

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2022**
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number **000-53649**

KBS REAL ESTATE INVESTMENT TRUST II, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

**800 Newport Center Drive, Suite 700
Newport Beach, California**

(Address of Principal Executive Offices)

26-0658752

(I.R.S. Employer
Identification No.)

92660

(Zip Code)

(949) 417-6500

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None
Trading Symbol(s)	
None	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of November 7, 2022, there were 183,346,918 outstanding shares of common stock of the registrant.

KBS REAL ESTATE INVESTMENT TRUST II, INC.

FORM 10-Q

September 30, 2022

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

KBS REAL ESTATE INVESTMENT TRUST II, INC.
CONDENSED CONSOLIDATED STATEMENTS OF NET ASSETS
(Liquidation Basis)
(in thousands)

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(unaudited)	
Assets		
Real estate	\$ 145,255	\$ 188,383
Cash and cash equivalents	37,432	45,163
Rents and other receivables	273	342
Due from affiliate	—	727
Other assets	34	171
Total assets	182,994	234,786
Liabilities		
Liabilities for estimated costs in excess of estimated receipts during liquidation	5,587	22,021
Accounts payable and accrued liabilities	1,777	1,833
Due to affiliate	4	29
Liabilities for estimated closing costs and disposition fees	3,213	4,008
Other liabilities	1,117	1,374
Total liabilities	11,698	29,265
Commitments and contingencies (Note 8)		
Net assets in liquidation	\$ 171,296	\$ 205,521

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)**Item 1. Financial Statements (continued)**

KBS REAL ESTATE INVESTMENT TRUST II, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the Nine Months Ended September 30, 2022

(Liquidation Basis)
(unaudited, in thousands)

Net assets in liquidation, beginning of period	\$	205,521
<i>Changes in net assets in liquidation</i>		
Change in liquidation value of real estate property after closing costs/disposition fees		(42,333)
Change in estimated cash flow during liquidation		537
Change in estimated capital expenditures		7,951
Other changes, net		(380)
Changes in net assets in liquidation		<u>(34,225)</u>
Net assets in liquidation, end of period	\$	<u>171,296</u>

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022

(unaudited)

1. ORGANIZATION

KBS Real Estate Investment Trust II, Inc. (the “Company”) was formed on July 12, 2007 as a Maryland corporation that elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ended December 31, 2008. The Company conducts its business primarily through KBS Limited Partnership II, a Delaware limited partnership formed on August 23, 2007 (the “Operating Partnership”), and its subsidiaries. The Company is the sole general partner of and directly owns a 0.1% partnership interest in the Operating Partnership. The Company’s wholly-owned subsidiary, KBS REIT Holdings II LLC, a Delaware limited liability company formed on August 23, 2007 (“KBS REIT Holdings II”), owns the remaining 99.9% partnership interest in the Operating Partnership and is its sole limited partner.

As of September 30, 2022, the Company owned one office property.

Subject to certain restrictions and limitations, the business of the Company is managed by KBS Capital Advisors LLC (the “Advisor”), an affiliate of the Company, pursuant to an advisory agreement the Company entered into with the Advisor (the “Advisory Agreement”). The Advisory Agreement is effective through May 21, 2023 and may be renewed for an unlimited number of one-year periods upon the mutual consent of the Advisor and the Company. Either party may terminate the Advisory Agreement upon 60 days’ written notice. The Advisor owns 20,000 shares of the Company’s common stock.

As of September 30, 2022, the Company had 183,346,918 shares of common stock issued and outstanding.

On November 13, 2019, in connection with a review of potential strategic alternatives available to the Company, a special committee composed of all of the Company’s independent directors (the “Special Committee”) and the board of directors unanimously approved the sale of all of the Company’s assets and the dissolution of the Company pursuant to the terms of the plan of complete liquidation and dissolution (the “Plan of Liquidation”). The principal purpose of the Plan of Liquidation is to provide liquidity to the Company’s stockholders by selling the Company’s assets, paying its debts and distributing the net proceeds from liquidation to the Company’s stockholders. On March 5, 2020, the Company’s stockholders approved the Plan of Liquidation. The Plan of Liquidation is included as an exhibit to this Quarterly Report on Form 10-Q.

COVID-19 Pandemic

One of the most significant risks and uncertainties facing the Company and the real estate industry generally, and in particular office REITs like the Company, continues to be the effect of the public health crisis of the novel coronavirus disease (“COVID-19”) pandemic. To date, the Company has not experienced significant disruptions in its operations from the COVID-19 pandemic, although the Company’s completion of the Plan of Liquidation has been delayed. During the nine months ended September 30, 2022, the Company reduced the estimated liquidation value of its remaining real estate property by \$42.3 million (after estimated closing costs and disposition fees) partly due to changes in leasing projections resulting in lower projected cash flow and a lower projected sale price caused by the impact of the COVID-19 pandemic. During the years ended December 31, 2021 and 2020, the Company reduced the estimated liquidation value of its real estate portfolio by \$78.1 million (or \$54.6 million after accounting for the decrease in estimated capital expenditures of \$23.5 million that was previously projected to be spent) and \$90.2 million, respectively, due to changes in leasing projections across its portfolio resulting in lower projected cash flow and projected sales prices caused by the impact of the COVID-19 pandemic.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

1. ORGANIZATION (CONTINUED)

The extent to which the COVID-19 pandemic further impacts the Company's completion of the Plan of Liquidation depends on future developments, which remain uncertain and cannot be predicted with confidence, including the demand for office space in downtown Los Angeles, where the Company's remaining property is located, which demand has significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home.

