Kennedy-Wilson Holdings, Inc.
Form 10-Q
August 09, 2012
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

Or

o 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 001-33824

Kennedy-Wilson Holdings, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	26-0508760 (I.R.S. Employer Identification No.)

9701 Wilshire Blvd., Suite 700
Beverly Hills, CA 90212
(Address of principal executive offices)
Registrant's telephone number, including area code:
(310) 887-6400

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

(See definition of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large Accelerated Filer o Accelerated Filer x

Non-Accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

The number of shares of common stock outstanding as of August 3, 2012 was 63,742,598.

Table of Contents

Index

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, a intended to identify forward-looking statements. These statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results, to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. These risks and uncertainties may include these factors and the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2011. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filing with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	$86,494,000	$115,926,000
Accounts receivable	3,465,000	3,114,000
Accounts receivable — related parties	16,126,000	15,612,000
Notes receivable	11,420,000	7,938,000
Notes receivable — related parties	40,101,000	33,269,000
Real estate, net	112,770,000	115,880,000
Investments in joint ventures ($51,776,000 and $51,382,000 carried at fair value as of June 30, 2012 and December 31, 2011, respectively)	360,781,000	343,367,000
Loan pool participations	121,328,000	89,951,000
Marketable securities	10,326,000	23,005,000
Other assets	20,042,000	20,749,000
Goodwill	23,965,000	23,965,000
Total assets	$806,818,000	$792,776,000
Liabilities and equity		
Liabilities		
Accounts payable	$672,000	$1,798,000
Accrued expenses and other liabilities	22,134,000	24,262,000
Accrued salaries and benefits	4,717,000	14,578,000
Deferred tax liability	20,592,000	18,437,000
Senior notes payable	249,411,000	249,385,000
Mortgage loans payable	30,748,000	30,748,000
Borrowings under line of credit	34,189,000	—
Junior subordinated debentures	40,000,000	40,000,000
Total liabilities	402,463,000	379,208,000
Equity		
Cumulative preferred stock, $0.0001 par value: 1,000,000 shares authorized $1,000 per share liquidation preference:		
6.00% Series A, 100,000 shares issued and outstanding as of June 30, 2012 and December 31, 2011, mandatorily convertible on May 19, 2015	—	—
6.45% Series B, 32,550 shares issued and outstanding as of June 30, 2012 and December 31, 2011, mandatorily convertible on November 3, 2018	—	—
Common stock, $0.0001 par value: 125,000,000 shares authorized, 56,134,646 and 52,989,646 shares issued and 55,117,598 and 51,825,998 shares outstanding as of June 30, 2012 and December 31, 2011, respectively	6,000	5,000

Additional paid-in capital	405,380,000	407,335,000
Retained earnings (accumulated deficit)	(2,152,000)	9,708,000
Accumulated other comprehensive income	9,501,000	5,035,000
Common stock held in treasury, at cost, $0.0001 par value, 1,017,048 and 1,163,648 held at June 30, 2012 and December 31, 2011, respectively	(9,856,000)	(11,848,000)
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	402,879,000	410,235,000
Noncontrolling interests	1,476,000	3,333,000
Total equity	404,355,000	413,568,000
Total liabilities and equity	$806,818,000	$792,776,000

See accompanying notes to consolidated financial statements.

1

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue				
Management and leasing fees	$4,101,000	$2,346,000	$7,257,000	$4,795,000
Management and leasing fees — related party	6,131,000	2,600,000	11,716,000	5,162,000
Commissions	1,370,000	1,962,000	2,036,000	3,513,000
Commissions — related party	1,031,000	647,000	1,984,000	1,657,000
Sale of real estate	—	—	—	417,000
Rental and other income	1,477,000	955,000	2,947,000	1,693,000
Total revenue	14,110,000	8,510,000	25,940,000	17,237,000
Operating expenses				
Commission and marketing expenses	1,340,000	736,000	2,305,000	1,373,000
Compensation and related expenses	10,294,000	8,257,000	19,294,000	16,089,000
Cost of real estate sold	—	—	—	397,000
General and administrative	4,888,000	3,040,000	8,557,000	5,853,000
Depreciation and amortization	977,000	463,000	1,914,000	897,000
Rental operating expenses	921,000	642,000	1,791,000	1,053,000
Total operating expenses	18,420,000	13,138,000	33,861,000	25,662,000
Equity in joint venture income	5,108,000	2,551,000	10,624,000	7,807,000
Interest income from loan pool participations and notes receivable	2,876,000	2,241,000	3,414,000	4,787,000
Operating income	3,674,000	164,000	6,117,000	4,169,000
Non-operating income (expense)				
Interest income	25,000	152,000	55,000	190,000
Interest income — related party	1,182,000	249,000	2,269,000	477,000
Remeasurement gain	—	6,348,000	—	6,348,000
Gain on sale of marketable securities	—	—	2,931,000	—
Realized foreign currency exchange gain (loss)	38,000	—	(74,000)	—
Interest expense	(7,054,000)	(6,228,000)	(13,224,000)	(7,757,000)
(Loss) income from continuing operations before benefit from (provision for) income taxes	(2,135,000)	685,000	(1,926,000)	3,427,000
Benefit from (provision for) income taxes	1,138,000	(172,000)	2,621,000	(835,000)
(Loss) income from continuing operations	(997,000)	513,000	695,000	2,592,000
Discontinued Operations				
Income from discontinued operations, net of income taxes	—	—	2,000	—
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—
Net (loss) income	(997,000)	513,000	485,000	2,592,000
Net income attributable to the noncontrolling interests	(128,000)	(299,000)	(2,926,000)	(1,337,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(1,125,000)	214,000	(2,441,000)	1,255,000
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	(2,636,000)	(4,072,000)	(4,672,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,161,000)	$(2,422,000)	$(6,513,000)	$(3,417,000)

