any employee of the Company or any Subsidiary holding a key management or technical position as determined by the Committee. Key Employees of any Subsidiary created or acquired after the Effective Date of this Plan shall be eligible to be Participants in this Plan without further action of the Board or its shareholders.
- 2.14 KEY PERSON means a person, other than a Key Employee, who is (a) a member of the Board; or (b) a service provider providing bona fide services to the Company or any Subsidiary who is eligible to receive Shares that are registered on SEC Form S-8. Key Persons of any Subsidiary created or acquired after the Effective Date of this Plan shall be eligible to be Participants in this Plan without further action of the Board or its shareholders.
- 2.15 NQSO means an option granted under this Plan to purchase Shares that is not intended by the Company to satisfy the requirements of Code Section 422.
- 2.16 OPTION means an ISO or a NQSO.
- 2.17 OUTSIDE DIRECTOR means a member of the Board who is not an employee and who qualifies as (a) a non-employee director under Rule 16b-3(b)(3) under the Exchange Act, as amended from time to time, and (b) an outside director under Code Section 162(m) and the regulations promulgated thereunder.
- 2.18 PARTICIPANT means a Key Person or Key Employee who is designated to receive an award under the Plan by the Committee.
- 2.19 PERFORMANCE-BASED EXCEPTION means the performance-based exception from the tax deductibility limitations of Code Section 162(m).
- 2.20 PERFORMANCE PERIOD shall mean the period during which a performance goal must be attained with respect to a Stock Incentive that is performance based, as determined by the Committee.

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- 2.21 PERFORMANCE STOCK means an award of Shares granted to a Participant that is subject to the achievement of performance criteria, either as to the delivery of such Shares or the calculation of the amount deliverable as a result of achieving a level of performance over a specified Performance Period, or any combination thereof.
- 2.22 PERFORMANCE UNITS means a contractual right granted to a Participant to receive a Share (or cash equivalent) upon achievement of performance criteria or a level of performance over a specified Performance Period that are deliverable either at the end of the Performance Period or at a later time.

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- 2.23 PLAN means the Rimage Corporation Amended and Restated 2007 Stock Incentive Plan, as it may be further amended from time to time.
- 2.24 QUALIFYING EVENT shall mean, with respect to a Participant, such Participant's death, Disability or Retirement.
- 2.25 RESTRICTED STOCK AWARD means an award of Shares granted to a Participant under this Plan that is subject to restrictions in accordance with the terms and provisions of this Plan and the applicable Stock Incentive Agreement.
- 2.26 RESTRICTED STOCK UNIT means a contractual right granted to a Participant under this Plan to receive a Share (or cash equivalent) that is subject to restrictions in accordance with the terms and provisions of this Plan and the applicable Stock Incentive Agreement.
- 2.27 RETIREMENT shall mean retirement from active employment with the Company and any subsidiary or parent corporation of the Company on or after age 65.
- 2.28 SHARE or COMMON STOCK means a share of the common stock of the Company.
- 2.29 STOCK APPRECIATION RIGHT means a right granted to a Participant pursuant to the terms and provisions of this Plan whereby the individual, without payment to the Company (except for any applicable withholding or other taxes), receives Shares, or such other consideration as the Committee may determine, in an amount equal to the excess of the Fair Market Value per Share on the date on which the Stock Appreciation Right is exercised over the specified price per Share noted in the Stock Appreciation Right, for each Share subject to the Stock Appreciation Right.
- 2.30 STOCK INCENTIVE means an ISO, a NQSO, a Restricted Stock Award, a Restricted Stock Unit, a Stock Appreciation Right, a Performance Stock or Performance Unit or cash.
- 2.31 STOCK INCENTIVE AGREEMENT means a document issued by the Company or a Subsidiary to a Participant evidencing an award of a Stock Incentive.
- 2.32 SUBSIDIARY means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

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- 2.33 TEN PERCENT SHAREHOLDER means a person who owns (after taking into account the attribution rules of Code Section 424(d)) more than ten percent (10%) of the total combined voting power of all classes of shares of stock of either the Company or a Subsidiary.

SECTION 3

SHARES SUBJECT TO STOCK INCENTIVES

- 3.1 The aggregate number of Shares that may be issued under the Plan is One Million Two Hundred Thirty Thousand Three Hundred Twenty (1,230,320) Shares, subject to adjustment as provided in Section 10. The Company's 1992 Stock Option Plan (the "Prior Plan") is amended by this Plan to eliminate the authority and discretion of the Board, the Compensation Committee of the Board and any executive officer of the Company to grant any new awards or options (or to amend any previously granted award or option to increase the number of shares thereunder) under the Prior Plan, including with respect to any shares that would become available for issuance as a result of the cancellation or forfeiture of shares under any previously granted awards or options.

Such Shares shall be reserved, to the extent that the Company deems appropriate, from authorized but unissued Shares, and from Shares which have been reacquired by the Company.

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- 3.2 Subject to adjustment pursuant to Section 10, no Participant may be granted any Stock Incentive covering an aggregate number of Shares in excess of Three Hundred Thousand (300,000) in any calendar year (100,000 Shares for years prior to January 1, 2009).

SECTION 4

EFFECTIVE DATE

The effective date of this Plan as restated shall be May 13, 2009, subject to shareholder approval on that date; provided that the amended provisions of the restated Plan shall not adversely affect the rights of Participants with respect to Stock Incentives granted pursuant to the terms of the Plan in effect prior to the effective date of the restated Plan. The Plan was originally effective on May 15, 2007, which is the date on which the shareholders of the Company originally approved the Plan.

SECTION 5

ADMINISTRATION

- 5.1 GENERAL ADMINISTRATION. The Committee shall administer this Plan. The Committee, acting in its absolute discretion, shall exercise such powers and take such action as expressly called for under this Plan. The Committee shall have the power to interpret this Plan and, subject to the terms and provisions of this Plan, to take such other action in the administration and operation of the Plan as it deems equitable under the circumstances. The Committee's actions shall be binding on the Company, on each affected Participant, and

on each other person directly or indirectly affected by such actions.