2. PLAN OF LIQUIDATION

The Plan of Liquidation authorizes the Company to undertake an orderly liquidation. In an orderly liquidation, the Company will sell all of its properties, pay all of its known liabilities, provide for the payment of its unknown or contingent liabilities, distribute its remaining cash to its stockholders, wind up its operations and dissolve. The Company is authorized to provide for the payment of any unascertained or contingent liabilities and may do so by purchasing insurance, by establishing a reserve fund or in other ways.

The Plan of Liquidation enables the Company to sell any and all of its assets without further approval of its stockholders and provides that the amounts and timing of liquidating distributions will be determined by the Company's board of directors. At the time of adopting the Plan of Liquidation, the Company had anticipated completing its orderly liquidation and paying substantially all of its liquidating distributions from the net proceeds from liquidation within 24 months after stockholder approval of the Plan of Liquidation, which occurred on March 5, 2020. Given the uncertainty and business disruptions as a result of the outbreak of COVID-19 and more recently the rising interest rate environment, the Company's completion of the Plan of Liquidation has been delayed. Although the Company was not able to complete its liquidation within the 24-month period described above, the Company does not anticipate any material unfavorable tax consequences to its stockholders or to its status as a REIT. For U.S. federal income tax purposes, (i) the Company did not have any current and accumulated earnings and profits (including any gain) or taxable income or gain for the taxable years ended December 31, 2020 and December 31, 2021 and (ii) the Company does not anticipate any current and accumulated earnings and profits (including any gain) or taxable income or gain for the taxable year ended December 31, 2022 or in future periods.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

2. PLAN OF LIQUIDATION (CONTINUED)

The Company's expectations about the completion of the Plan of Liquidation and the amount of any additional liquidating distributions that the Company pays to its stockholders and when the Company will pay them are subject to risks and uncertainties and are based on certain estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of any additional liquidating distributions the Company pays to its stockholders may be less than the Company estimates and the liquidating distributions may be paid later than the Company predicts. There are many factors that may affect the amount of liquidating distributions the Company will ultimately pay to its stockholders. If the Company underestimates its existing obligations and liabilities or the amount of taxes, transaction fees and expenses relating to the liquidation and dissolution, or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to the Company's stockholders could be less than estimated. Moreover, the liquidation value will fluctuate over time in response to developments related to the Company's remaining real estate property, in response to the real estate and finance markets, based on the actual liquidation timing and the amount of net proceeds received from the disposition of the Company's remaining asset and due to other factors. In particular, the outbreak of COVID-19, together with the resulting measures imposed to help control the spread of the virus, has had a negative impact on the economy and business activity globally. While the Company has considered the impact from COVID-19 in its net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of September 30, 2022, the extent to which the Company's completion of the Plan of Liquidation may be further affected by the COVID-19 pandemic depends on future developments, which remain uncertain and cannot be predicted with confidence, including the demand for office space in downtown Los Angeles, where the Company's remaining property is located, which demand has significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home. The Company's completion of the Plan of Liquidation may also be adversely impacted by the current economic slowdown, the rising interest rate environment and inflation, or the public perception that any of these events may continue. Given the uncertainty and current business disruptions as a result of the factors discussed above, the Company's completion of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by stockholders. Accordingly, it is not possible to precisely predict the timing of any additional liquidating distributions the Company pays to its stockholders or the aggregate amount of liquidating distributions that the Company will ultimately pay to its stockholders. No assurance can be given that any additional liquidating distributions the Company pays to its stockholders will equal or exceed the estimate of net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of September 30, 2022.

The Company expects to comply with the requirements necessary to continue to qualify as a REIT through the completion of the liquidation process. The board of directors shall use commercially reasonable efforts to continue to cause the Company to maintain its REIT status; provided, however, that the board of directors may elect to terminate the Company's status as a REIT if it determines that such termination would be in the best interest of the stockholders.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2021. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC").

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), including Subtopic 205-30, "Liquidation Basis of Accounting," and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods.

Pursuant to the Company's stockholders' approval of the Plan of Liquidation, the Company adopted the liquidation basis of accounting as of and for the periods subsequent to February 1, 2020 (as the approval of the Plan of Liquidation by the Company's stockholders became imminent within the first week of February 2020 based on the results of the Company's solicitation of proxies from its stockholders for their approval of the Plan of Liquidation). Accordingly, on February 1, 2020, assets were adjusted to their estimated net realizable value, or liquidation value, which represents the estimated amount of cash that the Company will collect through the disposal of assets as it carries out the Plan of Liquidation. The liquidation value of the Company's real estate property is presented on an undiscounted basis. Estimated costs to dispose of assets and estimated capital expenditures through the anticipated disposition date of the real estate property have been presented separately from the related assets. Liabilities are carried at their contractual amounts due or estimated settlement amounts.

The Company accrues costs and income that it expects to incur and earn through the completion of its liquidation, including the estimated amount of cash the Company expects to collect through the disposal of its assets and the estimated costs to dispose of its assets, to the extent it has a reasonable basis for estimation. These amounts are classified as a liability for estimated costs in excess of estimated receipts during liquidation on the Condensed Consolidated Statement of Net Assets. Actual costs and income may differ from amounts reflected in the financial statements because of the inherent uncertainty in estimating future events. These differences may be material. See Note 2, "Plan of Liquidation" and Note 4, "Liabilities for Estimated Costs in Excess of Estimated Receipts During Liquidation" for further discussion. Actual costs incurred but unpaid as of September 30, 2022 are included in accounts payable and accrued liabilities, due to affiliates and other liabilities on the Condensed Consolidated Statement of Net Assets.

Net assets in liquidation represents the remaining estimated liquidation value available to stockholders upon liquidation. Due to the uncertainty in the timing of the sale of the Company's remaining real estate property and the estimated cash flows from operations, actual liquidation costs and sale proceeds may differ materially from the amounts estimated.