Basic and diluted loss per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders				
Continuing operations	$(0.06)	$(0.06)	$(0.12)	$(0.09)
Discontinued operations, net of income taxes	$—	$—	$—	$—
Earning per share - basic and diluted [(a)]	$(0.06)	$(0.06)	$(0.13)	$(0.09)
Weighted average number of common shares outstanding	51,401,674	39,118,313	51,280,986	39,015,395
Dividends declared per common share	$0.05	$0.04	$0.10	$0.04

[(a)] EPS amounts may not add due to rounding.
See accompanying notes to consolidated financial statements.

2

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net (loss) income	$(997,000)	$513,000	$485,000	$2,592,000
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on marketable securities	(1,998,000)	—	3,465,000	—
Unrealized foreign currency translation gain (loss)	1,688,000	2,161,000	(1,179,000)	550,000
Unrealized forward contract foreign currency (loss) gain	(1,808,000)	(1,067,000)	2,180,000	(343,000)
Total other comprehensive (loss) income for the period	(2,118,000)	1,094,000	4,466,000	207,000
Comprehensive (loss) income	(3,115,000)	1,607,000	4,951,000	2,799,000
Comprehensive income attributable to noncontrolling interests	(128,000)	(299,000)	(2,926,000)	(1,337,000)
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(3,243,000)	$1,308,000	$2,025,000	$1,462,000

See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statement of Equity
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Tota
	Shares	Amount	Shares	Amount						
Balance at December 31, 2011	132,550	$—	51,825,998	$5,000	$407,335,000	$9,708,000	$5,035,000	$(11,848,000)	$3,333,000	$41
Repurchase of 3,400 common shares	—	—	(3,400)	—	—	—	—	(47,000)	—	(47,
Repurchase of 501,500 warrants	—	—	—	—	(1,395,000)	—	—	—	—	(1,3
Common stock issued under Amended and Restated 2009 Equity Participation Plan	—	—	3,145,000	1,000	—	—	—	—	—	1,00
Stock-based compensation	—	—	—	—	2,078,000	—	—	—	—	2,07
Other comprehensive income:										
Unrealized gain on marketable securities, net of tax of $2,310,000	—	—	—	—	—	—	3,465,000	—	—	3,46
Unrealized foreign currency translation loss, net of tax of $800,000	—	—	—	—	—	—	(1,179,000)	—	—	(1,1
Unrealized forward contract foreign currency gain, net of tax of $1,454,000	—	—	—	—	—	—	2,180,000	—	—	2,18
Preferred stock dividends	—	—	—	—	—	(4,050,000)	—	—	—	(4,0
	—	—	—	—	—	(5,347,000)	—	—	—	(5,3

Common stock dividends									
Accretion of preferred stock issuance costs	—	——	—	22,000	(22,000)	—	—	—	—
Net (loss) income	—	——	—	—	(2,441,000)	—	—	2,926,000	485,
Acquisition of noncontroling interests (Note 12)	—	—150,000	—	(2,660,000)	—	—	2,039,000	148,000	(473
Distributions to noncontrolling interests	—	——	—	—	—	—	—	(4,931,000)	(4,9
Balance at June 30, 2012	132,550	$—55,117,598	$6,000	$405,380,000	$(2,152,000)	$9,501,000	$(9,856,000)	$1,476,000	$40

See accompanying notes to consolidated financial statements.

