

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II
Form N-CSR
August 02, 2010

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

FORM N-CSR

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

Investment Company Act file number 811-21077

PIMCO California Municipal Income Fund II

(Exact name of registrant as specified in charter)

1345 Avenue of the Americas, New York, New York

10105

(Address of principal executive offices)

(Zip code)

Lawrence G. Altadonna - 1345 Avenue of the Americas, New York, New York 10105

(Name and address of agent for service)

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

Date of fiscal year end: May 31, 2010

Date of reporting period: May 31, 2010

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, 2010

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 bonds generally experienced solid gains during the past 12 months ended May 31, 2010, as the U.S. economy continued to recover from what was arguably the worst downturn since the 1930s. Real gross domestic product the output of U.S. goods and services grew for three consecutive quarters, expanding 2.2% and 5.6% respectively over the last half of 2009, and 3.0% during the first quarter of 2010. For most of the period, the improving economy encouraged certain investors to shift assets from the safe haven of U.S. Treasury bonds and into stocks and municipal securities. During May 2010, however, there was a partial reversal of this trend, driven largely by fiscal concerns in some European countries. This flight to safety dragged down stocks, but the \$2.8 trillion municipal bond market was largely unaffected, as evidenced by the municipal yield curve, which slightly moved.

Year in Review:

For the fiscal year ended May 31, 2010:

PIMCO Municipal Income Fund II returned 29.87% on net asset value (NAV) and 25.49% on market price.

PIMCO California Municipal Income Fund II returned 19.90% on NAV and 16.44% on market price.

PIMCO New York Municipal Income Fund II returned 23.22% on NAV and 19.92% on market price.

As bond prices and yields move in opposite directions, falling yields during much of the reporting period lifted prices higher across the entire yield curve. Municipal bonds with longer-term maturities generally produced better returns than shorter-term municipals, while lower-quality municipals fared better than their higher-quality counterparts.

Even with these solid gains, municipal bonds appear attractive investments, when compared to corporate bonds which in general experienced solid gains over much of the past year and low-yielding U.S. Treasury bonds.

The Road Ahead and the Case for Municipals

Three consecutive quarters of solid growth indicates that the U.S. economy is clearly on the mend. But caution is warranted. One area of concern: the fiscal situation in many states and local municipalities, which remains weak, and in some cases precarious. A joint report by the National Governors Association and the National Association of State Budget Officers warns that states despite two years of tax increases and budget cuts still face an estimated \$127 billion in budget gaps over the next two years. California is the best known example of this fiscal duress, but all

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states, warns a second study (by the Pew Center for the States) are under varying degrees of pressure. Adding to this problem is the declining amount of municipal bond insurance that has been available, due to the downfall of several insurers during the recession. This has added to overall investment risk for municipal bonds though it should be pointed out that the historic default rate for municipals in general remains quite low, when compared to corporate bonds.

Challenging circumstances can present compelling opportunities for prudent municipal bond investors. From a simple supply-and-demand standpoint, fewer tax-exempt bonds are likely to come to market this year while demand for them is being driven by rising state taxes and the expiration in December of the Bush administration's tax cuts, which will push the top federal tax rate to 39.6%. More buy-and-hold investors are moving into the municipal market as well. This has helped reduce volatility, which in turn helped contribute to a steepening yield curve for municipals during the reporting period. Going forward, these trends may bode well for municipal securities.

Please refer to the following pages for specific information on the Funds. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds' shareholder servicing agent at (800) 254-5197. You may also find a wide range of information and resources on our Web site, www.allianzinvestors.com/closedendfunds.

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

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & CEO

Receive this report
electronically and
eliminate paper mailings.
To enroll, go to
www.allianzinvestors.com/edelivery.

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PIMCO Municipal Income Fund II Fund Insights

May 31, 2010 (unaudited)

For the fiscal year ended May 31, 2010, PIMCO Municipal Income Fund II returned 29.87% on net asset value (NAV) and 25.49% on market price.

For the fiscal year ended May 31, 2010, PIMCO California Municipal Income Fund II returned 19.90% on NAV and 16.44% on market price.