Use of Estimates

The preparation of the unaudited consolidated financial statements and condensed notes thereto in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and condensed notes. Actual results could materially differ from those estimates.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

4. LIABILITIES FOR ESTIMATED COSTS IN EXCESS OF ESTIMATED RECEIPTS DURING LIQUIDATION

The liquidation basis of accounting requires the Company to estimate net cash flows from operations and to accrue all costs associated with implementing and completing the Plan of Liquidation. As of September 30, 2022, the Company estimated that it will have costs in excess of estimated receipts during the liquidation process. These amounts can vary significantly due to, among other things, the timing and estimates for executing and renewing leases, estimates of tenant improvement costs and capital expenditures, the timing of property sales, direct costs incurred to complete the sales, the timing and amounts associated with discharging known and contingent liabilities and the costs associated with the winding down of operations. These costs are estimated and are anticipated to be paid out over the liquidation period.

The change in the liabilities for estimated costs in excess of estimated receipts during liquidation as of September 30, 2022 is as follows (in thousands):

	December 31, 2021	Cash Payments (Receipts)	Remeasurement of Assets and Liabilities	September 30, 2022
Assets:				
Estimated net inflows from investments in real estate	\$ 4,415	\$ (5,722)	\$ 1,518	\$ 211
	4,415	(5,722)	1,518	211
Liabilities:				
Liquidation transaction costs	(2,760)	561	449	(1,750)
Corporate expenditures	(4,246)	4,257	(1,430)	(1,419)
Capital expenditures	(19,430)	8,850	7,951	(2,629)
	(26,436)	13,668	6,970	(5,798)
Total liabilities for estimated costs in excess of estimated receipts during liquidation	\$ (22,021)	\$ 7,946	\$ 8,488	\$ (5,587)

5. NET ASSETS IN LIQUIDATION

Net assets in liquidation decreased by approximately \$34.2 million during the nine months ended September 30, 2022 as follows (in thousands):

Changes in net assets in liquidation	
Change in liquidation value of real estate property after closing costs/disposition fees	\$ (42,333)
Change in estimated cash flow during liquidation	537
Change in estimated capital expenditures	7,951
Other changes, net	(380)
Changes in net assets in liquidation	\$ (34,225)

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

5. NET ASSETS IN LIQUIDATION (CONTINUED)

During the nine months ended September 30, 2022, the estimated net realizable value of real estate after estimated closing costs and disposition fees of the Company's remaining office building located in Los Angeles, California ("Union Bank Plaza") decreased by \$42.3 million as the liquidation value was adjusted based on the contractual sales price less estimated closing credits as the property is currently under contract to sell. However, the decrease in the estimated net realizable value of real estate and the corresponding impact to net assets in liquidation was offset by a decrease in estimated capital expenditures of \$8.0 million primarily due to a reduction in tenant improvement costs projected to be incurred by the Company through the date of sale of Union Bank Plaza. See Note 9, "Subsequent Events - Amended Purchase and Sale Agreement for Sale of Union Bank Plaza." As of September 30, 2022, Union Bank Plaza was 57% occupied. Demand for office space in downtown Los Angeles significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home. In addition, with rising interest rates, prospective buyers were challenged to obtain favorable financing, which along with the lower demand for office space, impacted the projected cash flows of the property and the purchase price prospective buyers were willing to pay for the property.

The net assets in liquidation as of September 30, 2022 would result in the payment of additional estimated liquidating distributions of approximately \$0.93 per share of common stock to the Company's stockholders of record as of September 30, 2022. This estimate of additional liquidating distributions includes projections of costs and expenses to be incurred during the estimated period required to complete the Plan of Liquidation. There is inherent uncertainty with these estimates and projections, and they could change materially based on the timing of the sale of Union Bank Plaza, the performance of Union Bank Plaza and any changes in the underlying assumptions of the projected cash flows from this property. See Note 2, "Plan of Liquidation."

6. REAL ESTATE

As of September 30, 2022, the Company owned Union Bank Plaza, encompassing in the aggregate 701,888 rentable square feet with an estimated liquidation value of \$145.3 million, exclusive of net operating income to be earned and projected capital expenditures to be incurred over the expected hold period through sale. As of September 30, 2022, Union Bank Plaza was 57% occupied.

As a result of adopting the liquidation basis of accounting as of February 1, 2020, as of September 30, 2022, Union Bank Plaza was recorded at its estimated liquidation value, which represents the estimated gross amount of cash that the Company will collect through the sale of Union Bank Plaza as it carries out its Plan of Liquidation.

7. RELATED PARTY TRANSACTIONS

The Company has entered into the Advisory Agreement with the Advisor. This agreement entitles the Advisor to specified fees upon the provision of certain services with regard to the management of the Company's investments, among other services, and the disposition of investments, as well as reimbursement of certain costs incurred by the Advisor in providing services to the Company. In addition, the Advisor is entitled to certain other fees, including an incentive fee upon achieving certain performance goals, as detailed in the Advisory Agreement. The Company has also entered into a fee reimbursement agreement with KBS Capital Markets Group LLC (the "Dealer Manager") pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the Depository Trust & Clearing Corporation Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor and Dealer Manager also serve or served as the advisor and dealer manager, respectively, for KBS Real Estate Investment Trust III, Inc. ("KBS REIT III") and KBS Growth & Income REIT, Inc. ("KBS Growth & Income REIT").

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

7. RELATED PARTY TRANSACTIONS (CONTINUED)

As of January 1, 2021, the Company, together with KBS REIT III, KBS Growth & Income REIT, the Dealer Manager, the Advisor and other KBS-affiliated entities, had entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage were shared. The cost of these lower tiers was allocated by the Advisor and its insurance broker among each of the various entities covered by the program, and was billed directly to each entity. The program was effective through June 30, 2022. In connection with the Company's liquidation, the Company ceased participation in the program as of June 30, 2022 and obtained separate insurance coverage.

