

PIMCO Income Strategy Fund II
Form N-CSRS
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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 811-21601

PIMCO Income Strategy Fund II
(Exact name of registrant as specified in charter)

1345 Avenue of the Americans, New York, NY
(Address of principal executive offices)

10105
(Zip code)

Lawrence G. Altadonna - 1345 Avenue of the Americans, 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 July 31, 2011
end:

Date of reporting period: January 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

January 31, 2011

PIMCO Income Strategy Fund

PIMCO Income Strategy Fund II

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Dear Shareholder:

The U.S. economy picked up steam during the six-month period ended January 31, 2011. Gross Domestic Product (GDP) expanded at an annualized rate of 2.6% and 2.8% during the third and fourth quarters of 2010, respectively. In January 2011, this acceleration continued. The strengthening economy was accompanied by sharp gains for stocks, which reached their highest levels in two-and-a-half-years. However, as is typical during an economic recovery, interest rates began to rise, which may have kept the recovery from being more robust.

Hans W. Kertess

Chairman

Yields on the benchmark 10-year U.S. Treasury bond help tell the story. Because of a variety of worries in early 2010 a possible double-dip recession in the U.S., sovereign debt concerns in Europe and the cooling of China's economy many investors shifted assets into the perceived safe haven of Treasuries, sending prices sharply higher. Since bond yields move in the opposite direction of bond prices, the yield on the 10-year fell to 2.41% in October 2010. As these concerns eased, the market shifted. At the end of the six-month period, the yield on the 10-year bond had risen to 3.42%, prices fell accordingly. Rising yields narrowed the spread, the gap between yields on Treasuries and comparable debt instruments, such as corporate bonds, making those riskier assets less attractive on a relative basis.

Brian S. Shlissel

President & CEO

Rising interest rates were countered to some degree by the U.S. Federal Reserve (the Fed), which tried to keep rates low by initiating large-scale purchases of Treasury bonds through June 2011. The Fed maintained its closely-watched Federal Funds Rate, the rate banks charge to lend federal funds to other banks, usually on an overnight basis, in the 0.0% to 0.25% range. However, the Fed did raise the discount rate, the interest rate it charges banks for direct loans, to 0.75% from 0.50%.

Six Months in Review

For the six-month period ended January 31, 2011:

- PIMCO Income Strategy Fund rose 13.85% on net asset value (NAV) and 14.11% on market price.
- PIMCO Income Strategy Fund II advanced 15.46% on NAV and 9.81% on market price.

In contrast, the Barclays Capital U.S. Credit Index, a measure of high quality corporate bond performance, returned 0.97% and the Barclays Capital U.S. High Yield Bond Index, a measure of below-investment-grade corporate bond performance, returned 8.72% for the six months ended January 31, 2011. Government bonds, represented by the Barclays Capital Long Term Treasury Index, declined 5.55% for the fiscal six-month period. The Barclays Capital U.S. Aggregate Bond Index, a broad credit market measure of government and corporate securities, posted a return of 0.20%. Mortgage-backed securities, reflected by the Barclays Capital Mortgage Index, returned 0.04%. As for stocks, the Standard & Poor's 500 Index advanced 17.93% during the six-month period.

The Road Ahead

We anticipate that the economic recovery that began in the summer of 2009 will continue and could, in fact, accelerate. U.S. companies are likely to begin hiring more workers to meet a growing demand for goods and services, which in turn should boost economic activity still further. We caution again, however, about rising interest rates. Higher rates can reflect an expanding economy, but rates that rise too far and too fast could act as a brake on expansion.

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 is available on our website, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Pacific Investment Management Company LLC (PIMCO), 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 & CEO

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

PIMCO Income Strategy Fund/PIMCO Income Strategy Fund II Fund Insights

January 31, 2011 (unaudited)

For the six months ended January 31, 2011 PIMCO Income Strategy Fund returned 13.85% on NAV and 14.11% on market price.

For the six months ended January 31, 2011 PIMCO Income Strategy Fund II returned 15.46% on NAV and 9.81% on market price.

The unmanaged Barclays Capital U.S. Aggregate Bond Index and Barclays Capital U.S. Credit Index returned 0.20% and 0.97%, respectively, during the reporting period.