For the fiscal year ended May 31, 2010, PIMCO New York Municipal Income Fund II returned 23.22% on NAV and 19.92% on market price.

High-quality municipal bond yields moved lower across the curve as the market continued to normalize during the reporting period. Treasury yields also moved lower, with a significant change toward the end of the period.

Municipal-to-U.S. Treasury yield ratios ended the fiscal period lower across the curve. The 10-year ratio decreased to 85.2% and the 30-year ratio decreased to 95.1%.

Tobacco securitization exposure contributed to returns, as this sector posted strong performance during the period and investors moved out on the risk spectrum, emerging from the global financial crisis.

Exposure to corporate-backed municipals added to returns as the sector posted strong performance, while utility exposure detracted as this sector underperformed the general municipal market.

Significant exposure to the health care sector contributed to returns as the sector outperformed, while special tax exposure was also a positive.

Exposure to longer maturity zero coupon municipals was positive for returns as their longer durations led them to outperform due to the downward movement in high-quality municipal yields. The Barclays Capital Zero Coupon Index returned 15.33% for the fiscal year.

Municipal II:

The municipal yield curve flattened as investors took advantage of higher yields further out on the yield curve. The Build America Bond supply removed much of the tax-exempt supply in longer maturities helping to move yields lower. 30-year maturity AAA General Obligation yields decreased 63 basis points while the two-year yield decreased 37 basis points for the same period. Significant exposure in longer maturity municipals helped performance as that portion of the curve outperformed.

Long municipals slightly underperformed the broader long-taxable market with the Barclays Capital Long Municipal Bond Index returning 13.53%. The Barclays Capital Long Government/Credit Index returned 15.11% and outperformed long Treasuries, as the Barclays Capital Long US Treasury Index returned 7.78%.

Municipal bond issuance ended 2009 with in excess of \$400 billion in issuance. 2010 year-to-date issuance remained elevated with \$167.64 billion issued 10% higher than the same period last year, approximately 25% coming from Build America Bonds.

California Municipal II:

An underweighting to California's General Obligation bonds negatively impacted performance as the bonds outperformed during the reporting period.

Municipal bonds within California outperformed the Barclays Capital Municipal Bond Index, returning 9.55% versus 8.56% during the period, respectively. The state continued to experience volatility due to uncertainty related to its budget-deficit situation as the end of the fiscal year neared. For calendar-year 2009, California led all other states with over \$72 billion in total bond issuance. It continues to lead in 2010 with \$25 billion in total issuance year-to-date, although this is 20% lower than the comparable period a year earlier.

The California portion of the Barclays Capital Long Municipal Index (22+) slightly outperformed the overall index, returning 13.58% versus 13.53%, respectively. The California municipal curve steepened with 30-year yields decreasing 70 basis points while two-year yields decreased 90 basis points. Significant exposure to longer maturities was positive for performance, as this portion of the curve outperformed.

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PIMCO Municipal Income Fund II Fund Insights

May 31, 2010 (unaudited) (continued)

New York Municipal II:

Transportation exposure was positive for performance as this sector outperformed during the fiscal period.

Municipal bonds within New York slightly outperformed the Barclays Capital Municipal Bond Index, returning 8.81% versus 8.56%, respectively. In 2009, issuers in New York State issued \$44 billion in bonds, ranking second in the U.S. 2010 year-to-date issuance in New York was at \$13.3 billion at the end of May, 15% lower than the same period a year earlier.

The New York portion of the Barclays Capital Long Municipal Index (22+) underperformed the overall index, returning 13.15% versus 13.53%, respectively. The New York yield curve steepened slightly during the period with 30-year yields decreasing 65 basis points and two-year yields decreasing 71 basis points. New York funds also had significant positions in the longer portions of the curve, which helped performance as longer maturity holdings outperformed in New York.