During the nine months ended September 30, 2022 and 2021, no other business transactions occurred between the Company and KBS REIT III, KBS Growth & Income REIT, the Advisor, the Dealer Manager or other KBS-affiliated entities.

Pursuant to the terms of these agreements, summarized below are the related-party costs incurred by the Company for the three and nine months ended September 30, 2022 and 2021, respectively, and any related amounts receivable and payable as of September 30, 2022 and December 31, 2021 (in thousands):

	Incurred				Receivable as of		Payable as of	
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30,	December 31,	September 30,	December 31,
	2022	2021	2022	2021	2022	2021	2022	2021
<i>Expensed</i>								
Asset management fees	\$ 536	\$ 1,363	\$ 1,575	\$ 4,277	\$ —	\$ —	\$ —	\$ —
Reimbursement of operating expenses ⁽¹⁾	1	64	27	285	—	727	4	29
Disposition fees	—	2,919	—	2,919	—	—	—	—
	<u>\$ 537</u>	<u>\$ 4,346</u>	<u>\$ 1,602</u>	<u>\$ 7,481</u>	<u>\$ —</u>	<u>\$ 727</u>	<u>\$ 4</u>	<u>\$ 29</u>

⁽¹⁾ Reimbursable operating expenses primarily consists of internal audit personnel costs, accounting software costs and cybersecurity related expenses incurred by the Advisor under the Advisory Agreement. The Company has reimbursed the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. These amounts totaled \$66,000 for the three months ended September 30, 2021, and \$24,000 and \$229,000 for the nine months ended September 30, 2022 and 2021, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement for the nine months ended September 30, 2022 and 2021. The Company did not incur such costs during the three months ended September 30, 2022. The Company will not reimburse for employee costs in connection with services for which the Advisor earns acquisition, origination or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers. In addition to the amounts above, the Company reimburses the Advisor for certain of the Company's direct costs incurred from third parties that were initially paid by the Advisor on behalf of the Company. The receivable as of December 31, 2021 included \$0.7 million of estimated amounts charged to the Company by certain vendors for services for which the Company believes it was either overcharged or which were never performed. During the nine months ended September 30, 2022, the Company incurred \$0.2 million of legal and accounting costs related to the investigation of this matter. As of September 30, 2022, the Advisor had reimbursed the Company \$0.9 million for amounts inappropriately charged to the Company and for legal and accounting costs incurred related to the investigation of this matter.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS REAL ESTATE INVESTMENT TRUST II, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

(unaudited)

8. COMMITMENTS AND CONTINGENCIES

Economic Dependency

The Company is dependent on the Advisor for certain services that are essential to the Company, including the execution of the Plan of Liquidation; the disposition of the Company's remaining real estate investment; management of the Company's remaining real estate investment; and other general and administrative responsibilities. In the event the Advisor is unable to provide any of these services, the Company will be required to obtain such services from other sources.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Compliance with existing environmental laws is not expected to have a material adverse effect on the Company's financial condition and results of operations as of September 30, 2022.

Legal Matters

From time to time, the Company is party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings of which the outcome is probable or reasonably possible to have a material adverse effect on the Company's results of operations or financial condition, which would require accrual or disclosure of the contingency and possible range of loss. Additionally, the Company has not recorded any loss contingencies related to legal proceedings in which the potential loss is deemed to be remote.

9. SUBSEQUENT EVENTS

Amended Purchase and Sale Agreement for Sale of Union Bank Plaza

On September 15, 2010, the Company, through an indirect wholly owned subsidiary, purchased Union Bank Plaza, a 40-story office building located in Los Angeles, California containing 701,888 rentable square feet on approximately 3.7 acres of land.

On July 20, 2022, the Company, through an indirect wholly owned subsidiary, entered into a purchase and sale agreement and escrow instructions (the "Agreement") for the sale of Union Bank to WB Union Plaza Holdings LLC (the "Purchaser"), an affiliate of Waterbridge Capital. The Purchaser is unaffiliated with the Company or the Advisor. Pursuant to the Agreement, the sale price for Union Bank Plaza is \$155.0 million, subject to prorations and adjustments as provided in the Agreement.

On October 14, 2022, the Company, through an indirect wholly owned subsidiary, entered into an amendment to the Agreement (the "Amended Agreement") with the Purchaser to extend the closing date to November 7, 2022. On October 31, 2022, the Purchaser further extended the closing date to November 15, 2022 and on November 9, 2022, the Purchaser exercised its final extension option pursuant to the Amended Agreement and extended the closing date to November 30, 2022. There can be no assurance that the Company will complete the sale of Union Bank Plaza. The Purchaser would be obligated to purchase Union Bank Plaza only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Purchaser fails to complete the acquisition, it may forfeit up to \$10.5 million of earnest money.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying financial statements of KBS Real Estate Investment Trust II, Inc. and the notes thereto. As used herein, the terms “we,” “our” and “us” refer to KBS Real Estate Investment Trust II, Inc., a Maryland corporation, and, as required by context, KBS Limited Partnership II, a Delaware limited partnership, which we refer to as the “Operating Partnership,” and to their subsidiaries.

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Real Estate Investment Trust II, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as “may,” “will,” “seeks,” “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” “should” or similar expressions. These include statements about our plans, strategies and prospects and Plan of Liquidation (defined herein) and these statements are subject to known and unknown risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law. Moreover, you should interpret many of the risks identified in this report, as well as the risks set forth below, as being heightened as a result of the continued disruptions in the financial markets.