4

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$485,000	$2,592,000
Adjustments to reconcile net income to net cash used in operating activities:		
Net loss (gain) from sale of real estate	212,000	(20,000)
Remeasurement gain	—	(6,348,000)
Gain from sale of marketable securities	(2,931,000)	—
Depreciation and amortization	1,914,000	897,000
(Benefit from) provision for deferred income taxes	(809,000)	742,000
Amortization of deferred loan costs	625,000	299,000
Amortization of discount and accretion of premium on issuance of the senior notes payable	26,000	13,000
Equity in joint venture income	(10,624,000)	(7,807,000)
Accretion of interest income on loan pool participations and notes receivable	(3,224,000)	(4,787,000)
Operating distributions from joint ventures	15,248,000	2,545,000
Operating distributions from loan pool participation	22,106,000	835,000
Stock based compensation	2,078,000	2,465,000
Change in assets and liabilities:		
Accounts receivable	(351,000)	(283,000)
Accounts receivable—related parties	(514,000)	154,000
Other assets	4,000	(3,357,000)
Accounts payable	(1,126,000)	(720,000)
Accrued expenses and other liabilities	(3,357,000)	6,666,000
Accrued salaries and benefits	(9,861,000)	(6,762,000)
Net cash provided by (used in) operating activities	9,901,000	(12,876,000)
Cash flows from investing activities:		
Additions to notes receivable	(4,466,000)	—
Collections of notes receivable	1,301,000	486,000
Additions to notes receivable—related parties	(15,925,000)	(8,322,000)
Collections of notes receivable—related parties	9,093,000	3,479,000
Net proceeds from sale of real estate	17,905,000	416,000
Purchases of and additions to real estate	(15,817,000)	(889,000)
Proceeds from sale of marketable securities	21,386,000	—
Distributions from joint ventures	29,622,000	11,166,000
Contributions to joint ventures	(49,469,000)	(73,667,000)
Contributions to loan pool participations	(49,925,000)	—
Net cash used in investing activities	(56,295,000)	(67,331,000)
Cash flow from financing activities:		
Issuance of senior notes payable	—	249,344,000
Repayment of notes payable	—	(24,783,000)
Borrowings under line of credit	45,000,000	19,000,000
Repayment of line of credit	(10,811,000)	(46,750,000)
Borrowings under mortgage loans payable	—	17,077,000
Repayment of mortgage loans payable	—	(30,109,000)
Debt issue costs	(1,026,000)	(7,181,000)

Issuance of common stock	—	51,360,000
Repurchase of common stock	(47,000)	(36,000)
Repurchase of warrants	(1,395,000)	(1,312,000)
Dividends paid	(8,714,000)	(4,050,000)
Acquisition of noncontrolling interests	(473,000)	—
Contributions from noncontrolling interests	—	1,488,000
Distributions to noncontrolling interests	(4,931,000)	(516,000)
Net cash provided by financing activities	17,603,000	223,532,000
Effect of currency exchange rate changes on cash and cash equivalents	(641,000)	925,000
Net change in cash and cash equivalents	(29,432,000)	144,250,000
Cash and cash equivalents, beginning of period	115,926,000	46,968,000
Cash and cash equivalents, end of period	$86,494,000	$191,218,000

See accompanying notes to consolidated financial statements.

Table of Contents

	Six months ended June 30, 2012	2011
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gain on marketable securities, net of tax of $2,310,000	$(3,465,000)	$—
Accretion of preferred stock issuance costs	22,000	22,000
Dividends declared on common stock	2,756,000	—
During the six months ended June 30, 2011, as a result of the acquisition of a 100% interest in an approximate 200,000 square foot office portfolio, real estate increased by $17,680,000, accounts receivable by $44,000, other assets by $50,000, accounts payable increased by $87,000, accrued expenses and other liabilities increased by $991,000 and mortgage loans payable increased by$16,000,000	—	(696,000)
During the six months ended June 30, 2011, as a result of the sale of a controlling interest in a piece of land in Kent, Washington, real estate decreased $0.7 million.	—	696,000

	Six months ended June 30, 2012	2011
Supplemental cash flow information:		
Cash paid for:		
Interest	$13,821,000	$3,082,000
Interest capitalized	1,359,000	841,000
Income taxes	85,000	—

See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

NOTE 1—BASIS OF PRESENTATION

Kennedy-Wilson Holdings, Inc.’s (together with its wholly owned and controlled subsidiaries,"we," "us," "our," "the Company" or “Kennedy Wilson”) unaudited interim consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles used in the preparation of Kennedy Wilson’s annual financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of Kennedy Wilson, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2012 and 2011 have been included. The results of operations for these periods are not necessarily indicative of results that might be expected for the full year ending December 31, 2012. For further information, your attention is directed to the footnote disclosures found in Kennedy Wilson’s Annual Report on Form 10-K for the year ended December 31, 2011.

