

NUVEEN CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND 2
Form N-CSRS
November 08, 2012

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 811-10197

Nuveen California Dividend Advantage Municipal Fund 2
(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Address of principal executive offices) (Zip code)

Kevin J. McCarthy
Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700

Date of fiscal year end: February 28

Date of reporting period: August 31, 2012

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, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

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Chairman's
Letter to Shareholders

Dear Shareholders,

Investors have many reasons to remain cautious. The challenges in the Euro area are casting a shadow over global economies and financial markets. The political support for addressing fiscal issues is eroding as the economic and social impacts become more visible. At the same time, member nations appear unwilling to provide adequate financial support or to surrender sufficient sovereignty to strengthen the banks or unify the Euro area financial system. The gains made in reducing deficits, and the hard-won progress on winning popular acceptance of the need for economic austerity, are at risk. To their credit, European political leaders press on to find compromise solutions, but there is increasing concern that time will begin to run out.

In the U.S., strong corporate earnings have enabled the equity markets to withstand much of the downward pressures coming from weakening job creation, slower economic growth and political uncertainty. The Fed remains committed to low interest rates and announced on September 13, 2012 (after the close of this reporting period) another program of quantitative easing (QE3) to continue until mid-2015. Pre-election maneuvering has added to the already highly partisan atmosphere in Congress. The end of the Bush-era tax cuts and implementation of the spending restrictions of the Budget Control Act of 2011, both scheduled to take place at year-end, loom closer.

During the last year, U.S. based investors have experienced a sharp decline and a strong recovery in the equity markets. The experienced investment teams at Nuveen keep their eye on a longer time horizon and use their practiced investment disciplines to negotiate through market peaks and valleys to achieve long-term goals for investors. Experienced professionals pursue investments that will weather short-term volatility and at the same time, seek opportunities that are created by markets that overreact to negative developments. Monitoring this process is an important consideration for the Fund Board as it oversees your Nuveen Fund on your behalf.

As always, I encourage you to contact your financial consultant if you have any questions about your investment in a Nuveen Fund. On behalf of the other members of your Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

Robert P. Bremner
Chairman of the Board
October 22, 2012

Portfolio Manager's Comments

Nuveen California Premium Income Municipal Fund (NCU)
Nuveen California Dividend Advantage Municipal Fund (NAC)
Nuveen California Dividend Advantage Municipal Fund 2 (NVX)
Nuveen California Dividend Advantage Municipal Fund 3 (NZH)
Nuveen California AMT-Free Municipal Income Fund (NKX)

Portfolio manager Scott Romans examines key investment strategies and the six-month performance of these Nuveen California Municipal Funds. Scott has managed NCU, NAC, NVX, NZH and NKX since 2003.

REORGANIZATIONS

Effective before the opening of business on May 7, 2012, the following Acquired Funds were merged into the Acquiring Fund.

Acquired Funds	Acquiring Fund
•Nuveen Insured California Premium Income Municipal Fund, Inc. (NPC)	
•Nuveen Insured California Premium Income Municipal Fund 2, Inc. (NCL)	Nuveen California AMT-Free Municipal Income Fund (NKX)
•Nuveen Insured California Dividend Advantage Municipal Fund (NKL)	

Upon the closing of the reorganizations, the Acquired Funds transferred their assets to the Acquiring Fund in exchange for common and preferred shares of the Acquiring Fund, and the assumption by the Acquiring Fund of the liabilities of the Acquired Funds. The Acquired Funds were then liquidated, dissolved and terminated in accordance with their Declaration of Trust.

What key strategies were used to manage the California Funds during the six-month reporting period ended August 31, 2012?

During this reporting period, municipal bond prices generally rallied, as strong demand and tight supply combined to create favorable market conditions for municipal bonds. Although the availability of tax-exempt supply improved over that of the same six-month period a year earlier, the pattern of new issuance remained light compared with long-term historical trends. This supply/demand dynamic served as a key driver of performance. Concurrent with rising prices, yields continued to decline across most maturities, especially at the longer end of the municipal yield curve, and the yield curve flattened. During this period, we saw an increasing number of borrowers come to market seeking to take advantage of the low rate environment, with

Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio manager as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are

investment grade ratings; BB, B, CCC, CC, C and D are below investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

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approximately 60% of new municipal paper issued by borrowers that were calling existing debt and refinancing at lower rates.