Bond markets turned in a solid performance in 2010 overall, though gains were moderated by a partial retrenchment in the fourth quarter. After a tumultuous first half of the calendar year, the creation of the Greek bailout package late in the second quarter served to reassure markets, as did the growing expectation for further quantitative easing by the Federal Reserve (the Fed), leading to a sharp and sustained rally for risk assets from July through the end of October 2010. In November, the Fed announced its widely anticipated second round of quantitative easing (QE2), which included a commitment to purchase a total of as much as \$850 to \$900 billion of longer-maturity Treasuries through June 2011. Gains in manufacturing, retail sales and consumer confidence, as well as surging equity markets and rising in inflation expectations indicated that the Fed's efforts were having an impact. While QE2 raised some concerns about long-term inflation risk, actual levels of inflation excluding volatile food and fuel costs remained below the Fed's targeted range during the fourth quarter of 2010. Treasury yields rose in the final months of the year as investors turned to riskier assets in pursuit of higher returns, though these yields ended the year broadly lower at all segments of the curve.

PIMCO Income Strategy Fund

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Risk exposures drive absolute gains

Several factors contributed to the Funds' absolute returns during the fiscal period. Positioning in the financials sector was particularly beneficial. Within financials, an emphasis on the banking sector was a strong contributor to the Funds' performance as recapitalization efforts and waning concerns about sovereign debt benefited credits. The Funds' performance also benefitted from an overweighing to the insurance sector, in particular, as security selection in the outperforming life insurance industry aided performance. The financial services sector's contribution to returns was somewhat moderated by the negative impact of select issuers in the European banking sector, which suffered from European credit tensions. Exposure to lagging asset-backed securities also hampered returns.

Other contributors to performance included security selection in the transportation sector, where airline credits outperformed, as well as exposure to speculative-grade corporate credits in general. The latter outperformed higher-rated credits during the review period. Select exposure to Build America Bonds also added to returns, despite a period of turbulence toward the end of 2010.

**PIMCO Income Strategy Fund
Fund Performance & Statistics**

January 31, 2011 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	14.11%	13.85%
1 Year	13.85%	21.41%
5 Year	4.78%	2.73%
Commencement of Operations (8/29/03) to 1/31/11	4.30%	3.89%

Market Price/NAV Performance:	Market Price/NAV:	
Commencement of Operations (8/29/03) to 1/31/11	Market Price	\$12.27
	NAV	\$11.29
	Premium to NAV	8.68%
	Market Price Yield(2)	7.33%

Portfolio Composition

(as a % of total investments)

**PIMCO Income Strategy Fund II
Fund Performance & Statistics**

January 31, 2011 (unaudited)

Total Return(1):	Market Price	NAV
Six Month	9.81%	15.46%
1 Year	16.17%	22.06%
5 Year	1.26%	0.20%
Commencement of Operations (10/29/04) to 1/31/11	0.93%	1.23%

Market Price/NAV Performance:	Market Price/NAV:	
Commencement of Operations (10/29/04) to 1/31/11	Market Price	\$10.41
	NAV	\$10.11
	Premium to NAV	2.97%
	Market Price Yield(2)	7.49%

Portfolio Composition

(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 less than one year is not annualized. 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.

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(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 January 31, 2011.

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PIMCO Income Strategy Fund Schedule of Investments

January 31, 2011 (unaudited)

Principal Amount (000s)		Credit Rating (Moody s/S&P)	Value
CORPORATE BONDS & NOTES 67.8%			
Airlines 6.5%			
\$900	American Airlines, Inc., 10.50%, 10/15/12	B2/B	\$999,000
	American Airlines Pass Through Trust,		
1,700	8.608%, 10/1/12	Ba3/B+	1,717,000
4,066	9.73%, 9/29/14	Caa2/CCC+	3,811,746
1,861	10.18%, 1/2/13	Caa1/CCC+	1,884,560
15,203	United Air Lines Pass Through Trust, 10.40%, 5/1/18 (j)	Baa2/BBB+	17,597,861
			26,010,167
Banking 8.6%			
2,600	AgFirst Farm Credit Bank, 7.30%, 2/28/11		
	(a) (b) (d) (g) (k) (acquisition cost-\$2,225,000; purchased		
	2/26/10-4/15/10)	NR/A	2,202,730
	Barclays Bank PLC, (g),		
1,200	7.375%, 12/15/11 (a) (d)	Baa2/A-	1,201,500
1,885	7.434%, 12/15/17 (a) (d) (j)	Baa2/A-	1,852,013
£7,800	14.00%, 6/15/19	Baa2/A-	15,398,427
	Cooperatieve Centrale Raiffeisen-Boerenleenbank BA,		
3,000	6.875%, 3/19/20		