

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II
Form N-CSR
August 01, 2011

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

FORM N-CSR

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

OMB APPROVAL
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PIMCO California Municipal Income Fund II

(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York

10019

(Address of principal executive offices)

(Zip code)

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

(Name and address of agent for service)

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

Date of fiscal year end: May 31, 2011

Date of reporting period: May 31, 2011

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

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 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.

ITEM 1. REPORT TO SHAREHOLDERS



Annual Report

May 31, 2011

PIMCO Municipal Income Fund II
PIMCO California Municipal Income Fund II
PIMCO New York Municipal Income Fund II

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Dear Shareholder:

Municipal bond prices experienced volatility for much of the fiscal year ended May 31, 2011 although a solid rally in the latter portion of the reporting period suggested that the municipal market had righted itself.

Hans W. Kertess
Chairman

Year in Review

For the fiscal year ended May 31, 2011:

PIMCO Municipal Income Fund II returned 1.38% on net asset value (NAV) and 1.30% on market price.

PIMCO California Municipal Income Fund II returned 0.50% on NAV and 7.53% on market price.

PIMCO New York Municipal Income Fund II returned 0.05% on NAV and 3.03% on market price.

Brian S. Shlissel
President & CEO

Lackluster returns for municipal bonds can largely be tied to two events that occurred in the fall of 2010. With U.S. economic growth continuing at a less-than-robust pace, the Federal Reserve (the Fed) unveiled plans for a second round of quantitative easing. The plan, known as QE2 , called for the purchase of up to \$900 billion in U.S. Treasury securities, which the Fed hoped would push interest rates lower in an effort to spur economic activity. The Fed's program, however, generally excluded Treasury bonds with longer maturities. Prices for long-term Treasuries declined, and municipal bonds whose prices closely correlate with Treasuries, fell as well.

Municipal bonds also struggled as the federal government's Build America Bonds (BAB) program came to end on December 31, 2010. The BAB program, part of the Obama administration's economic stimulus program, was designed to subsidize borrowing costs for state and local government municipal projects. After the November 2010 election, however, it became clear that the new Congress would not extend the BAB program. With just weeks before the program was due to expire, many state and city governments flooded the municipal market with BABs. Supply exceeded demand, causing municipal bond prices to fall.

The decline proved to be short-lived as in the first five months of 2011, the final months of the Funds' fiscal year, 51% fewer municipal bonds came to market, according to Thomson Reuters. This lack of supply helped spark a municipal

bond rally, erasing much of the losses which occurred in November and December 2010.

The Road Ahead and the Case for Municipal Bonds

The U.S. economy has now expanded for seven consecutive quarters, albeit at a modest pace. The Fed has forecast that growth should continue, but at a frustratingly slow rate. This will continue to challenge cash-strapped states, which face a collective \$112 billion budget shortfall for fiscal year 2012.

The Bush-era tax cuts have been extended for two years and are scheduled to expire on December 31, 2012. While federal tax brackets will remain stable until then, budget pressures at all levels of government, federal, state and local, suggest that taxes will move higher over the long term. This in turn bodes well for municipal bonds, which offer considerable tax advantages for investors.

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[www.allianzinvestors.com/
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For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds' shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our Web site, www.allianzinvestors.com/closedendfunds.

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

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer
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PIMCO Municipal Income Funds II Fund Insights

May 31, 2011 (unaudited)

For the fiscal year ended May 31, 2011, PIMCO Municipal Income Fund II returned 1.38% on net asset value (NAV) and 1.30% on market price.

For the fiscal year ended May 31, 2011, PIMCO California Municipal Income Fund II returned 0.50% on net asset value (NAV) and 7.53% on market price.

For the fiscal year ended May 31, 2011, PIMCO New York Municipal Income Fund II returned 0.05% on net asset value (NAV) and 3.03% on market price.

The municipal bond market experienced periods of heightened volatility during the fiscal year ended May 31, 2011. The overall municipal market (as measured by the Barclays Capital Municipal Bond Index) posted a positive return during the first three months of the fiscal year, aided by overall solid demand from investors seeking tax-free income. A decline in new issuance of tax-free bonds was also beneficial. The municipal market produced poor results from September 2010 through January 2011. A confluence of events dragged down municipal bonds. Rising interest rates, concerns regarding municipal defaults, increasing issuance of Build America Bonds at the end of 2010, and substantial mutual fund redemptions contributed to the downturn in the municipal market. However, the municipal market rallied during much of the remainder of the fiscal year, as tax revenues increased, new issuance fell sharply and a number of states took meaningful steps to improve their balance sheets. In addition, there was increased demand from crossover buyers, including non-traditional municipal investors, such as insurance companies and hedge funds.