In this environment, we continued to take a bottom-up approach to discovering sectors that appeared undervalued as well as individual credits that had the potential to perform well over the long term and helped us keep the Funds fully invested. During this period, the Funds found value in several areas of the market, including health care. The Funds also took advantage of opportunities to move out of local general obligation (GO) bonds and into state GOs and, more broadly speaking, away from GO bonds in general and into revenue bonds. These moves were intended to reduce the Funds' exposure to some of the fiscal problems faced by local governments in California, including local real estate valuations and Proposition 13's constraints on property taxes, as well as pension issues. One example of a revenue credit that we purchased during this period were water bonds issued by the San Francisco Public Utilities Commission for water service to the city and Bay Area.

We also continued to add exposure to redevelopment agency (RDA) bonds in the secondary market. Because of recent changes to the RDA program, we remained very selective in our purchases in this area, evaluating issuers on a case by case basis. (In 2011, as part of cost saving measures to close gaps in the California state budget, all 400 RDAs in the state were ordered to dissolve by February 1, 2012, and successor agencies and oversight boards were created to manage obligations that were in place prior to the dissolution and take title to the RDAs' housing and other assets.) In addition to finding opportunities in specific sectors, we also focused on taking advantage of short-term market opportunities created by supply/demand dynamics in the municipal market during this period. While demand for tax exempt paper remained consistently strong throughout the period, supply fluctuated widely. We found that periods of substantial supply provided good short term buying opportunities not only because of the increased number of issues available but also because some investors became more hesitant in their buying as supply grew, causing spreads to widen temporarily.

In general during this period, we focused on bonds with longer maturities. This enabled us to take advantage of attractive yields at the longer end of the municipal yield curve and also provided some protection for the Funds' duration and yield curve positioning. We also purchased lower rated bonds when we found attractive opportunities, as we believed these bonds continued to offer relative value.

Cash for new purchases during this period was generated primarily by the proceeds from a meaningful number of bond calls resulting from the increase in refinancings. During this period, we worked to redeploy these proceeds as well as those from maturing bonds to keep the Funds as fully invested as possible. In addition, as discussed above, the Funds sold some local GOs and appropriation bonds and reinvested the proceeds in state GOs. Overall, selling was minimal because the bonds in our portfolios generally embedded higher yields than those on bonds available in the current marketplace.

As of August 31, 2012, all of these Funds continued to use inverse floating rate securities. We employ inverse floaters for a variety of reasons, including duration management, income enhancement and total return enhancement.

How did the Funds perform?

Individual results for these Nuveen California Funds, as well as relevant index and peer group information, are presented in the accompanying table.

Average Annual Total Returns on Common Share Net Asset Value*
For periods ended 8/31/12

Fund	6-Month	1-Year	5-Year	10-Year
NCU	5.99%	18.95%	8.25%	6.75%
NAC	7.51%	19.58%	7.62%	6.74%
NVX	6.48%	18.26%	8.14%	6.95%
NZH	6.46%	18.24%	6.76%	6.23%
NKX	7.14%	16.61%	7.08%	N/A
S&P California Municipal Bond Index**	3.55%	10.79%	6.12%	5.35%
S&P Municipal Bond Index**	3.24%	9.35%	6.00%	5.28%
Lipper California Municipal Debt Funds Classification Average**	6.38%	19.48%	6.76%	6.14%

For the six months ended August 31, 2012, the cumulative returns on common share net asset value (NAV) for all five of these Funds exceeded the returns on the S&P California Municipal Bond Index as well as the S&P Municipal Bond Index. NAC, NVX, NZH and NKX also outperformed the average return for the Lipper California Municipal Debt Funds Classification Average, while NCU underperformed this Lipper average.

Key management factors that influenced the Funds' returns during this period included duration and yield curve positioning, credit exposure and sector allocation. The use of regulatory leverage also was an important positive factor affecting the Funds' performance. Leverage is discussed in more detail later in this report.

In an environment of declining rates and flattening yield curve, municipal bonds with longer maturities generally outperformed those with shorter maturities during this period. Overall, credits at the longest end of the municipal yield curve posted the strongest returns, while bonds at the shortest end produced the weakest results. Among these Funds, NAC was the most advantageously positioned in terms of duration and yield curve, with overweights in the outperforming longer part of the yield curve and underexposure to the shorter end of the curve that produced weaker returns. Overall, duration and yield curve positioning was a positive contributor to the performance of these Funds, although the net impact varied depending upon each

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

For additional information, see the Performance Overview for your Fund in this report.

* Six-month returns are cumulative; all other returns are annualized.

**

Refer to Glossary of Terms Used in this Report for definitions. Indexes and Lipper averages are not available for direct investment.

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Fund's individual weightings along the yield curve. NCU, NAC, NZH and NKX also benefited from their overweighting in zero coupon bonds, which generally outperformed the market during this period due to their longer durations. NVX was underweight in these bonds.