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PIMCO Municipal Income Funds II Performance & Statistics

May 31, 2010 (unaudited)

Municipal II:

Total Return⁽¹⁾:

	Market Price	NAV
1 Year	25.49%	29.87%
5 Year	0.67%	0.30%
Commencement of Operations (6/28/02) to 5/31/10	3.04%	3.20%

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/10

NAV

Market Price

Market Price/NAV:

Market Price	\$11.12
NAV	\$10.77
Premium to NAV	3.25%
Market Price Yield ⁽²⁾	7.01%

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

California Municipal II:

Total Return⁽¹⁾:

	Market Price	NAV
1 Year	16.44%	19.90%
5 Year	(1.86)%	(4.15)%

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Commencement of Operations (6/28/02) to 5/31/10

1.05%

0.00%

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/10

NAV

Market Price

Market Price/NAV:

Market Price

\$9.33

NAV

\$8.11

Premium to NAV

15.04%

Market Price Yield⁽²⁾

7.44%

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

PIMCO Municipal Income Funds II Performance & Statistics

May 31, 2010 (unaudited)

New York Municipal II:

Total Return⁽¹⁾:	Market Price	NAV
1 Year	19.92%	23.22%
5 Year	1.34%	0.71%
Commencement of Operations (6/28/02) to 5/31/10	3.14%	3.17%

Market Price/NAV Performance:

Commencement of Operations (6/28/02) to 5/31/10

NAV

Market Price

Market Price/NAV:

Market Price	\$11.42
NAV	\$10.90
Premium to NAV	4.77%
Market Price Yield ⁽²⁾	6.96%

**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 net asset value (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. Total return for a period of more than one year represents the average annual total return.

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

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An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and NAV asset 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 sold 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, 2010.

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PIMCO Municipal Income Fund II Schedule of Investments

May 31, 2010

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
MUNICIPAL BONDS & NOTES 98.3%			
Alabama 1.1%			
\$ 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	\$ 8,809,100
1,235	Montgomery BMC Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/29, Ser. B (NPFGC)	A3/A	1,131,408
2,650	Tuscaloosa Public Educational Building Auth. Rev., Stillman College Project, 5.00%, 6/1/26, Ser. A	NR/BBB-	2,472,821
			12,413,329
Alaska 0.7%			
3,550	Housing Finance Corp. Rev., 5.25%, 6/1/32, Ser. C (NPFGC)	Aa2/AA	3,587,133
5,900	Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A	Baa3/NR	3,957,248
			7,544,381
Arizona 9.4%			
3,500	Health Facs. Auth. Rev., Banner Health, 5.00%, 1/1/35, Ser. A	NR/A+	3,475,360
2,860	5.50%, 1/1/38, Ser. D	NR/A+	2,940,080
5,000	Maricopa Cnty. Pollution Control Corp. Rev., 5.00%, 6/1/35, Ser. A	A1/A	5,003,900
29,700	Pima Cnty. Industrial Dev. Auth. Rev., 5.00%, 9/1/39 Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (k), 5.00%, 1/1/37	Aa1/AA	29,735,640
41,100	5.00%, 1/1/39	Aa1/AA	42,491,235
10,000	5.00%, 1/1/39	Aa1/AA	10,512,000
10,500	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	A3/A	9,320,850
			103,479,065
Arkansas 0.2%			
13,000	Dev. Finance Auth. Rev., Arkansas Cancer Research Center Project, zero coupon, 7/1/46 (AMBAC)	Aa2/NR	2,006,550
California 5.3%			
6,000	Golden State Tobacco Securitization Corp. Rev., 5.00%, 6/1/33, Ser. A-1	Baa3/BBB	4,842,000
2,500	Los Angeles Department of Water & Power Rev., 5.00%, 7/1/39, Ser. A-1 (AMBAC)	Aa3/AA-	2,576,500
1,365	Lynwood Utility Auth. Rev., 5.00%, 6/1/29, Ser. A (AGC)	Aa3/AAA	1,385,748
2,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	Aa3/AAA	2,045,600
2,000	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38, Ser. 2008-A (AGM)	Aa2/AAA	2,048,480
2,000	Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41, Ser. A (AMBAC)	A1/A+	2,108,900
10,500	State, GO, 6.00%, 4/1/38	A1/A-	11,342,310
4,305	Statewide Communities Dev. Auth. Rev.,		