- 5.2 **AUTHORITY OF THE COMMITTEE.** Except as limited by law or by the Articles of Incorporation or By-laws of the Company, and subject to the provisions herein, the Committee shall have full power to select Participants in the Plan, to determine the sizes and types of Stock Incentives in a manner consistent with the Plan, to determine the terms and conditions of Stock Incentives in a manner consistent with the Plan, to construe and interpret the Plan and any agreement or instrument entered into under the Plan, to establish, amend or waive rules and regulations for the Plan's administration, and to amend the terms and conditions of any outstanding Stock Incentives as allowed under the Plan and such Stock Incentives. Any and all awards of Stock Incentives to Insiders of the Company or Independent Directors shall be made and administered by the Committee (or subcommittee authorized under Section 5.3) consisting solely of Outside Directors. Further, the Committee may make all other determinations that may be necessary or advisable for the administration of the Plan. The Committee may seek the assistance of such persons as it may see fit in carrying out its routine administrative functions concerning the Plan.
- 5.3 **DELEGATION OF AUTHORITY.** The members of the Committee and any other persons to whom authority has been delegated by the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. The Committee may appoint one or more separate committees (any such committee, a Subcommittee) composed of two or more Outside Directors of the Company (who may but need not be members of the Committee) and may delegate to any such Subcommittee or to one or more executive officers of the Company the authority to grant Stock Incentives, and/or to administer the Plan or any aspect of it; provided, however, that only the Committee may grant Stock Incentives that may meet the Performance-Based Exception.
- 5.4 **DECISIONS BINDING.** All determinations and decisions made by the Committee pursuant to the provisions of this Plan and all related orders and resolutions of the Committee shall be final, conclusive and binding on all persons, including the Company, its shareholders, members of the Board, Participants, and their estates and beneficiaries.

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SECTION 6

ELIGIBILITY

Participants selected by the Committee shall be eligible for the grant of Stock Incentives under this Plan, but no Participant shall have the right to be granted a Stock Incentive under this Plan merely as a result of his or her status as an eligible Participant.

SECTION 7

TERMS OF STOCK INCENTIVES

- 7.1 **TERMS AND CONDITIONS OF ALL STOCK INCENTIVES.**

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- (a) Grants of Stock Incentives. The Committee, in its absolute discretion, shall grant Stock Incentives under this Plan from time to time and shall have the right to grant new Stock Incentives in exchange for outstanding Stock Incentives; provided, however, the Committee shall not have the right to (i) lower the Exercise Price of an existing Option or Stock Appreciation Right, (ii) take any action which would be treated as a repricing under generally accepted accounting principles, or (iii) cancel an existing Option or Stock Appreciation Right at a time when its Exercise Price exceeds the fair market value of the underlying stock subject to such Option or Stock Appreciation Right in exchange for cash, another Option or Stock Appreciation Right, a Restricted Stock Award, or other equity in the Company (except as provided in Sections 10 and 11). Stock Incentives shall be granted to Participants selected by the Committee, and the Committee shall be under no obligation whatsoever to grant any Stock Incentives, or to grant Stock Incentives to all Participants, or to grant all Stock Incentives subject to the same terms and conditions.
- (b) Shares Subject to Stock Incentives. The number of Shares as to which a Stock Incentive shall be granted shall be determined by the Committee in its sole discretion, subject to the provisions of Section 3 as to the total number of Shares available for grants under the Plan, and to any other restrictions contained in this Plan.
- (c) Stock Incentive Agreements. Each Stock Incentive shall be evidenced by an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Committee that sets forth the terms and conditions of the Stock Incentives granted. The Stock Incentive Agreement may be in an electronic medium, may be limited to notation on the books and records of the Company and, with the approval of the Committee, need not be signed by a representative of the Company or a Participant. The Committee shall have sole discretion to modify the terms and provisions of Stock Incentive Agreements in accordance with Section 12 of this Plan.
- (d) Date of Grant. The date a Stock Incentive is granted shall be the date on which the Committee (i) has approved the terms and conditions of the Stock Incentive Agreement, (ii) has determined the recipient of the Stock Incentive and the number of Shares covered by the Stock Incentive and (iii) has taken all such other action necessary to direct the grant of the Stock Incentive.
- (e) Vesting of Stock Incentives. Stock Incentives under the Plan may have restrictions on the vesting or delivery of and, in the case of Options, the right to exercise, that lapse based upon the service of a Participant, or based upon other criteria that the Committee may determine appropriate, such as the attainment of performance goals determined by the Committee, including but not limited to one or more of the performance criteria listed in Section 14. If the Award is intended to meet the Performance-Based Exception, the attainment of such performance goals must be certified in writing by the Committee prior to payment thereof. Until the end of the period(s) of time specified in the vesting schedule and/or the satisfaction of any performance criteria, the Shares subject to such Stock Incentive Award shall remain subject to forfeiture.

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- (f) Acceleration of Vesting of Stock Incentives. Notwithstanding anything to the contrary in this Plan, the Committee shall have the power to permit, in its sole discretion, an acceleration of the expiration of the applicable restrictions or the applicable period of such restrictions with respect to any part or all of the Shares awarded to a Participant; provided, however, the Committee may grant Stock Incentive Awards precluding such accelerated vesting in order to qualify the Stock Incentive Awards for the Performance-Based Exception.
- (g) Dividend Equivalents. The Committee may grant dividend equivalents to any Participant. The Committee shall establish the terms and conditions to which the dividend equivalents are subject. Dividend equivalents may be granted only in connection with a Stock Incentive. Under a dividend equivalent, subject to the limitation under Section 7.6(b) with respect to Performance Stock or Performance Units, a Participant shall be entitled to receive currently or in the future payments

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equivalent to the amount of dividends paid by the Company to holders of Common Stock with respect to the number of dividend equivalents held by the Participant. The dividend equivalent may provide for payment in Shares or in cash, or a fixed combination of Shares or cash, or the Committee may reserve the right to determine the manner of payment at the time the dividend equivalent is payable. Any such dividend equivalent on a Stock Incentive that is intended to be exempt from Code Section 409A shall be stated in a separate arrangement.

- (h) Transferability of Stock Incentives. Except as otherwise provided in a Participant's Stock Incentive Agreement, no Stock Incentive granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, except upon the death of the holder Participant by will or by the laws of descent and distribution. Except as otherwise provided in a Participant's Stock Incentive Agreement, during the Participant's lifetime, only the Participant may exercise any Option or Stock Appreciation Right unless the Participant is incapacitated in which case the Option or Stock Appreciation Right may be exercised by and any other Stock Incentive may be payable to the Participant's legal guardian, legal representative, or other representative whom the Committee deems appropriate based on applicable facts and circumstances. The determination of incapacity of a Participant and the identity of appropriate representative of the Participant to exercise the Option or receive any other benefit under a Stock Incentive if the Participant is incapacitated shall be determined by the Committee.
- (i) Deferral Elections. The Committee may permit or require Participants to elect to defer the issuance of Shares or the settlement of awards in cash under this Plan pursuant to such rules, procedures, or programs as it may establish from time to time. However, notwithstanding the preceding sentence, the Committee shall not, in establishing the terms and provisions of any Stock Incentive, or in exercising its powers under this Article: (i) create any arrangement which would constitute an employee pension benefit plan as defined in ERISA Section 3(3) unless the arrangement provides benefits solely to one or more individuals who constitute members of a select group of management or highly compensated employees; or (ii) create any arrangement that would constitute a deferred compensation plan as defined in Code Section 409A unless the arrangement complies with Code Section 409A and regulations promulgated thereunder or unless the Committee, at the time of grant, specifically provides that the Stock Incentive is not intended to comply with Section 409A of the Code.