During the fiscal year, a slightly shorter duration than that of the benchmark was beneficial to the Funds' performance, as municipal yields longer than 12 years rose during the reporting period. A steepening yield curve bias was a positive for results, as the municipal curve steepened during the reporting period.

All three Funds benefited from their exposure to the water and sewer sector, as it held up relatively well during periods of weakness in the municipal market. Having an exposure to the power sector contributed to the performance of Municipal Income II and California Municipal II, whereas New York Municipal II benefited from its exposure to the leasing sector.

In contrast, the Funds' exposure to the tobacco sector detracted from performance. During the fourth quarter of 2010, a number of municipal tobacco settlement trusts were downgraded to below investment grade status. This triggered a sharp sell-off, which was exacerbated by forced selling into an illiquid market by mutual funds not permitted to hold non-investment grade securities. The three Funds' exposure to the corporate-backed sector also adversely impacted performance as they lagged the benchmark. In addition, Municipal Income II and New York Municipal II were hurt by their exposure to the healthcare sector.

PIMCO Municipal Income Funds II Fund Performance & Statistics

May 31, 2011 (unaudited)

Municipal Income Fund II:

| Total Return ⁽¹⁾: | Market Price | NAV |
|---|---------------------|------------|
| 1 Year | 1.30% | 1.38% |
| 5 Year | 0.41% | 0.59% |
| Commencement of Operations (6/28/02) to 5/31/11 | 2.84% | 2.99% |

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/11

Market Price/NAV:

| | |
|-----------------------------------|----------|
| Market Price | \$ 10.45 |
| NAV | \$ 10.12 |
| Premium to NAV | 3.26% |
| Market Price Yield ⁽²⁾ | 7.46% |

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

California Municipal Income Fund II:

| Total Return ⁽¹⁾: | Market Price | NAV |
|---|---------------------|------------|
| 1 Year | 7.53% | 0.50% |
| 5 Year | 1.49% | 5.23% |
| Commencement of Operations (6/28/02) to 5/31/11 | 1.75% | 0.05% |

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/11

Market Price/NAV:

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| | |
|-----------------------------------|--------|
| Market Price | \$9.21 |
| NAV | \$7.38 |
| Premium to NAV | 24.80% |
| Market Price Yield ⁽²⁾ | 7.74% |

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

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PIMCO Municipal Income Funds II Fund Performance & Statistics

May 31, 2011 (unaudited) (continued)

New York Municipal Income Fund II:

| Total Return^{(1):} | Market Price | NAV |
|---|---------------------|------------|
| 1 Year | 3.03% | 0.05% |
| 5 Year | 1.61% | 0.59% |
| Commencement of Operations (6/28/02) to 5/31/11 | 3.12% | 2.81% |

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/11

Market Price/NAV:

| | |
|-----------------------------------|---------|
| Market Price | \$10.92 |
| NAV | \$10.10 |
| Premium to NAV | 8.12% |
| Market Price Yield ⁽²⁾ | 7.04% |

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

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for the Funds' shares, or changes in Funds' dividends.

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

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at May 31, 2011.

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PIMCO Municipal Income Fund II Schedule of Investments