The following are some of the risks and uncertainties, although not all of the risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- The COVID-19 pandemic, together with the resulting measures imposed to help control the spread of the virus, has had a negative impact on the economy and business activity globally. The extent to which the COVID-19 pandemic further impacts our completion of the Plan of Liquidation depends on future developments, which remain uncertain and cannot be predicted with confidence, including the demand for office space in downtown Los Angeles, where our remaining property is located, which demand has significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home.
- Although our board of directors and our stockholders have approved the sale of all of our assets and our dissolution pursuant to the Plan of Liquidation, we can give no assurance that we will be able to successfully implement the Plan of Liquidation and sell our assets, pay our debts and distribute the net proceeds from liquidation to our stockholders as we expect. If we underestimated our existing obligations and liabilities or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to our stockholders could be less than estimated. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19 as well as the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue), our completion of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by stockholders.
- We may face unanticipated difficulties, delays or expenditures relating to our implementation of the Plan of Liquidation, which may reduce or delay our payment of liquidating distributions.
- We can give no assurance regarding the timing of the disposition of our remaining real estate property, the sale price we will receive for this property and the amount and timing of liquidating distributions to be received by our stockholders.
- We may face risks associated with legal proceedings, including stockholder litigation, that may be instituted against us related to the Plan of Liquidation.
- All of our executive officers, one of our directors and other key professionals are also officers, directors, managers, key professionals and/or holders of a direct or indirect controlling interest in our advisor, the entity that acted as our dealer manager and/or other KBS-affiliated entities. As a result, they face conflicts of interest, including significant conflicts created by our advisor’s compensation arrangements with us and other KBS-sponsored programs and KBS-advised investors and conflicts in allocating time among us and these other programs and investors. These conflicts could result in unanticipated actions.
- We pay substantial fees to and expenses of our advisor and its affiliates. These payments reduce the amount of liquidating distributions our stockholders will receive.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

- The resale value of a property depends principally upon the value of the cash flow generated by the leases associated with that property. Non-renewals, terminations or lease defaults could reduce our net sales proceeds and the amount of liquidating distributions our stockholders receive. Accordingly, our ability to successfully implement the Plan of Liquidation is partially dependent upon the success and economic viability of our tenants and our ability to retain and attract tenants.
- Our remaining real estate property has been and may continue to be affected by unfavorable real estate market conditions, the rising interest rate environment and general economic conditions, which could further decrease the value of this property. Revenues from this property could decrease. Such events would make it more difficult for us to successfully complete the Plan of Liquidation, which could reduce our stockholders’ returns and the amount of liquidating distributions they receive.
- On November 1, 2021, in connection with our liquidation pursuant to the Plan of Liquidation, our board of directors approved the termination of our share redemption program effective as of November 22, 2021. As such, our stockholders’ primary source of liquidity is the completion of our Plan of Liquidation.
- As a result of our disposition activity in connection with our liquidation, our general and administrative expenses, which are not directly related to the size of the assets we own, have increased as a percentage of our cash flow from operations, and we will continue to incur general and administrative expenses until we have liquidated and dissolved.

All forward-looking statements should be read in light of the risks identified in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission (the “SEC”), as well as the risks identified in Part II, Item 1A herein.

Overview

We were formed on July 12, 2007 as a Maryland corporation that elected to be taxed as a real estate investment trust (“REIT”) beginning with the taxable year ended December 31, 2008 and we intend to continue to operate in such a manner. We conduct our business primarily through our Operating Partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is managed by our advisor, KBS Capital Advisors LLC, pursuant to an advisory agreement. KBS Capital Advisors conducts our operations and manages our remaining real estate property. Our advisor owns 20,000 shares of our common stock. We have no paid employees.

As of September 30, 2022, we owned one office property.

As of September 30, 2022, we had 183,346,918 shares of common stock issued and outstanding.

On November 13, 2019, in connection with a review of potential strategic alternatives available to us, a special committee composed of all of our independent directors (the “Special Committee”) and our board of directors unanimously approved the sale of all of our assets and our dissolution pursuant to the terms of the plan of complete liquidation and dissolution (the “Plan of Liquidation”). The principal purpose of the Plan of Liquidation is to provide liquidity to our stockholders by selling our assets, paying our debts and distributing the net proceeds from liquidation to our stockholders. On March 5, 2020, our stockholders approved the Plan of Liquidation. The Plan of Liquidation is included as an exhibit to this Quarterly Report on Form 10-Q.

Plan of Liquidation

In accordance with the Plan of Liquidation, our objectives are to pursue an orderly liquidation of our company by selling all of our assets, paying our debts and our known liabilities, providing for the payment of unknown or contingent liabilities, distributing the net proceeds from liquidation to our stockholders and winding up our operations and dissolving our company.

Pursuant to the Plan of Liquidation, our board of directors has authorized the following liquidating distributions:

Record Date	Payment Date	Liquidating Distribution Per Share
March 5, 2020	March 10, 2020	\$ 0.75
August 3, 2020	August 7, 2020	\$ 0.25
December 24, 2020	December 30, 2020	\$ 0.40
October 1, 2021	October 5, 2021	\$ 0.50
December 9, 2021	December 14, 2021	\$ 0.20

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

We expect to distribute substantially all of the remaining proceeds from liquidation after the completion of the sale of our remaining real estate property.