Credit exposure was another important factor in the Funds' performance during these six months, as lower quality bonds generally outperformed higher quality credits. This outperformance was due in part to the greater demand for lower rated bonds as investors looked for investment vehicles offering higher yields. As investors became more comfortable taking on additional investment risk, credit spreads or the difference in yield spreads between U.S. Treasury securities and comparable investments such as municipal bonds, narrowed through a variety of rating categories. As a result of this spread compression, the Funds generally benefited from their holdings of lower rated credits. This was especially true in NVX and NZH, which had the highest allocations of bonds rated BBB. On the other hand, NCU's higher quality profile, including the largest allocation of AAA bonds among these Funds, detracted from its performance for the period.

During this period, revenue bonds as a whole outperformed the general municipal market. Holdings that generally made positive contributions to the Funds' returns included health care (together with hospitals), education, housing, transportation and redevelopment agency (RDA) credits. All of these Funds benefited from good weightings in the health care sector. Tobacco credits backed by the 1998 master tobacco settlement agreement also performed very well, as these bonds benefited from several market developments, including increased demand for higher yielding investments by investors who had become less risk-averse. In addition, based on recent data showing that cigarette sales had fallen less steeply than anticipated, the 46 states participating in the agreement, including California, stand to receive increased payments from the tobacco companies. As of August 31, 2012, these Funds held tobacco credits, which benefited their performance as tobacco bonds rallied.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities, were the poorest performing market segment during this period. The underperformance of these bonds can be attributed primarily to their shorter effective maturities and higher credit quality. NZH had the largest allocation of these bonds as of August 31, 2012, while NAC held the fewest pre-refunded bonds. General obligation (GO) bonds and utilities credits also lagged the performance of the general municipal market for this period.

In addition, NKX had some exposure to California municipalities that experienced financial difficulties over the past six months, including Stockton and San Bernardino. Shareholders should note that all of these holdings are insured, and the insurer, National Public Finance Guaranty, has stated its intention to make payments on these bonds, if required. During this period, these holdings had no negative impact on NKX's performance.

Fund Leverage and
Other Information

IMPACT OF THE FUNDS' LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the return of the Funds relative to their benchmarks was the Funds' use of leverage. The Funds use leverage because their managers believe that, over time, leveraging provides opportunities for additional income and total return for common shareholders. However, use of leverage also can expose common shareholders to additional volatility. For example, as the prices of securities held by a Fund decline, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a Fund generally are rising. Leverage had a positive impact on the performance of the Funds over this reporting period.

THE FUNDS' REGULATORY LEVERAGE

As of August 31, 2012, the Funds have issued and outstanding MuniFund Term Preferred (MTP) Shares and Variable Rate Demand Preferred (VRDP) Shares as shown in the accompanying tables.

MTP Shares

Fund	Series	MTP Shares Issued at Liquidation Value	Annual Interest Rate	NYSE Ticker
NCU	2015	\$35,250,000	2.00%	NCU PrC
NVX	2014	\$42,846,300	2.35%	NVX PrA
NVX	2015	\$55,000,000	2.05%	NVX PrC
NZH	2014	\$27,000,000	2.35%	NZH PrA
NZH	2014-1	\$46,294,500	2.25%	NZH PrB
NZH	2015	\$86,250,000	2.95%	NZH PrC

VRDP Shares

Fund	VRDP Shares Issued at Liquidation Value
NPC	\$ 42,700,000
NCL	\$ 74,000,000
NAC	\$136,200,000
NKL	\$104,400,000
NKK	\$ 35,500,000

(Refer to Notes to Financial Statements, Footnote 1 – General Information and Significant Accounting Policies for further details on MTP and VRDP Shares.)

RISK CONSIDERATIONS

Fund shares are not guaranteed or endorsed by any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation. Past performance is no guarantee of future results. Fund common shares are subject to a variety of risks, including:

Investment and Market Risk. An investment in common shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in common shares represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Price Risk. Shares of closed-end investment companies like these Funds frequently trade at a discount to their NAV. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Leverage Risk. Each Fund's use of leverage creates the possibility of higher volatility for the Fund's per share NAV, market price, distributions and returns. There is no assurance that a Fund's leveraging strategy will be successful.

Tax Risk. The tax treatment of Fund distributions may be affected by new IRS interpretations of the Internal Revenue Code and future changes in tax laws and regulations.

Issuer Credit Risk. This is the risk that a security in a Fund's portfolio will fail to make dividend or interest payments when due.

Interest Rate Risk. Fixed-income securities such as bonds, preferred, convertible and other debt securities will decline in value if market interest rates rise.