7.2 TERMS AND CONDITIONS OF OPTIONS.

- (a) Grants of Options. Each grant of an Option shall be evidenced by a Stock Incentive Agreement that shall specify whether the Option is an ISO or NQSO, and incorporate such other terms as the Committee deems consistent with the terms of this Plan and, in the case of an ISO, necessary or desirable to permit such Option to qualify as an ISO. The Committee and/or the Company may modify the terms and provisions of an Option in accordance with Section 12 of this Plan even though such modification may change the Option from an ISO to a NQSO.

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- (b) Termination of Employment. Except as provided in the Option Agreement or a separate agreement with the Participant that governs Options granted under this Plan, or as otherwise provided by the Committee: (i) if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends before the Options vest, the Participant shall forfeit all unvested Options; and (ii) any Options held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such termination, but may not be exercised after 90 days after such termination, or the expiration of the stated term of the Options, whichever period is the shorter. In the event a Participant's employment with the Company or any Subsidiary is terminated for Cause, all unexercised Options granted to such Participant shall immediately terminate.
- (c) Death, Disability and Retirement. Except as provided in the Option Agreement or a separate agreement with the Participant that governs Options granted under this Plan, and except as otherwise provided by the Committee: (i) if a Qualifying Event occurs before the date or dates on which Options vest, the Participant shall forfeit all unvested Options; and (ii) any Options held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such Qualifying Event,

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but may not be exercised after one year after such Qualifying Event, or the expiration of the stated term of the Options, whichever period is the shorter.

- (d) Exercise Price. Subject to adjustment in accordance with Section 10 and the other provisions of this Section, the Exercise Price shall be specified in the applicable Stock Incentive Agreement. With respect to each grant of an ISO to a Participant who is not a Ten Percent Shareholder, the Exercise Price shall not be less than the Fair Market Value of a Share on the date the ISO is granted. With respect to each grant of an ISO to a Participant who is a Ten Percent Shareholder, the Exercise Price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the ISO is granted.
- (e) Option Term. Each Option granted under this Plan shall be exercisable in whole or in part at such time or times as set forth in the related Stock Incentive Agreement, but no Stock Incentive Agreement shall: (i) make an Option exercisable prior to the date such Option is granted or after it has been exercised in full; or (ii) make an Option exercisable after the date that is (A) the tenth (10th) anniversary of the date such Option is granted, if such Option is a NQSO or an ISO granted to a non-Ten Percent Shareholder, or (B) the date that is the fifth (5th) anniversary of the date such Option is granted, if such Option is an ISO granted to a Ten Percent Shareholder. Options issued under the Plan may become exercisable based on the service of a Participant, or based upon the attainment (as determined by the Committee) of performance goals, including but not limited to goals established pursuant to one or more of the performance criteria listed in Section 14. Any Option that is intended to qualify for the Performance Based Exception must have its performance goals determined by the Committee based upon one or more of the performance criteria listed in Section 14, and must have the attainment of such performance goals certified in writing by the Committee.
- (f) Payment. The Exercise Price of Shares acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations by delivering to the Company or its designated agent, either: (i) in cash or by check at the time the Option is exercised or (ii) at the discretion of the Committee at the time of the grant of the Option (or subsequently in the case of an NQSO) (A) by delivery (or by attestation) of other Shares, (B) pursuant to a same day sale program exercised through a brokerage transaction as permitted under the provisions of Regulation T applicable to cashless exercises promulgated by the Federal Reserve Board so long as the Company's equity securities are registered under Section 12 of the Exchange Act, unless prohibited by Section 402 of the Sarbanes-Oxley Act of 2002, (C) with respect to an NQSO, by a net exercise arrangement pursuant to which the Company will reduce the number of Shares issued upon exercise by the largest whole number of Shares with a Fair Market Value that does not exceed the aggregate Exercise Price (together with payment in cash or other payment from the Participant to the extent of any remaining balance), provided that any such Shares used to pay the Exercise Price shall no longer be outstanding and exercisable under such Option; or (D) by some

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combination of the foregoing or such other form of legal consideration that may be acceptable to the Committee in its sole discretion and permissible under applicable law. Notwithstanding the foregoing, with respect to any Participant who is an Insider, a tender of shares or, if permitted by applicable law, a cashless exercise must (1) have met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) be a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless the Stock Incentive Agreement provides otherwise, the foregoing exercise payment methods shall be subsequent transactions approved by the original grant of an Option. Except as provided above, payment shall be made at the time that the Option or any part thereof is exercised, and no Shares shall be issued or delivered upon exercise of an Option until full payment has been made by the Participant. The holder of an Option, as such, shall have none of the rights of a shareholder.

- (g) ISO Tax Treatment Requirements. With respect to any Option that purports to be an ISO, to the extent that the aggregate Fair Market Value (determined as of the date of grant of such Option) of stock with respect to which such Option is exercisable for the first time by any individual during any calendar year exceeds one hundred thousand dollars (\$100,000), to the extent of such excess, such Option shall not be treated as an ISO in accordance with Code Section 422(d). The rule of

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the preceding sentence is applied as set forth in Treas. Reg. Section 1.422-4 and any additional guidance issued by the Treasury thereunder. Also, with respect to any Option that purports to be an ISO, such Option shall not be treated as an ISO if the Participant disposes of shares acquired thereunder within two (2) years from the date of the granting of the Option or within one (1) year of the exercise of the Option, or if the Participant has not met the requirements of Code Section 422(a)(2).