The consolidated financial statements include the accounts of Kennedy Wilson and its wholly owned and controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities (VIEs) as defined in the FASB Accounting Standards Codification (ASC) Subtopic 810-10 and to assess whether it is the primary beneficiary of such entities. If the determination is made that Kennedy Wilson is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with the ASC Subtopic 810-10.The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests.

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

REVENUE RECOGNITION—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of Kennedy Wilson's real estate funds and loan pool participations based on the cumulative performance of the fund and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, Kennedy Wilson calculates the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset manager or (b) negative performance that would cause the amount due to Kennedy Wilson to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. Substantially all of the performance fees are recognized in management and leasing fees and substantially all of the carried interest is recognized in equity in joint venture income in our consolidated statements of operations. Total performance fees recognized through June 30, 2012 that may be reversed in future periods if there is negative fund or loan pool performance totaled $7.3 million. Performance fees accrued as of June 30, 2012 and December 31, 2011 were $7.3 million and $4.2 million, respectively, and are included in accounts receivable—related parties in the accompanying consolidated balance sheet.

INVESTMENTS IN LOAN POOL PARTICIPATIONS AND NOTES RECEIVABLE—Interest income from investments in loan pool participations and notes receivable are recognized on a level yield basis under the provisions of Loans and Debt Securities Acquired with Deteriorated Credit Quality ASC Subtopic 310-30, where a level yield model is utilized to determine a yield rate which, based upon projected future cash flows, accretes interest income over the estimated holding period. In the event that the present value of those future cash flows is less than net book value, a loss would be immediately recorded. When the future cash flows of a note cannot be reasonably estimated, cash payments are applied to the cost basis of the note until it is fully recovered before any interest income is recognized.

ACCOUNTS RECEIVABLE—Accounts receivable are recorded at the contractual amount as determined by the underlying agreements and do not bear interest. An allowance for doubtful accounts is provided when the Company determines there are probable credit losses in the Company's existing accounts receivable and is determined based on historical experience. The Company reviews its accounts receivable for probable credit losses on a quarterly basis. As of June 30, 2012, the Company had an immaterial allowance for doubtful accounts and during the three and six months ended June 30, 2012 and 2011 recorded no provision for doubtful accounts.

INVESTMENTS IN MARKETABLE SECURITIES—Investments in marketable securities are categorized as available-for-sale in accordance with the provision of Investments - Debt and Equity Securities ASC Subtopic 320-10. Available for-sale securities are carried at fair value with period unrealized gains and losses included in other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary as defined by ASC 320-10-35 are included in net income. The factors considered in determining the realized and unrealized gains and losses include current quoted prices in the active market and the severity and duration of the market fluctuation among other things. Dividends on securities classified as available-for-sale are included in interest and other income on the accompanying statement of operations.

FOREIGN CURRENCIES—The financial statements of subsidiaries located outside the U.S. are measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The foreign currencies include the Euro, the British pound sterling, and the Japanese yen. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in the consolidated statement of equity as a component of accumulated other comprehensive income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES—All derivative instruments are recognized as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value of cash flow hedges or net investment hedges are recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in the item being hedged until the hedged item affects earnings. Changes in fair value for fair value hedges are recognized in earnings.

RECENT ACCOUNTING PRONOUNCEMENTS—In May 2011, the FASB issued Accounting Standards Codification (ASC) Update No. 2011-04, Fair Value Measurement - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in US GAAP and IFRS. Update No. 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Update 2011-04 is intended to result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of this update did not have a material impact on the Company's financial statements.

In June 2011, the FASB issued Accounting Standards Codification (ASC) Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Update No. 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Update 2011-05 requires an entity to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Kennedy Wilson adopted this update effective January 1, 2012 and, as a result, have included a separate consolidated statement of comprehensive income.

NOTE 3—NOTES RECEIVABLE

During the six months ended June 30, 2012, Kennedy Wilson advanced an additional $3.9 million on a note receivable to KW Property Fund II, LP, an equity method investment and related party. Other limited partners have also previously made advances to KW Property Fund II, LP. During the six months ended June 30, 2012, Kennedy Wilson

Property Services Equity II, Inc., a wholly-owned subsidiary of Kennedy Wilson, acquired from certain limited partners their outstanding notes receivable with a balance of $11.8 million. As of June 30, 2012, the note receivable due from KW Property Fund II, LP to the Company had an aggregate outstanding balance of $38.4 million and bears interest at a rate of 15%. The interest recognized on these notes are included in interest income - related party in the accompanying consolidated statements of operations.

In May 2012, Kennedy Wilson issued and advanced $4.3 million, through a promissory note, to an unrelated third party, secured by a hotel in San Diego, California. The note bears interest at a rate of 10.75%, is interest only, and is due on April 30, 2013. The interest recognized on this note is included in interest income in the accompanying consolidated statements of operations.