Our expectations about the implementation of the Plan of Liquidation and the amount of any additional liquidating distributions that we will pay to our stockholders and when we will pay them are subject to risks and uncertainties and are based on certain estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of any additional liquidating distributions we pay to stockholders may be less than we estimate and the liquidating distributions may be paid later than we predict. There are many factors that may affect the amount of liquidating distributions we will ultimately pay to our stockholders. If we underestimate our existing obligations and liabilities or the amount of taxes, transaction fees and expenses relating to the liquidation and dissolution, or if unanticipated or contingent liabilities arise, the amount of liquidating distributions ultimately paid to our stockholders could be less than estimated. Moreover, the liquidation value will fluctuate over time in response to developments related to our remaining real estate property, in response to the real estate and finance markets, based on the actual liquidation timing and the amount of net proceeds received from the disposition of our remaining asset and due to other factors. Given the uncertainty and current business disruptions as a result of the outbreak of COVID-19 as well as the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue), our completion of the Plan of Liquidation may be materially and adversely impacted and this may have a material effect on the ultimate amount and timing of liquidating distributions received by our stockholders. While we have considered the impact from COVID-19 in our net assets in liquidation presented on the Condensed Consolidated Statement of Net Assets as of September 30, 2022, the extent to which our completion of the Plan of Liquidation may be further affected by COVID-19 or the other factors discussed above depends on future developments, which remain uncertain and cannot be predicted with confidence, including the demand for office space in downtown Los Angeles, where our remaining property is located, which demand has significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home. See “— Market Outlook — Real Estate and Real Estate Finance Markets — COVID-19 Pandemic” for a discussion of the impact of the outbreak of COVID-19 on our business and our liquidation. We can give no assurance regarding the timing of the disposition of our remaining asset, the sale price we will receive for this asset, and the amount or timing of liquidating distributions to be received by our stockholders.

Market Outlook – Real Estate and Real Estate Finance Markets

Volatility in global financial markets and changing political environments can cause fluctuations in the performance of the U.S. commercial real estate markets. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, may result in decreases in cash flows from our remaining property. Further, revenues from our remaining property could decrease due to a reduction in occupancy (caused by factors including, but not limited to, tenant defaults, tenant insolvency, early termination of tenant leases and non-renewal of existing tenant leases), rent deferrals or abatements, tenants being unable to pay their rent and/or lower rental rates. Reductions in revenues from our remaining property would adversely impact the timing of the asset sale and/or the sale price we will receive for our property. Market conditions can change quickly, potentially negatively impacting the value of real estate investments. Most recently, the outbreak of COVID-19 as well as the current economic slowdown, the rising interest rate environment and inflation (or the public perception that any of these events may continue) have had a negative impact on the office real estate market as discussed below. See risks identified in Part II, Item 1A herein.

COVID-19 Pandemic

One of the most significant risks and uncertainties facing us and the real estate industry generally, and in particular office REITs like our company, continues to be the effect of the public health crisis of the COVID-19 pandemic. To date, we have not experienced significant disruptions in our operations from the COVID-19 pandemic, although our completion of the Plan of Liquidation has been delayed. During the nine months ended September 30, 2022, we reduced the estimated liquidation value of our remaining real estate property by \$42.3 million (after estimated closing costs and disposition fees) partly due to changes in leasing projections resulting in lower projected cash flow and a lower projected sale price caused by the impact of the COVID-19 pandemic. During the years ended December 31, 2021 and 2020, we reduced the estimated liquidation value of our real estate portfolio by \$78.1 million (or \$54.6 million after accounting for the decrease in estimated capital expenditures of \$23.5 million that was previously projected to be spent) and \$90.2 million, respectively, due to changes in leasing projections across our portfolio resulting in lower projected cash flow and projected sales prices caused by the impact of the COVID-19 pandemic. In future periods, we may need to recognize additional decreases in the value of our remaining real estate property to the extent leasing projections and the projected sale price declines.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

We cannot predict to what extent economic activity, including the use of and demand for office space, will return to pre-pandemic levels. During 2021 and the first, second and third quarters of 2022, the usage of our assets remained lower than pre-pandemic levels. In addition, we experienced a significant reduction in leasing interest and activity when compared to pre-pandemic levels. See “— Overview – Plan of Liquidation” above.

Liquidity and Capital Resources

As described above under “— Overview — Plan of Liquidation,” on March 5, 2020, our stockholders approved the sale of all of our assets and our dissolution pursuant to the terms of the Plan of Liquidation. We expect to sell all of our assets, pay all of our known liabilities, provide for unknown liabilities and distribute the net proceeds from liquidation to our stockholders. Our principal demands for funds through the completion of our liquidation will be for: the payment of operating expenses, capital expenditures and general and administrative expenses, including expenses in connection with the Plan of Liquidation; and payments of distributions to stockholders pursuant to the Plan of Liquidation. Through the completion of our liquidation, we intend to use our cash on hand and proceeds from the sale of real estate properties as our primary sources of liquidity. To the extent available, we also intend to use cash flow generated by our remaining real estate property.

Our investment in real estate generates cash flow in the form of rental revenues and tenant reimbursements, which are reduced by operating expenditures, the payment of asset management fees and corporate general and administrative expenses. Cash flow from operations from our real estate investment is primarily dependent upon the occupancy level of the property, the net effective rental rates on our leases, the collectibility of rent and operating recoveries from our tenants and how well we manage our expenditures. As of September 30, 2022, our remaining real estate property was 57% occupied.

For the nine months ended September 30, 2022, our cash needs for capital expenditures were met with cash on hand. Operating cash needs during the same period were met with cash flow generated by our real estate investment. We believe that our cash on hand, our cash flow from operations to the extent available and proceeds from the sale of our remaining real estate property will be sufficient to meet our liquidity needs during our liquidation.

Through the completion of our liquidation, we intend to maintain adequate cash reserves for liquidity, capital expenditures and other future capital needs. As of September 30, 2022, the estimated capital expenditures to be incurred by us through the anticipated disposition date for our remaining real estate property were \$2.6 million.