7.3 TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

- (a) Grants of Restricted Stock Awards. Shares awarded pursuant to Restricted Stock Awards shall be subject to such restrictions as determined by the Committee for periods determined by the Committee. The Committee may require a cash payment from the Participant in exchange for the grant of a Restricted Stock Award or may grant a Restricted Stock Award without the requirement of a cash payment.
- (b) Termination of Employment. Except as provided in the Restricted Stock Agreement or a separate agreement with the Participant covering the Restricted Stock granted under this Plan, if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends for any reason other than a Qualifying Event before any restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Awards, unless the Committee determines that the Participant's unvested Restricted Stock Awards shall vest as of the date of such event.
- (c) Death, Disability and Retirement. Except as provided in the Restricted Stock Agreement or a separate agreement with the Participant covering Restricted Stock granted under this Plan: (i) if a Qualifying Event occurs before the date or dates on which restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Awards, unless the Committee determines that the Participant's unvested Restricted Stock Awards shall vest as of the date of such event; and (ii) in the case of Restricted Stock Awards which are based on performance criteria then, as of the date on which such Qualifying Event occurs, the Participant shall be entitled to receive a number of Shares that is determined by measuring the selected performance criteria from the Company's most recent publicly available quarterly results that are available as of the date the Qualifying Event occurs; provided, however, the Committee may grant Restricted Stock Awards precluding such partial awards when a Qualifying Event occurs in order to qualify the Restricted Stock Awards for the Performance-Based Exception.

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- (d) Voting, Dividend & Other Rights. Unless the applicable Stock Incentive Agreement provides otherwise, holders of Restricted Stock Awards shall be entitled to vote and to receive dividends during the periods of restriction of their Shares to the same extent as such holders would have been entitled if the Shares were unrestricted Shares.

7.4 TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS.

- (a) Grants of Restricted Stock Units. A Restricted Stock Unit shall entitle the Participant to receive one Share at such future time and upon such terms as specified by the Committee in the Stock Incentive Agreement evidencing such award. The Committee may require a cash payment from the Participant in exchange for the grant of Restricted Stock Units or may grant Restricted Stock Units without the requirement of a cash payment.
- (b) Termination of Employment. Except as provided in the Restricted Stock Unit Agreement or a separate agreement with the Participant covering the Restricted Stock Unit granted under this Plan, if the Participant's employment with the Company and/or a Subsidiary ends before the Restricted Stock Units vest, the Participant shall forfeit all unvested Restricted Stock Units, unless the Committee determines that the Participant's unvested Restricted Stock Units shall vest as of the date of

such event.

- (c) Death, Disability and Retirement. Except as provided in the Restricted Stock Unit Agreement or a separate agreement with the Participant covering the Restricted Stock Unit granted under this Plan: (i) if a Qualifying Event occurs before the date or dates on which restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Units, unless the Committee determines that the Participant's unvested Restricted Stock Units shall vest as of the date of such event; and (ii) in the case of Restricted Stock Units that are based on performance criteria, then as of the date on which such Qualifying Event occurs, the Participant shall be entitled to receive a number of Shares that is determined by measuring the selected performance criteria from the Company's most recent publicly available quarterly results that are available as of the date the Qualifying Event occurs; provided, however, the Committee may grant Restricted Stock Units precluding such partial awards when a Qualifying Event occurs in order to qualify the Restricted Stock Units for the Performance-Based Exception.
- (d) Voting, Dividend & Other Rights. Holders of Restricted Stock Units shall not be entitled to vote or to receive dividends until they become owners of the Shares pursuant to their Restricted Stock Units, and, unless the applicable Stock Incentive Agreement provides otherwise, the holder of a Restricted Stock Unit shall not be entitled to any dividend equivalents (as described in Section 7.1(g)).

7.5 TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

- (a) Grants of Stock Appreciation Rights. A Stock Appreciation Right shall entitle the Participant to receive upon exercise or payment the excess of the Fair Market Value of a specified number of Shares at the time of exercise, over a specified price. The specified price for a Stock Appreciation Right granted in connection with a previously or contemporaneously granted Option, shall not be less than the Exercise Price for Shares that are the subject of the Option. In the case of any other Stock Appreciation Right, the specified price shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares at the time the Stock Appreciation Right was granted. If related to an Option, the exercise of a Stock Appreciation Right shall result in a pro rata surrender of the related Option to the extent the Stock Appreciation Right has been exercised.

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- (b) Payment. Upon exercise of a Stock Appreciation Right, the Company shall pay to the Participant the appreciation with Shares (computed using the aggregate Fair Market Value of Shares on the date of payment or exercise) or in cash, or in any combination thereof as specified in the Stock Incentive Agreement or, if not specified, as the Committee determines. To the extent that a Stock Appreciation Right is exercised, the specified price shall be treated as paid in Shares for purposes of Section 3.
- (c) Termination of Employment. Except as provided in the Stock Appreciation Rights Agreement or a separate agreement with the Participant that governs Stock Incentives granted under this Plan, or as otherwise provided by the Committee: (i) if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends before the Options vest, the Participant shall forfeit all unvested Stock Appreciation Rights; and (ii) any Stock Appreciation Rights held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such termination, but may not be exercised after 90 days after such termination, or the expiration of the stated term of the Stock Appreciation Rights, whichever period is the shorter. In the event a Participant's employment with the Company or any Subsidiary is terminated for Cause, all unexercised Stock Appreciation Rights granted to such Participant shall immediately terminate.

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- (d) Death, Disability and Retirement. Except as provided in the Stock Appreciation Rights Agreement or a separate agreement with the Participant that governs Stock Incentives granted under this Plan, and except as otherwise provided by the Committee: (i) if a Qualifying Event occurs before the date or dates on which Stock Appreciation Rights vest, the Participant shall forfeit all unvested Stock Appreciation Rights; and (ii) any Stock Appreciation Rights held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such Qualifying Event, but may not be exercised after one year after such Qualifying Event, or the expiration of the stated term of the Stock Appreciation Rights, whichever period is the shorter.
- (e) Special Provisions for Tandem Stock Appreciation Rights. A Stock Appreciation Right granted in connection with an Option may only be exercised to the extent that the related Option has not been exercised. A Stock Appreciation Right granted in connection with an ISO (i) will expire no later than the expiration of the underlying ISO, (ii) may be for no more than the difference between the exercise price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Stock Appreciation Right is exercised, (iii) may be transferable only when, and under the same conditions as, the underlying ISO is transferable, and (iv) may be exercised only (A) when the underlying ISO could be exercised and (B) when the Fair Market Value of the Shares subject to the ISO exceeds the exercise price of the ISO.