May 31, 2011

| Principal Amount (000s) | | Credit Rating (Moody s/S&P)* | Value |
|--|---|------------------------------|--------------|
| MUNICIPAL BONDS & NOTES 96.4% | | | |
| Alabama 1.3% | | | |
| \$ 10,000 | Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A | Baa2/NR | \$ 8,523,800 |
| 1,235 | Montgomery BMC Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/29, Ser. B (NPFGC) | A3/BBB+ | 1,084,503 |
| 2,000 | State Docks Department Rev., 6.00%, 10/1/40 | NR/BBB+ | 2,002,620 |
| 2,650 | Tuscaloosa Public Educational Building Auth. Rev., Stillman College Project, 5.00%, 6/1/26, Ser. A | NR/BB+ | 2,214,658 |
| | | | 13,825,581 |
| Alaska 0.7% | | | |
| 3,550 | Housing Finance Corp. Rev., 5.25%, 6/1/32, Ser. C (NPFGC) | Aa2/AA+ | 3,565,656 |
| 5,900 | Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A | Baa3/NR | 3,547,316 |
| | | | 7,112,972 |
| Arizona 9.1% | | | |
| 3,500 | Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A | NR/A+ | 3,257,100 |
| 2,860 | 5.50%, 1/1/38, Ser. D | NR/A+ | 2,820,561 |
| 29,700 | Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 | Aa2/AA | 27,236,682 |
| 1,500 | Tuscon Electric Power Co., 5.25%, 10/1/40, Ser. A | Baa3/BBB | 1,374,390 |
| | Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (i), 5.00%, 1/1/37 | Aa1/AA | 41,905,971 |
| 41,100 | 5.00%, 1/1/39 | Aa1/AA | 10,291,800 |
| 10,000 | Salt Verde Financial Corp. Rev., 5.00%, 12/1/37 | A3/A | 10,099,716 |
| 11,400 | | | 96,986,220 |
| California 14.9% | | | |
| 6,000 | Bay Area Toll Auth. Rev., San Francisco Bay Area, 5.00%, 10/1/29 | A1/A+ | 6,152,520 |
| 1,430 | 5.00%, 4/1/34, Ser. F-1 | Aa3/AA | 1,443,900 |
| 1,565 | Foothill-Eastern Transportation Corridor Agcy. Rev., 5.875%, 1/15/26 (IBC-NPFGC) | Baa1/BBB | 1,499,051 |
| 8,750 | Golden State Tobacco Securitization Corp. Rev., Ser. A-1, 5.00%, 6/1/33 | Baa3/BB+ | 5,905,112 |
| 7,000 | 5.75%, 6/1/47 | Baa3/BB+ | 4,814,530 |
| 2,000 | Hayward Unified School Dist., GO, 5.00%, 8/1/33 | NR/A+ | 1,825,980 |
| 1,500 | Health Facs. Financing Auth. Rev., Scripps Health, 5.00%, 11/15/36, Ser. A | Aa3/AA | 1,364,085 |
| | Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC) | Aa3/AA | 5,679,954 |
| 6,300 | 6.00%, 8/15/42, Ser. B | Aa3/AA | 3,137,730 |
| 3,000 | Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC) | A2/A | 1,163,490 |
| 1,500 | | | |

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PIMCO Municipal Income Fund II Schedule of Investments

May 31, 2011 (continued)

| Principal Amount (000s) | | Credit Rating (Moody s/S&P)* | Value |
|-------------------------------|---|------------------------------|--------------|
| California (continued) | | | |
| \$ 2,000 | Los Angeles Community College Dist., GO, 5.00%, 8/1/32, Ser. A (FGIC-NPFGC) | Aa1/AA | \$ 2,015,680 |
| 4,000 | Los Angeles Department of Water & Power Rev., 5.00%, 7/1/39, Ser. A-1 (AMBAC) | Aa3/AA | 4,018,560 |
| 5,000 | Los Angeles Unified School Dist., GO, 5.00%, 7/1/30, Ser. E (AMBAC) | Aa2/AA | 5,082,700 |
| 5,000 | 5.00%, 7/1/32, Ser. C (AGM) | Aa2/AA+ | 5,044,100 |
| 1,365 | Lynwood Utility Auth. Rev., 5.00%, 6/1/29, Ser. A (AGC) | Aa3/AA+ | 1,373,941 |
| 2,000 | Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM) | Aa3/AA+ | 2,027,500 |
| 1,750 | M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B | NR/A | 1,914,290 |
| 3,300 | Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B | NR/NR | 3,394,215 |
| 650 | Murrieta Valley Unified School Dist. Public Financing Auth., Special Tax, 4.75%, 9/1/36, Ser. A | Aa3/AA+ | 575,061 |
| 3,000 | Newport Beach Rev., Hoag Memorial Hospital Presbyterian, 5.875%, 12/1/30 | Aa3/AA | 3,182,130 |
| 500 | Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C | NR/AA- | 473,260 |
| 2,000 | San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM) | Aa2/AA+ | 1,994,040 |
| 2,000 | Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC) | A2/A+ | 1,977,360 |
| 3,300 | State, GO, 4.50%, 8/1/27 | A1/A | 3,160,740 |
| 1,000 | 4.50%, 8/1/30 | A1/A | 910,940 |
| 1,100 | 4.50%, 10/1/36 | A1/A | 958,001 |
| 7,000 | 5.00%, 12/1/31 (NPFGC) | A1/A | 7,019,250 |
| 2,925 | 5.00%, 11/1/32 | A1/A | 2,921,051 |
| 1,590 | 5.00%, 6/1/37 | | |