Reinvestment Risk. If market interest rates decline, income earned from a Fund's portfolio may be reinvested at rates below that of the original bond that generated the income.

Call Risk or Prepayment Risk. Issuers may exercise their option to prepay principal earlier than scheduled, forcing a Fund to reinvest in lower-yielding securities.

Inverse Floater Risk. The Funds invest in inverse floaters. Due to their leveraged nature, these investments can greatly increase a Fund's exposure to interest rate risk and credit risk. In addition, investments in inverse floaters involve the risk that the Fund could lose more than its original principal investment.

Common Share Dividend
and Price Information

DIVIDEND INFORMATION

During the six-month reporting period ended August 31, 2012, the monthly dividend of NKX was increased effective July 2012. The dividends of NCU, NAC and NVX remained stable throughout the period, while the dividend of NZH was reduced once during the period.

All of the Funds in this report seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of August 31, 2012, all of the Funds in this report had positive UNII balances, based upon our best estimate, for tax purposes and positive UNII balances for financial reporting.

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COMMON SHARE REPURCHASES AND PRICE INFORMATION

As of August 31, 2012, and since the inception of the Funds' repurchase program, the Funds have cumulatively repurchased and retired common shares as shown in the accompanying table. Since the inception of the Funds' repurchase programs, NAC and NKX have not repurchased any of their outstanding common shares.

Fund	Common Shares Repurchased and Retired	% of Outstanding Common Shares
NCU	44,500	0.8%
NAC	—	—
NVX	50,700	0.3%
NZH	12,900	0.1%
NKX	—	—

During the six-month reporting period, the Funds did not repurchase any of their outstanding common shares.

As of August 31, 2012, and during the current reporting period, the Funds' common share prices were trading at (+) premiums and/or (-) discounts to their common share NAVs as shown in the accompanying table.

Fund	8/31/12 (+)Premium/(-)Discount	Six-Month Average (-)Discount
NCU	(-)4.18%	(-)2.22%
NAC	(-)1.74%	(-)1.36%
NVX	(-)1.25%	(-)1.66%
NZH	(-)2.37%	(-)1.30%
NKX	(-)0.85%	(-)1.11%

NCU Nuveen California
 Performance Premium Income
 OVERVIEW Municipal Fund

as of August 31, 2012

Fund Snapshot

Common Share Price	\$	15.12
Common Share Net Asset Value (NAV)	\$	15.78
Premium/(Discount) to NAV		-4.18%
Market Yield		5.75%
Taxable-Equivalent Yield ¹		8.81%
Net Assets Applicable to Common Shares (\$000)	\$	90,439

Leverage

Regulatory Leverage	28.05%
Effective Leverage	35.58%

Average Annual Total Returns
 (Inception 6/18/93)

	On Share Price	On NAV
6-Month (Cumulative)	2.70%	5.99%
1-Year	24.01%	18.95%
5-Year	9.54%	8.25%
10-Year	7.03%	6.75%

Portfolio Composition³

(as a % of total investments)

Tax Obligation/Limited	29.2%
Tax Obligation/General	22.7%
Health Care	20.6%
U.S. Guaranteed	7.7%
Water and Sewer	5.0%
Other	14.8%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- 1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 34.7%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.
- 3 Holdings are subject to change.

NAC Nuveen California
 Performance Dividend Advantage
 OVERVIEW Municipal Fund

as of August 31, 2012

Fund Snapshot

Common Share Price	\$	15.24
Common Share Net Asset Value (NAV)	\$	15.51
Premium/(Discount) to NAV		-1.74%
Market Yield		6.06%
Taxable-Equivalent Yield ¹		9.28%
Net Assets Applicable to Common Shares (\$000)	\$	364,252

Leverage

Regulatory Leverage	27.22%
Effective Leverage	32.47%

Average Annual Total Returns
(Inception 5/26/99)

	On Share Price	On NAV
6-Month (Cumulative)	3.80%	7.51%
1-Year	21.11%	19.58%
5-Year	8.66%	7.62%
10-Year	7.38%	6.74%

Portfolio Composition³

(as a % of total investments)

Tax Obligation/Limited	26.0%
Health Care	21.8%
Tax Obligation/General	21.4%
Water and Sewer	9.2%
Consumer Staples	5.2%
Education and Civic Organizations	4.8%
Other	11.6%

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this Fund's Performance Overview page.

- 1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 34.7%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.
- 3 Holdings are subject to change.
- 4 The Fund paid shareholders a net ordinary income distribution in December 2011 of \$0.0045 per share.

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NVX
Performance
OVERVIEW

Nuveen California
Dividend Advantage
Municipal Fund 2

as of August 31, 2012

Fund Snapshot