7.6 TERMS AND CONDITIONS OF PERFORMANCE STOCK AND PERFORMANCE UNITS.

- (a) Awards of Performance Stock and Performance Units. Performance Stock and Performance Units shall become payable to a Participant upon achievement of performance criteria as determined by the Committee. Each award will specify the number of Performance Stock or Performance Units to which it pertains, which number may be subject to adjustment to reflect changes in compensation or other factors; provided, however, that no such adjustment will be made in the case of a grant that is intended to qualify for the Performance-Based Exception, other than as provided in Section 14. Any grant of Performance Stock or Units may specify that the amount payable with respect thereto may not exceed a maximum specified by the Committee at the date of grant.
- (b) Limitation on Dividend and Dividend Equivalents. With respect to Performance Stock and Performance Units awarded after May 13, 2009, no dividends or dividend equivalents shall be paid on unvested Performance Stock or Performance Units unless and until the performance goal has been met; provided that such dividends or dividend equivalents: (i) may accumulate for the benefit of the Participant and paid to the Participant after such Performance Stock or Performance Units vest and (ii) will otherwise comply with Section 7.1(g).

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- (c) Payment. Each grant will specify the time and manner of payment of Performance Stock or Performance Units that have been earned. Any Performance Stock award shall be payable in Shares. Any Performance Unit award may specify that the amount payable with respect thereto may be paid by the Company in cash, in Shares or in any combination thereof and may either grant to the Participant or retain in the Committee the right to elect among cash or Shares.

7.7 OTHER AWARDS.

- (a) Other awards may, subject to limitations under applicable law, be granted to any Participant denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares or factors that may influence the value of such Shares, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, purchase rights for Shares, awards with value and payment contingent upon performance of the Company or specified Subsidiaries, affiliates or other business units thereof, or any other factors designated by the Committee. The Committee shall determine the terms and conditions of such awards.

- (b) Cash awards, as an element of or supplement to any other Stock Incentives granted under this Plan, may also be granted to Participants on such terms and conditions as determined by the Committee pursuant to this Plan.
- (c) Shares may be granted to a Participant as a bonus, or in lieu of obligations of the Company or a Subsidiary to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, subject to such terms as the Committee shall determine.
- (d) Participants designated by the Committee may be permitted to reduce compensation otherwise payable in cash in exchange for Shares or other Stock Incentives under the Plan.

7.8 **INDEPENDENT DIRECTOR GRANTS.** Notwithstanding any other provisions of this Plan, a grant of Restricted Stock, Restricted Stock Units or NQSO, or any combination of the same, shall be made to each Independent Director on the date of each regular annual meeting of shareholders of the Company at which such Independent Director is elected or re-elected to the Board. The number of Shares subject to this Restricted Stock Award, Restricted Stock Unit or NQSO and other terms governing the Restricted Stock Award, Restricted Stock Unit or NQSO shall be determined by the Committee in its sole discretion prior to such annual meeting of shareholders. No Independent Director may be granted Restricted Stock Awards, Restricted Stock Units or NQSOs covering an aggregate number of Shares in excess of 25,000 at any regular annual shareholders meeting pursuant to the terms of this Section 7.8.

The Committee, in its discretion, may, in addition to the Restricted Stock Awards, Restricted Stock Units and NQSOs provided above, grant any additional Stock Incentive to all Independent Directors or to any individual Independent Director, provided that such grant shall be solely for substantial services performed or to be performed by such Independent Director as determined in good faith by the Committee.

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SECTION 8

SECURITIES REGULATION

- 8.1 **LEGALITY OF ISSUANCE.** No Share shall be issued under this Plan unless and until the Committee has determined that all required actions have been taken to register such Share under the Securities Act of 1933 or the Company has determined that an exemption therefrom is available, any applicable listing requirement of any stock exchange on which the Share is listed has been satisfied, and any other applicable provision of state, federal or foreign law, including foreign securities laws where applicable, has been satisfied.
- 8.2 **RESTRICTIONS ON TRANSFER; REPRESENTATIONS; LEGENDS.** Regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act of 1933 or have been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge, or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable to achieve compliance with the provisions of the Securities Act of 1933, the securities laws of any state, the United States or any other applicable foreign law. If the offering and/or sale of Shares under the Plan is not registered under the Securities Act of 1933 and the Company determines that the registration requirements of the Securities Act of 1933 apply but an exemption is available

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which requires an investment representation or other representation, the Participant shall be required, as a condition to acquiring such Shares, to represent that such Shares are being acquired for investment, and not with a view to the sale or distribution thereof, except in compliance with the Securities Act of 1933, and to make such other representations as are deemed necessary or appropriate by the Company and its counsel. All Stock Incentive Agreements shall contain a provision stating that any restrictions under any applicable securities laws will apply.

- 8.3 REGISTRATION OF SHARES. The Company may, and intends to, but is not obligated to, register or qualify the offering or sale of Shares under the Securities Act of 1933 or any other applicable state, federal or foreign law.

SECTION 9

LIFE OF PLAN

No Stock Incentive shall be granted under this Plan on or after the earlier of:

- (a) the tenth (10th) anniversary of the effective date of this Plan (as determined under Section 4 of this Plan), or
- (b) the date on which all of the Shares reserved under Section 3 of this Plan have (as a result of the exercise of Stock Incentives granted under this Plan or lapse of all restrictions under a Restricted Stock Award or Restricted Stock Unit) been issued or are no longer available for use under this Plan.

This Plan shall continue in effect until all outstanding Stock Incentives have been exercised in full or are no longer exercisable and all Restricted Stock Awards or Restricted Stock Units have vested or been forfeited.

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SECTION 10

ADJUSTMENT

Notwithstanding anything in Section 12 to the contrary, in the event of a stock dividend, stock split, spin-off, rights offering, recapitalization through a large, nonrecurring cash dividend, or a similar equity restructuring of the Company, the Committee will adjust: (a) the number of Shares reserved under Section 3 of this Plan, (b) the limit on the number of Shares that may be granted subject to Stock Incentives during a calendar year to any individual under Section 3 of this Plan, (c) the number of Shares subject to certain Stock Incentives granted subject to Section 3 of the Plan, and (d) the Exercise Price of any Options and the specified price of any Stock Appreciation Rights, or any combination thereof, in an equitable manner that will equalize the fair value of the previously granted Stock Incentives before and after the equity restructuring. Furthermore, in the event of any corporate transaction described in Code Section 424(a) that provides for the substitution or

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assumption of Stock Incentives, the Committee will adjust such Stock Incentives in a manner that satisfies the requirements of Code Section 424(a) as to: (i) the number of Shares reserved under Section 3, (ii) the limit on the number of Shares that may be granted subject to Stock Incentives during a calendar year to any individual under Section 3 of this Plan; (iii) the number of Shares subject to such Stock Incentives, and (iii) the Exercise Price of any Options and the specified price of any Stock Appreciation Rights. If any adjustment under this Section creates a fractional Share or a right to acquire a fractional Share, such fractional Share shall be disregarded, and the number of Shares reserved under this Plan and the number subject to any Stock Incentives granted under this Plan shall be the next lower number of Shares, rounding all fractions downward. An adjustment made under this Section by the Committee shall be conclusive and binding on all affected persons and, further, shall not constitute an increase in the number of Shares reserved under Section 3 or an increase in any limitation imposed by the Plan.