During the six months ended June 30, 2012, Kennedy Wilson advanced an additional $0.5 million to an unrelated party and collected $1.2 million in principal repayments. The note bears interest at a rate of 12% and is secured by a 16-unit condominium property in Los Angeles, California and principal repayments are due upon the sale of each condominium unit. The note had an outstanding balance of $5.4 million as of June 30, 2012. The interest recognized on this note is included in interest income in the accompanying consolidated statements of operations.

During the six months ended June 30, 2012, KW Property Fund I, L.P., an equity method investment and related party, repaid in full its $8.1 million outstanding balance to Kennedy Wilson. The interest recognized on this note is included in interest income - related party in the accompanying consolidated statements of operations.

During the six months ended June 30, 2012, Kennedy Wilson received $1.0 million in principal repayment on its loan to 5th and Madison, LLC, an equity method investment and related party. The note had an outstanding balance of $1.7 million as of June 30, 2012. The interest recognized on this note is included in interest income - related party in the accompanying consolidated statements of operations.

NOTE 4—REAL ESTATE

During the six months ended June 30, 2012, Kennedy Wilson purchased a medical office building in Rancho Mirage, California for $15.1 million. The building was acquired as a result of a foreclosure in one of the loan pools in which Kennedy Wilson has a 15% interest. The purchase was structured in order to facilitate the sale of the building to a third party. Within two weeks of the purchase, Kennedy Wilson sold it to a third party for $15.2 million. As a result of this transaction, a net gain of $0.1 million has been recorded and included in the accompanying consolidated statements of operations for the six months ended June 30, 2012.

Additionally, during the six months ended June 30, 2012, Kennedy Wilson sold a hotel in Palm Springs, CA for $2.9 million. The property was acquired as a result of a foreclosure on one of the loans in the Company's consolidated loan pools. The original basis upon acquisition from the loan pool was $3.0 million. The total income accreted and collected on this property while it was in the loan pool was $0.2 million and upon foreclosure the fair value basis was $3.3 million. The sale resulted in a $0.3 million net loss which is recorded in the accompanying consolidated statements of operations for the six months ended June 30, 2012.

NOTE 5—INVESTMENTS IN JOINT VENTURES

Kennedy Wilson has a number of joint venture interests, generally ranging from 5% to approximately 50%, that were formed to acquire, manage, and/or sell real estate and invest in loan pools and discounted loan portfolios. Kennedy Wilson has significant influence over these entities, but not control, and accordingly, these investments are accounted for under the equity method. The Company also accounts for two investments which are more than 50% owned under the equity method and they are further discussed below.

The Company determines the appropriate accounting method with respect to all investments which are not VIE's based on the control-based framework (controlled entities are consolidated) provided by the consolidations guidance in ASC Topic 810. The Company's determination considers specific factors sited under ASC 810-20 “Control of partnerships and similar entities” which presumes that control is held by the general partner (and managing member equivalents in LLC's). Limited partners substantive participation rights may overcome this presumption of control. The Company accounts for joint ventures it is deemed to not control using the equity method of accounting while controlled entities are consolidated.

During the six months ended June 30, 2012, the Company increased its ownership interest to 67% from 5% in KW Property Fund II, LP through the acquisition of certain limited partner interests previously discussed in Note 3. The limited partners as members of the oversight board have the ability to direct and control key decision making over the partnership and therefore have substantive participating rights that overcome the presumption of control by the Company as the general partner. Despite increasing its ownership interest to 67%, the Company remains precluded from having a seat on the oversight board that has the ability to direct and control key decision making over the partnership thus giving them substantive participating rights. The Company concluded that it does not control KW Property Fund II, LP and will continue to account for its interest in the entity as an equity method investment. At June 30, 2012, the Company's equity investment in KW Property Fund II, LP was $2.9 million.

In addition, during the six months ended June 30, 2012, the Company, as a member, acquired a 90% interest in a joint venture, which owns a retail property in Boise, Idaho. Due to certain voting rights, control does not rest with the managing member nor with the other members and as such, neither party has control. Since the Company concluded that it does not control the entity despite its 90% ownership interest, it will account for its interest as an equity method investment. At June 30, 2012, the Company's investment in this joint venture was $1.5 million.

During the six months ended June 30, 2012, Kennedy Wilson made $49.5 million in contributions to new and existing joint venture investments. Of this amount, $21.9 million was invested in four new joint ventures which acquired four multifamily properties located in the Western U.S. Kennedy Wilson also invested $15.8 million in a new joint venture which acquired the Company's first multifamily asset in Ireland. Kennedy Wilson also contributed $3.0 million to a joint venture to pay off existing debt. Additionally, Kennedy Wilson received $44.9 million in operating and investing distribution from its joint ventures of which $29.5 million was due to the sale of four multifamily properties located in the Western U.S.