We expect to continue to pay liquidating distribution payments to our stockholders through the completion of our liquidation process and to pay the final liquidating distribution after we sell all of our assets, pay all of our known liabilities and provide for unknown liabilities. At the time of adopting the Plan of Liquidation, we had anticipated completing the orderly liquidation of our company and paying substantially all of our liquidating distributions from the net proceeds from liquidation within 24 months after stockholder approval of the Plan of Liquidation, which occurred on March 5, 2020. Given the uncertainty and business disruptions as a result of the outbreak of COVID-19 and more recently the rising interest rate environment, our completion of the Plan of Liquidation has been delayed. We currently anticipate that we will complete our liquidation by the fourth quarter of 2022. Although we were not able to complete our liquidation within the 24-month period described above, we do not anticipate any material unfavorable tax consequences to our stockholders or to our status as a REIT. For U.S. federal income tax purposes, (i) we did not have any current and accumulated earnings and profits (including any gain) or taxable income or gain for the taxable years ended December 31, 2020 and December 31, 2021 and (ii) we do not anticipate any current and accumulated earnings and profits (including any gain) or taxable income or gain for the taxable year ended December 31, 2022 or in future periods. Our expectations about the amount of future liquidating distributions that we will pay and when we will pay them are based on certain estimates and assumptions, one or more of which may prove to be incorrect. As a result, the actual amount of liquidating distributions we pay to our stockholders may be less than our estimate and the liquidating distributions may be paid later than we predict. See “— Overview — Plan of Liquidation” and “—Market Outlook — Real Estate and Real Estate Finance Markets — COVID-19 Pandemic” for a discussion of the impact of the outbreak of COVID-19 on our business and our liquidation. We do not expect to pay regular monthly distributions during the liquidating process.

We also use our capital resources to make certain payments to our advisor. We paid our advisor fees in connection with the acquisition and origination of our assets and pay our advisor fees in connection with the management and disposition of our assets and for certain costs incurred by our advisor in providing services to us. Among the fees payable to our advisor is an asset management fee. With respect to investments in real estate, we pay our advisor a monthly asset management fee equal to one-twelfth of 0.75% of the amount paid or allocated to acquire the investment, plus the cost of any subsequent development, construction or improvements to the property. This amount includes any portion of the investment that was debt financed and is inclusive of acquisition fees and expenses related thereto. We also continue to reimburse our advisor and our dealer manager for certain stockholder services.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

During the nine months ended September 30, 2022, cash and cash equivalents decreased by \$7.7 million primarily as a result of \$8.9 million of capital expenditure payments and \$4.3 million of corporate expenditures, offset by the net inflows from investment in our remaining real estate property of \$5.7 million.

Pursuant to our stockholders’ approval of the Plan of Liquidation, we adopted the liquidation basis of accounting as of February 1, 2020 (as the approval of the Plan of Liquidation by our stockholders became imminent within the first week of February 2020 based on the results of our solicitation of proxies from our stockholders for their approval of the Plan of Liquidation) and for the periods subsequent to February 1, 2020 in accordance with GAAP. Accordingly, on February 1, 2020, assets were adjusted to their estimated net realizable value, or liquidation value, which represents the estimated amount of cash that we will collect through the disposal of our assets as we carry out our Plan of Liquidation. The liquidation value of our operating property is presented on an undiscounted basis. Estimated costs to dispose of assets and estimated capital expenditures through the anticipated disposition date of the property have been presented separately from the related assets. Liabilities are carried at their contractual amounts due or estimated settlement amounts.

Changes in Net Assets in Liquidation

For the Nine Months September 30, 2022

Net assets in liquidation decreased by approximately \$34.2 million from \$205.5 million on December 31, 2021 to \$171.3 million on September 30, 2022. The primary reason for the decrease in net assets in liquidation was due to a decrease in the liquidation value our remaining real estate property located in Los Angeles, California (“Union Bank Plaza”). The estimated net proceeds from the sale of Union Bank Plaza decreased by approximately \$42.3 million (after estimated closing costs and disposition fees) as the liquidation value was adjusted based on the contractual sales price less estimated closing credits as the property is currently under contract to sell. However, the decrease in the estimated net realizable value of real estate and the corresponding impact to net assets in liquidation was offset by a decrease in estimated capital expenditures of \$8.0 million primarily due to a reduction in tenant improvement costs projected through the date of sale of Union Bank Plaza. See “— Subsequent Events – Amended Purchase and Sale Agreement for Sale of Union Bank Plaza.” As of September 30, 2022, Union Bank Plaza was 57% occupied. Demand for office space in downtown Los Angeles significantly declined as a result of the COVID-19 pandemic, with employees continuing to work from home. In addition, with rising interest rates, prospective buyers were challenged to obtain favorable financing, which along with the lower demand for office space, impacted the projected cash flows of the property and the purchase price prospective buyers were willing to pay for the property.

There is inherent uncertainty with these estimates and projections, and they could change materially based on the timing of the sale of Union Bank Plaza, the performance of Union Bank Plaza and any changes in the underlying assumptions of the projected cash flows from this property.

Results of Operations

In light of the adoption of liquidation basis accounting as of February 1, 2020 and our liquidation pursuant to the Plan of Liquidation, the results of operations for the current year period are not comparable to the prior year period. The sale of assets under the Plan of Liquidation has had a significant impact on our operations. Changes in liquidation values of our assets are discussed above under “— Changes in Net Assets in Liquidation.” See “— Overview — Plan of Liquidation” and “— Market Outlook — Real Estate and Real Estate Finance Markets — COVID-19 Pandemic” for a discussion of the impact of the outbreak of COVID-19 on our business and our liquidation.

Due to the adoption of the Plan of Liquidation, we are no longer reporting funds from operations and modified funds from operations as we no longer consider these to be key performance measures.

Critical Accounting Policies and Estimates

Our consolidated interim financial statements and condensed notes thereto have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgements, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements. With different estimates or assumptions, materially different amounts could be reported in our financial statements. A discussion of the accounting policies that management considers critical in that they involve significant management judgements, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC. There have been no significant changes to our policies during 2022.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Subsequent Events

Amended Purchase and Sale Agreement for Sale of Union Bank Plaza

On September 15, 2010, we, through an indirect wholly owned subsidiary, purchased Union Bank Plaza, a 40-story office building located in Los Angeles, California containing 701,888 rentable square feet on approximately 3.7 acres of land.