SECTION 11

CHANGE IN CONTROL OF THE COMPANY

- 11.1 **CHANGE IN CONTROL.** Change in Control of the Company shall mean a change in control which would be required to be reported in response to Item 5.01 of Form 8-K promulgated under the Exchange Act (or any successor item of Form 8-K), whether or not the Company is then subject to such reporting requirement, including without limitation, if:
- (a) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities (other than an entity owned 50% or greater by the Company or an employee pension plan for the benefit of the employees of the Company);
 - (b) there ceases to be a majority of the Board comprised of (i) individuals who, on the date of adoption of this Plan, constituted the Board; and (ii) any new director who subsequently was elected or nominated for election by a majority of the directors who held such office prior to a Change in Control; or
 - (c) the Company disposes of at least 75% of its assets, other than (i) to an entity owned 50% or greater by the Company or any of its subsidiaries, or to an entity in which at least 50% of the voting equity securities are owned by the shareholders of the Company immediately prior to the disposition in substantially the same percentage or (ii) as a result of a bankruptcy proceeding, dissolution or liquidation of the Company.

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- 11.2 **VESTING UPON A CHANGE IN CONTROL.** Except as otherwise provided in a Stock Incentive Agreement or as provided in the next sentence, if a Change in Control occurs, and if the agreements effectuating the Change in Control do not provide for the assumption or substitution of all Stock Incentives granted under this Plan, with respect to any Stock Incentive granted under this Plan that is not so assumed or substituted (a Non-Assumed Stock Incentive), such Stock Incentives shall immediately vest and be exercisable and any restrictions thereon shall lapse. Notwithstanding the foregoing, unless the Committee determines at or prior to the Change in Control, no Stock Incentive that is subject to any performance criteria for which the Performance Period has not expired, shall accelerate at the time of a Change in Control.

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DISPOSITION OF STOCK INCENTIVES. Except as otherwise provided in a Stock Incentive Agreement, the Committee, in its sole and absolute discretion, may, with respect to any or all of such Non-Assumed Stock Incentives, take any or all of the following actions to be effective as of the date of the Change in Control (or as of any other date fixed by the Committee occurring within the thirty (30) day period immediately preceding the date of the Change in Control, but only if such action remains contingent upon the effectuation of the Change in Control) (such date referred to as the Action Effective Date):

- (a) Unilaterally cancel such Non-Assumed Stock Incentive in exchange for whole and/or fractional Shares (or whole Shares and cash in lieu of any fractional Share) or whole and/or fractional shares of a successor (or whole shares of a successor and cash in lieu of any fractional share) that, in the aggregate, are equal in value to:
 - (i) in the case of Options and Stock Appreciation Rights, the product of (A) the excess, if any, of the Fair Market Value per Share on the effective date of the Action Effective Date over the Exercise Price or specified price per Share (B) multiplied by the number of Shares subject to the Option or Stock Appreciation Right;
 - (ii) in the case of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Units and Other Awards, the Fair Market Value per Share on the effective date of the Action Effective Date of the Shares subject to such Stock Incentive (taking into account vesting), less the value of any consideration payable with respect to such Stock Incentive.
- (b) Unilaterally cancel such Non-Assumed Stock Incentive in exchange for cash or other property equal in value to:
 - (i) in the case of Options and Stock Appreciation Rights, the product of (A) the excess, if any, of the Fair Market Value per Share on the effective date of the Action Effective Date over the Exercise Price or specified price per Share (B) multiplied by the number of Shares subject to the Option or Stock Appreciation Right;
 - (ii) in the case of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Units and Other Awards, the Fair Market Value per Share on the effective date of the Action Effective Date of the Shares subject to such Stock Incentive (taking into account vesting), less the value of any consideration payable with respect to such Stock Incentive.
- (c) In the case of Options, unilaterally cancel such Non-Assumed Option after providing the holder of such Option with (i) an opportunity to exercise such Non-Assumed Option to the extent vested within a specified period prior to the date of the Change in Control, and (ii) notice of such opportunity to exercise prior to the commencement of such specified period. The Committee may modify or waive any condition limiting the exercise of such Option to permit a cashless exercise of such Options.
- (d) Notwithstanding the foregoing, to the extent that the recipient of a Non-Assumed Stock Incentive is an Insider, payment of cash in lieu of whole or fractional Shares or shares of a successor may only be made to the extent that such payment (i) has met the requirements of an exemption under

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Rule 16b-3 promulgated under the Exchange Act, or (ii) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless a Stock Incentive Agreement provides otherwise, the payment of cash in lieu of whole or fractional Shares or in lieu of whole or fractional shares of a successor shall be considered a subsequent transaction approved by the original grant of an Option.

- 11.4 GENERAL RULE FOR OTHER STOCK INCENTIVES. If a Change in Control occurs, then, except to the extent otherwise provided in the Stock Incentive Agreement pertaining to a particular Stock Incentive or as otherwise provided in this Plan, each Stock Incentive shall be governed by applicable law and the documents effectuating the Change in Control.

SECTION 12

AMENDMENT OR TERMINATION

- 12.1 AMENDMENT OF PLAN. This Plan may be amended by the Committee from time to time to the extent that the Committee deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the shareholders of the Company if such amendment: (a) increases the number of Shares reserved under Section 3, except as set forth in Section 10, (b) extends the maximum life of the Plan under Section 9 or the maximum exercise period under Section 7, (c) decreases the minimum Exercise Price under Section 7, or (d) changes the designation of Participant eligible for Stock Incentives under Section 6. Shareholder approval of other material amendments (such as an expansion of the types of awards available under the Plan, an extension of the term of the Plan, or a change to the method of determining the Exercise Price of Options issued under the Plan) may also be required pursuant to rules promulgated by an established stock exchange or a national market system.
- 12.2 TERMINATION OF PLAN. The Board also may suspend the granting of Stock Incentives under this Plan at any time and may terminate this Plan at any time.
- 12.3 AMENDMENT OF STOCK INCENTIVES. Except as provided in Section 7.1(a), the Committee shall have the right to modify, amend or cancel any Stock Incentive after it has been granted if (a) the modification, amendment or cancellation does not diminish the rights or benefits of the Participant under the Stock Incentive (provided, however, that a modification, amendment or cancellation that results solely in a change in the tax consequences with respect to a Stock Incentive shall not be deemed as a diminishment of rights or benefits of such Stock Incentive), (b) the Participant consents in writing to such modification, amendment or cancellation, (c) there is a dissolution or liquidation of the Company, (d) this Plan and/or the Stock Incentive Agreement expressly provides for such modification, amendment or cancellation, or (e) the Company would otherwise have the right to make such modification, amendment or cancellation pursuant to Article 11 or applicable law. Notwithstanding the foregoing, the Committee may reform any provision in a Stock Incentive intended to be exempt from Code Section 409A to maintain to maximum extent practicable the original intent of the applicable provision without violating the provisions of Code Section 409A; provided, however, that if no reasonably practicable reformation would avoid the imposition of any penalty tax or interest under Code Section 409A, no payment or benefit will be provided under the Stock Incentive and the Stock Incentive will be deemed null, void and of no force and effect, and the Company shall have no further obligation in connection with such Stock Incentive.