Kennedy Wilson has determined that it has investments in four variable interest entities as of June 30, 2012 and has concluded that Kennedy Wilson is not the primary beneficiary of any of the investments. As of June 30, 2012, the variable interest entities had assets totaling $595.7 million with Kennedy Wilson’s exposure to loss as a result of its interests in these variable interest entities totaling $116.6 million related to its equity contributions. In addition, as of June 30, 2012, Kennedy Wilson had $4.8 million in the form of loan guarantees that represented 1% of the mortgage loans of the underlying variable interest entities.

As of June 30, 2012, Kennedy Wilson has unfulfilled capital commitments totaling $6.3 million to its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of Kennedy Wilson capital commitment obligations.

Kennedy Wilson has certain guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately $24.1 million as of June 30, 2012. The guarantees expire through 2015 and Kennedy Wilson’s performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds of the property. Based upon Kennedy Wilson’s evaluation of guarantees under Estimated Fair Value of Guarantees ASC Subtopic 460-10, the estimated fair value of guarantees made as of June 30, 2012 and December 31, 2011 is immaterial.

NOTE 6—INVESTMENT IN LOAN POOL PARTICIPATION

In June 2012, Kennedy Wilson, along with an equity method investee and related party, acquired a pool of two performing loans totaling $41.6 million in unpaid principal balance. The loans are secured by two office buildings in Southern California. The amounts contractually due as of June 30, 2012 are $41.6 million. Kennedy Wilson expects to accrete $0.9 million in interest income from this loan pool participation over the estimated collection period. During the three months ended June 30, 2012, Kennedy Wilson recognized $0.2 million of interest income from this loan pool participation in the accompanying consolidated statements of operations.

In April 2012, Kennedy Wilson acquired a participation in a loan portfolio totaling $43.4 million in unpaid principal balance. The loan portfolio is comprised of nine loans secured by seven retail properties located in the Western United States. The unpaid principal balance of the loans is $29.2 million as of June 30, 2012 due to loan resolutions. Kennedy Wilson expects to accrete $2.5 million in interest income from this loan pool participation over the estimated collection period. During the three months ended June 30, 2012, Kennedy Wilson recognized $0.8 million of interest income from this loan pool participation in the accompanying consolidated statements of operations.

In 2011, Kennedy Wilson, along with institutional partners, acquired a loan portfolio consisting of 58 performing loans with 24 borrowers with an unpaid principal balance of $2.1 billion, at time of purchase, secured by real estate primarily located in the United Kingdom (the “UK Loan Pool”). The 58 loans were secured by more than 170 properties comprised of the following product types: office, multifamily, retail, industrial, hotel and land. As of June 30, 2012 the unpaid principal balance of the loans was $1.4 billion due to loan resolutions of $689.6 million through June 30, 2012, representing 33% of the pool. Kennedy Wilson expects to accrete $27.3 million in interest income from loan pool participations over the total estimated collection period.

During the three and six months ended June 30, 2012, Kennedy Wilson recognized $2.0 million and $3.8 million, respectively, of interest income from the UK Loan Pool participation in the accompanying consolidated statements of operations.

During the three and six months ended June 30, 2012, Kennedy Wilson recognized $1.4 million in loss and $0.7 million in gains, respectively from foreign currency translation adjustments from its investment in the UK Loan Pool. The foreign currency gain and loss is included in other comprehensive income in the accompanying consolidated statement of equity and consolidated statements of comprehensive (loss) income.

In August 2011, Kennedy Wilson, in partnership with a bank, acquired a loan portfolio with deteriorated credit quality totaling $44.9 million in unpaid principal balance. The loan portfolio was comprised of nine nonperforming loans secured by eight retail properties located in Southern California. As of June 30, 2012, all the loans in this loan pool have been resolved. During the three and six months ended June 30, 2012, Kennedy Wilson recognized an immaterial amount and $0.1 million, respectively, of interest

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

income from this loan pool participation in the accompanying consolidated statements of operations.
In 2010, Kennedy Wilson, in partnership with a bank, acquired two loan portfolios with deteriorated credit quality. The loan portfolios, which were acquired from a regional bank, are comprised of loans secured by residential, hotel, retail, office, land, multifamily and other assets predominantly located in Southern California. The amount contractually due under the terms of the notes as of June 30, 2012 is $109.6 million. As of June 30, 2012, Kennedy Wilson expects to accrete $10.7 million in interest income from loan pool participations over the total estimated collection period. During the three and six months ended June 30, 2012 Kennedy Wilson recognized a reduction of $0.4 million and $2.0 million, respectively in accretion in the loan pool due to an increase in the estimated resolution periods as well as foreclosure on certain underlying real estate collateral. The accretion adjustment is included in interest income in the accompanying consolidated statement of operations.
During the the three and six months ended June 30, 2012, Kennedy Wilson recognized $2.6 million and $2.9 million of interest income from loan pool participations in the accompanying consolidated statement of operations. During the three and six months ended June 30, 2011, Kennedy Wilson recognized $1.8 million and $3.9 million of interest income from loan pool participations in the accompanying consolidated statement of operations.