On July 20, 2022, we, through an indirect wholly owned subsidiary, entered into a purchase and sale agreement and escrow instructions (the “Agreement”) for the sale of Union Bank to WB Union Plaza Holdings LLC (the “Purchaser”), an affiliate of Waterbridge Capital. The Purchaser is unaffiliated with us or our advisor. Pursuant to the Agreement, the sale price for Union Bank Plaza is \$155.0 million, subject to prorations and adjustments as provided in the Agreement.

On October 14, 2022, we, through an indirect wholly owned subsidiary, entered into an amendment to the Agreement (the “Amended Agreement”) with the Purchaser to extend the closing date to November 7, 2022. On October 31, 2022, the Purchaser further extended the closing date to November 15, 2022 and on November 9, 2022, the Purchaser exercised its final extension option pursuant to the Amended Agreement and extended the closing date to November 30, 2022. The Purchaser would be obligated to purchase Union Bank Plaza only after satisfaction of agreed upon closing conditions. In certain circumstances, if the Purchaser fails to complete the acquisition, it may forfeit up to \$10.5 million of earnest money.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

None.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the risks discussed below, please see the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC.

Inflation and increased interest rates may adversely affect the completion of our Plan of Liquidation.

Although inflation has not materially impacted our operations in the recent past, inflation is at a 40-year high and beginning in March of 2022, the Federal Reserve began raising the federal funds rate in an effort to curb inflation. The Federal Reserve's action, coupled with other macroeconomic factors, may trigger a recession in the United States, globally, or both. Increases in the costs of owning and operating our remaining real estate property due to inflation could reduce our net operating income during liquidation to the extent such increases are not reimbursed or paid by our tenants, impact the timing of the sale of our remaining real estate property and/or impact the sale price we receive for the property, which could reduce the amount of liquidating distributions we pay to our stockholders. In addition, due to rising interest rates, it may be more difficult for potential purchasers of our remaining real estate property to obtain financing.

In addition, tenants and potential tenants of our properties may be adversely impacted by inflation and rising interest rates, which could negatively impact our tenants' ability to pay rent and the demand for our properties. Such adverse impacts on our tenants may cause increased vacancies, which may add pressure to lower rents and increase our expenditures for re-leasing.

Elevated market and economic volatility due to adverse economic and geopolitical conditions, such as the war in Ukraine, health crises or dislocations in the credit markets, could have a material adverse effect on our results of operations, financial condition and ability to pay liquidating distributions.

Our business and the completion of our Plan of Liquidation may be adversely affected by market and economic volatility experienced by the U.S. and global economies, the U.S. office market as a whole and/or the market in which our remaining real estate property is located. Such adverse economic and geopolitical conditions may be due to, among other issues, increased labor market challenges impacting the recruitment and retention of employees, rising inflation and interest rates, volatility in the public equity and debt markets, and international economic and other conditions, including pandemics, geopolitical instability (such as the war in Ukraine), sanctions and other conditions beyond our control. These current conditions may adversely affect the completion of our Plan of Liquidation and amount of liquidating distributions we pay to our stockholders as a result of one or more of the following, among other potential consequences:

- the financial condition of our tenants may be adversely affected, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, lack of funding, operational failures or for other reasons;
- potential changes in customer behavior, such as the continued social acceptance, desirability and perceived economic benefits of work-from-home arrangements, resulting from the COVID-19 pandemic, which could materially and negatively impact the future demand for office space, resulting in slower overall leasing and an adverse impact to our operations and the valuation of our remaining real estate property;
- significant job losses may occur, which may decrease demand for our office space, causing market rental rates and our remaining property's value to be negatively impacted;
- reduction in the value of our remaining real estate property may limit our ability to dispose of it at an attractive price or may make it more difficult for potential purchasers of our remaining real estate property to obtain debt financing secured by our property; and
- the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits or the institutions or assets in which we have made short-term investments, a dislocation of the markets for our short-term investments, increased volatility in market rates for such investments or other factors.

PART II. OTHER INFORMATION (CONTINUED)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.
- b) Not applicable.
- c) On November 1, 2021, in connection with our liquidation pursuant to the Plan of Liquidation, our board of directors approved the termination of our share redemption program effective as of November 22, 2021. We did not redeem or repurchase any shares of our common stock during the nine months ended September 30, 2022.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

PART II. OTHER INFORMATION (CONTINUED)

Item 6. Exhibits

Ex.	Description
2.1	Plan of Complete Liquidation and Dissolution of the Company dated as of March 5, 2020, incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 10-K, filed March 6, 2020
3.1	Second Articles of Amendment and Restatement of the Company, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed May 28, 2008
3.2	Articles of Amendment of the Company, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2020, filed May 15, 2020
3.3	Fourth Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 22, 2016
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 1 to the Company's Registration Statement on Form S-11, Commission File No. 333-146341, filed February 19, 2008
10.1	Purchase and Sale Agreement and Escrow Instructions by and between KBSII 445 South Figueroa LLC and WB Union Bank Plaza Holdings LLC, dated July 20, 2022
10.2	First Amendment to Purchase and Sale Agreement and Escrow Instructions by and between KBSII 445 South Figueroa, LLC and WB Union Plaza Holdings LLC, dated October 14, 2022
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KBS REAL ESTATE INVESTMENT TRUST II, INC.

Date: November 9, 2022

By: /s/ CHARLES J. SCHREIBER, JR.

Charles J. Schreiber, Jr.

*Chairman of the Board,
Chief Executive Officer, President and Director*
(principal executive officer)

Date: November 9, 2022

By: /s/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer, Treasurer and Secretary
(principal financial officer)