SECTION 13

MISCELLANEOUS

- 13.1 SHAREHOLDER RIGHTS. Except as provided in Section 7.3 with respect to Restricted Stock Awards, or in a Stock Incentive Agreement, no Participant shall have any rights as a shareholder of the Company as a result of the grant of a Stock Incentive pending the actual delivery of Shares subject to such Stock Incentive to such Participant.

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- 13.2 **NO GUARANTEE OF CONTINUED RELATIONSHIP.** The grant of a Stock Incentive to a Participant under this Plan shall not constitute a contract of employment or other relationship with the Company and shall not confer on a Participant any rights upon his or her termination of employment or relationship with the Company in addition to those rights, if any, expressly set forth in the Stock Incentive Agreement that evidences his or her Stock Incentive.
- 13.3 **WITHHOLDING.** The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company as a condition precedent for the grant or fulfillment of any Stock Incentive, an amount in Shares or cash sufficient to satisfy federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan and/or any action taken by a Participant with respect to a Stock Incentive. Whenever Shares are to be issued to a Participant upon exercise of an Option or Stock Appreciation Right, or satisfaction of conditions under a Restricted Stock, Restricted Stock Unit, Performance Stock or Performance Units, the Company shall have the right to require the Participant to remit to the Company, as a condition thereof, an amount in cash (or, unless the Stock Incentive Agreement provides otherwise, in Shares) sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Participant is an Insider, satisfaction of withholding requirements by having the Company withhold Shares may only be made to the extent that such withholding of Shares (a) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (b) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless the Stock Incentive Agreement provides otherwise, the withholding of shares to satisfy federal, state and local withholding tax requirements shall be a subsequent transaction approved by the original grant of a Stock Incentive. Notwithstanding the foregoing, in no event shall payment of withholding taxes be made by retention of Shares by the Company unless the Company retains only Shares with a Fair Market Value equal to the minimum amount of taxes required to be withheld. Subject to the foregoing, the Participant, and not the Company, shall be and remain responsible for any and all taxes arising out of the grant, exercise or receipt of any Stock Incentive awarded under this Plan.
- 13.4 **NOTIFICATION OF DISQUALIFYING DISPOSITIONS OF ISO OPTIONS.** If a Participant sells or otherwise disposes of any of the Shares acquired pursuant to an Option that is an ISO on or before the later of (a) the date two (2) years after the date of grant of such Option, or (b) the date one (1) year after the exercise of such Option, or except as otherwise permitted under Code Section 422(a)(2), then the Participant shall immediately notify the Company in writing of such sale or disposition and shall cooperate with the Company in providing sufficient information to the Company for the Company to properly report such sale or disposition to the Internal Revenue Service. The Participant acknowledges and agrees that he or she may be subject to federal, state and/or local tax withholding by the Company on the compensation income recognized by Participant from any such early disposition, and agrees that he or she shall include the compensation from such early disposition in his gross income for federal tax purposes. Participant also acknowledges that the Company may condition the exercise of any Option that is an ISO on the Participant's express written agreement with these provisions of this Plan.
- 13.5 **TRANSFERS AND RESTRUCTURINGS.** The transfer of a Participant's employment between or among the Company or a Subsidiary (including the merger of a Subsidiary into the Company) shall not be treated as a termination of his or her employment under this Plan. Likewise, the continuation of employment by a Participant with a corporation that is a Subsidiary shall be deemed to be a termination of employment when such corporation ceases to be a Subsidiary.
- 13.6 **LEAVES OF ABSENCE.** Unless the Committee provides otherwise, vesting of Stock Incentives granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an employee of the Company in the case of any leave of absence approved by the Company. For purposes of ISOs, no such leave may exceed 90 days unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave any ISO held by the Participant will cease to be treated as an ISO and if exercised thereafter will be treated for tax purposes as a NQSO.

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- 13.7 **GOVERNING LAW/CONSENT TO JURISDICTION.** This Plan shall be construed under the laws of the State of Minnesota without regard to principles of conflicts of law. Each Participant consents to the exclusive jurisdiction in the United States District Court for

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the District of Minnesota for the determination of all disputes arising from this Plan and waives any rights to remove or transfer the case to another court.

- 13.8 **ESCROW OF SHARES.** To facilitate the Company's rights and obligations under this Plan, the Company reserves the right to appoint an escrow agent, who shall hold the Shares owned by a Participant pursuant to this Plan.
- 13.9 **IMPACT OF RESTATEMENT OF FINANCIAL STATEMENTS UPON STOCK INCENTIVES.** If any of the Company's financial statements are required to be restated resulting from errors, omissions or fraud, the Committee may (in its sole discretion, but acting in good faith) direct that the Company recover all or a portion of any Stock Incentive with respect to any fiscal year of the Company the financial results of which are negatively affected by such restatement. The amount to be recovered from the Participant shall be the amount by which the Stock Incentive exceeded the amount that would have been payable to the Participant had the financial statements been initially filed as restated, or any greater or lesser amount (including, but not limited to, the entire award) that the Committee shall determine. In no event shall the amount to be recovered by the Company be less than the amount required to be repaid or recovered as a matter of law. In addition to or in lieu of the right to recovery set forth above, the Committee shall determine whether the Company shall effect any such recovery (a) by seeking repayment from the Participant, (b) by reducing (subject to applicable law and the terms and conditions of the applicable plan, program or arrangement) the amount that would otherwise be payable to the Participant under any compensatory plan, program or arrangement maintained by the Company or any of its affiliates, (c) by withholding payment of future increases in compensation (including the payment of any discretionary bonus amount) or grants of compensatory awards that would otherwise have been made in accordance with the Company's otherwise applicable compensation practices, or (d) by any combination of the foregoing.
- 13.10 **FORFEITURE AND RECOUPMENT.** Without limiting in any way the generality of the Committee's power to specify any terms and conditions of an Award consistent with law, and for greater clarity, the Committee may specify in an Stock Incentive Agreement that the Participant's rights, payments, and benefits with respect to a Stock Incentive under this Plan shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions. Such events shall include, but shall not be limited to, failure to accept the terms of the Stock Incentive Agreement, termination of employment or services under certain or all circumstances, violation of material Company policies, breach of noncompetition, confidentiality, nonsolicitation, noninterference, corporate property protection, or other agreement that may apply to the Participant, or other conduct by the Participant that the Committee determines is detrimental to the business or reputation of the Company and its Subsidiaries.