NOTE 7—MARKETABLE SECURITIES

During the six months ended June 30, 2012, Kennedy Wilson sold a portion of its marketable securities and recognized a gain on the sale of $2.9 million, including foreign currency effects, which is included in the accompanying consolidated statements of operations.
At June 30, 2012, the remaining marketable securities had a cost basis of $11.5 million and a fair value of $10.3 million. The unrealized loss of $1.2 million is included in accumulated other comprehensive income in the accompanying consolidated statement of equity and other comprehensive (loss) income in the consolidated statements of comprehensive (loss) income.

NOTE 8—FAIR VALUE MEASUREMENTS AND THE FAIR VALUE OPTION

FAIR VALUE MEASUREMENTS—The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Marketable securities	$10,326,000	$—	$—	$10,326,000
Investment in joint ventures	—	—	51,776,000	51,776,000
Currency forward contract	—	(727,000)	—	(727,000)
	$10,326,000	$(727,000)	$51,776,000	$61,375,000

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Marketable securities	$23,005,000	$—	$—	$23,005,000
Investment in joint ventures	—	—	51,382,000	51,382,000
	$23,005,000	$—	$51,382,000	$74,387,000

Kennedy Wilson's investment in marketable securities are classified as available-for-sale and are stated at fair value based upon observed market prices (Level 1 in the fair value hierarchy). Unrealized changes in value on these securities are included in accumulated other comprehensive income.

The following table presents changes in Level 3 investments for the six months ended June 30, 2012 and 2011, respectively:

11

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Beginning balance	$51,139,000	$34,686,000	$51,382,000	$34,654,000
Unrealized and realized gains	119,000	3,377,000	87,000	3,377,000
Unrealized and realized losses	—	(2,356,000)	—	(2,274,000)
Contributions	2,483,000	9,282,000	2,514,000	9,282,000
Distributions	(1,965,000)	(601,000)	(2,207,000)	(651,000)
Ending balance	$51,776,000	$44,388,000	$51,776,000	$44,388,000

The change in unrealized and realized gains and losses are included in equity in joint venture income in the accompanying statements of operations.

The change in unrealized gains and losses on Level 3 investments during the three and six months ended June 30, 2012 for investments still held as of June 30, 2012 was an immaterial loss and $0.1 million of loss, respectively. The change in unrealized gains and losses on Level 3 investments during the three and six months ended June 30, 2011 for investments still held as of June 30, 2011 was a gain of $1.3 million and an immaterial loss, respectively.

Kennedy Wilson records its investment in KW Property Fund III, L.P., Kennedy Wilson Real Estate Fund IV, L.P., and SG KW Venture I, LLC (the "Funds") based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. The Funds report their investments at fair value based on valuations of the underlying real estate and real estate related assets and their related indebtedness secured by real estate. The valuations of real estate, real estate related assets, and indebtedness are based on management estimates of the assets and liabilities using a combination of the income and market approach. During the three and six months ended June 30, 2012, Kennedy Wilson recorded an increase in fair value of $0.1 million and $0.1 million, respectively, in equity in joint venture income in the consolidated statements of operations. During the three and six months ended June 30, 2011, Kennedy Wilson recorded a decrease in fair value of $1.0 million and $0.9 million, respectively, in equity in joint venture income in the consolidated statements of operations. Kennedy Wilson's investment balance in the Funds was $24.1 million and $23.4 million at June 30, 2012 and December 31, 2011, respectively, which are included in investments in joint ventures in the accompanying consolidated balance sheets. As of June 30, 2012, Kennedy Wilson had unfunded capital commitments to the Funds in the amounts of $3.7 million.

FAIR VALUE OPTION—Additionally, Kennedy Wilson elected to use the fair value option for two investments in joint venture entities that were acquired during 2008. Kennedy Wilson elected to record these investments at fair value to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. There was no material change in the fair value of these investments during the three and six months ended June 30, 2012. During the three months ended June 30, 2011, Kennedy Wilson purchased an additional 24% (increasing its interest from 24% to 48%) interest in one of its fair value option investments for $7.0 million from a related party fund. Since this amount was less than the fair value of this interest at the time of purchase, this transaction resulted in Kennedy Wilson recording an increase in fair value of $2.0 million in equity in joint venture income in the accompany statements of operations for the three and six months ended June 30, 2011. Kennedy Wilson determines the fair value of these investments based upon the income approach, utilizing estimates of future cash flows, discount rates and liquidity risks. As of June 30, 2012 and December 31, 2011, these two investments had fair values of $27.7 million and $27.9 million, respectively.