SECTION 14

PERFORMANCE CRITERIA

- 14.1 **PERFORMANCE GOAL BUSINESS CRITERIA.** Unless and until the Board proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Section, the attainment of which may determine the degree of payout and/or vesting with respect to Stock Incentives to Key Employees and Key Persons pursuant to this Plan which are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used by the Committee for purposes of such grants shall be chosen from among the following: (a) earnings per share; (b) net income (before or after taxes); (c) return measures (including, but not limited to, return on assets, equity or sales); (d) cash flow return on investments which equals net cash flows divided by owners equity; (e) earnings before or after taxes, depreciation and/or amortization; (f) gross revenues; (g) operating income (before or after taxes); (h) total shareholder return; (i) corporate performance indicators (indices based on the level of certain services provided to customers); (j) cash generation, profit and/or revenue targets; (k) growth measures, such as revenue growth; (l) ratios, such as expenses or market share and/or (m) share price (including, but not limited to, growth measures and total shareholder return). In setting performance goals using these

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performance measures, the Committee may establish absolute goals or goals relative to a peer group performance or other benchmark, and may exclude the effect of changes in accounting standards and non-recurring unusual events specified by the Committee, such as write-offs, capital gains and losses and acquisitions and dispositions of businesses.

- 14.2 **DISCRETION IN FORMULATION OF PERFORMANCE GOALS.** The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Stock Incentives that are intended to qualify for the Performance-Based Exception may not be adjusted upward (although the Committee shall retain the discretion to adjust such Stock Incentives downward).
- 14.3 **PERFORMANCE PERIODS.** The Committee shall have the discretion to determine the period during which any performance goal must be attained with respect to a Stock Incentive. Such period may be of any length, and must be established prior to the start of such period or within the first ninety (90) days of such period (provided that the performance criteria are not in any event set after 25% or more of such period has elapsed).
- 14.4 **MODIFICATIONS TO PERFORMANCE GOAL CRITERIA.** In the event that the applicable tax and/or securities laws and regulatory rules and regulations change to permit Committee discretion to alter the governing performance measures noted above without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Stock Incentives that shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements under Code Section 162(m) to qualify for the Performance-Based Exception.

SECTION 15

NON-U.S. PROVISIONS

- 15.1 The Committee shall have the authority to require that any Stock Incentive Agreement relating to a Stock Incentive in a jurisdiction outside of the United States contain such terms as are required by local law in order to constitute a valid grant under the laws of such jurisdiction. Such authority shall be notwithstanding the fact that the requirements of the local jurisdiction may be different from or more restrictive than the terms set forth in this Plan. No purchase or delivery of Shares pursuant to a Stock Incentive shall occur until applicable restrictions imposed pursuant to this Plan or the applicable Stock Incentive have terminated.

Approved by Board of Directors on March 23, 2007

Ratified by shareholders on May 15, 2007.

Amended by the Board of Directors on May 15, 2007, April 22, 2008 and March 11, 2009.

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RIMAGE CORPORATION

ANNUAL MEETING OF STOCKHOLDERS

Wednesday, May 13, 2009

3:30 p.m.

Rimage Corporation

7725 Washington Avenue South

Edina, Minnesota 55439

Rimage Corporation

7725 Washington Avenue South

Edina, Minnesota 55439

proxy

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Bernard P. Aldrich and Robert M. Wolf, or any of them, with power of substitution to each, as attorneys and proxies, and hereby authorizes them to represent the undersigned at the Annual Meeting of Shareholders of Rimage Corporation to be held at the Company's offices at 7725 Washington Avenue South, Edina, Minnesota, on Wednesday, May 13, 2009 at 3:30 p.m. Edina, Minnesota time, and at any adjournment(s) or postponement(s) thereof, and to vote, as designated below, all shares of Common Stock of Rimage Corporation held of record by the undersigned on April 2, 2009 and which the undersigned would be entitled to vote at such Annual Meeting, hereby revoking all former proxies.

See reverse for voting instructions.

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COMPANY #

**Vote by Internet, Telephone or Mail
24 Hours a Day, 7 Days a Week**

Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

INTERNET www.eproxy.com/rimg

Use the Internet to vote your proxy until 12:00 p.m. (CT) on May 12, 2009.

PHONE 1-800-560-1965

Use a touch-tone telephone to vote your proxy until 12:00 p.m. (CT) on May 12, 2009.

MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card.

TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW,

SIMPLY SIGN, DATE, AND RETURN THIS PROXY CARD.

∨ Please detach here ∨

RIMAGE CORPORATION 2009 ANNUAL MEETING OF SHAREHOLDERS

<p>1. Election of directors:</p> <p>01 Bernard P. Aldrich</p> <p>02 Lawrence M. Benveniste</p> <p>03 Philip D. Hotchkiss</p>	<p>04 Thomas F. Madison</p> <p>05 Steven M. Quist</p> <p>06 James L. Reissner</p>	<p><input type="radio"/> Vote FOR all nominees (except as marked)</p>	<p><input type="radio"/> Vote WITHHELD from all nominees</p>
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(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. To adopt the Rimage Corporation Amended and Restated 2007 Stock Incentive Plan. For Against Abstain

3. A proposal to ratify and approve the appointment of KPMG LLP as the independent registered public accounting firm for Rimage Corporation for the fiscal year ending December 31, 2009. For Against Abstain

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THIS PROXY, IF PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR EACH NOMINEE NAMED IN PROPOSAL 1 AND FOR PROPOSALS 2 AND 3. PLEASE SIGN, DATE AND RETURN THIS PROXY FORM USING THE ENCLOSED ENVELOPE.

Address Change? Mark Box
Indicate changes below:

I plan to attend the meeting.

Date _____, 2009

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.