In estimating fair value of real estate held by the Funds and the two fair value option investments, Kennedy Wilson considers significant inputs such as capitalization and discount rates. The table below describes the range of inputs for real estate assets:

Estimated rates used for

	Capitalization rates	Discount Rates
Multifamily	5.00% — 7.00%	7.50% — 8.75%
Office	6.25% — 8.00%	7.75% — 9.00%
Land and condominium units	n/a	8.00% — 12.00%
Loan	n/a	2.25% — 10.60%

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

In valuing real estate related assets and indebtedness, Kennedy Wilson considers significant inputs such as the term of the debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used by Kennedy Wilson for these types of investments range from 2.25% to 10.6%.

The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including cap rates, discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES—During the six months ended June 30, 2012, Kennedy Wilson entered into a currency forward contract to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and certain of its wholly-owned subsidiaries with a different functional currency (Euros) and its exposure to currency fluctuations caused by its investment in marketable securities. To accomplish this objective, Kennedy Wilson hedged these exposures by entering into a currency forward contract to sell €16,000,000 at a forward rate. This hedging instrument is expected to partially hedge Kennedy Wilson's exposure to its net investment in certain foreign operations and the changes in fair value of the marketable securities caused by currency fluctuations. The currency forward contract matures on June 4, 2015. The currency forward contract is valued based on the difference between the contract rate and the forward rate at maturity of the foreign currency applied to the notional value in that foreign currency discounted at a market rate for similar risks. Although Kennedy Wilson has determined that the majority of the inputs used to value its derivative falls within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the derivative utilizes Level 3 inputs. However, as of June 30, 2012, Kennedy Wilson has assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its derivative positions and has determined that the counterparty valuation adjustment is not significant to the overall valuation of its derivative. As a result, Kennedy Wilson has determined that its derivative valuation in its entirety is classified in Level 2 of the fair value hierarchy. The fair value of the derivative instrument held as of June 30, 2012 was $0.7 million and is included in accrued expenses and other liabilities on the balance sheet.

For the six months ended June 30, 2012, the Company recorded a loss of $0.5 million in other comprehensive income in the accompanying consolidated statements of comprehensive income as this portion of the currency forward contract qualifies as a net investment hedge under ASC Topic 815. The remaining portion of the currency forward contract qualifies as a fair value hedge under ASC Topic 815 and accordingly, Kennedy Wilson recorded a loss of $0.2 million in general and administrative expenses in the accompanying consolidated statements of operations. The impact of this hedge on the cash flows of Kennedy Wilson are included in accrued expenses and other liabilities within the consolidated statement of cash flows.

FAIR VALUE OF FINANCIAL INSTRUMENTS—The carrying amount of cash and cash equivalents, accounts receivable including related party, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, deferred and accrued income taxes, and income tax receivable approximate fair value due to their short-term maturities. The carrying value of notes receivable (excluding related party notes receivable as they are presumed not to be an arm’s length transaction) approximate fair value as they are negotiated based upon the fair value of loans with similar characteristics. Senior notes payable, borrowings under line of credit, mortgage loans payable and junior subordinated debentures were estimated to be approximately $362.0 million, based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and our credit risk to the current yield of a similar security, compared to their carrying value of $354.3 million at June 30, 2012.

NOTE 9—SENIOR NOTES

In April 2011, Kennedy-Wilson, Inc., a wholly-owned subsidiary of Kennedy Wilson, in a private placement, issued $200.0

13

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

million in aggregate principal amount of 8.750% senior notes due April 1, 2019 with an effective yield of 8.875% and an additional $50.0 million in aggregate principal amount of 8.750% senior notes due April 1, 2019 with an effective yield of 8.486%. Interest on the notes is payable on April 1 and October 1 of each year. If the notes are redeemed prior to April 1, 2017 a premium must be paid on the redeemed amount. The terms of the notes are governed by an indenture by and among Kennedy-Wilson, Inc., as Issuer; Kennedy Wilson, as parent guarantor; certain subsidiaries of the Issuer, as subsidiary guarantors; and Wilmington Trust FSB, as trustee. In December 2011, Kennedy-Wilson, Inc. commenced a registered exchange offer for its outstanding 8.750% senior notes. The exchange offer was completed in February 2012 and all outstanding notes issued in the private placements were exchanged for registered notes.
The indenture governing the notes contains various restrictive covenants, including, among others, limitations on our ability and the ability of certain of our subsidiaries to incur or guarantee additional indebtedness, to make restricted payments, pay dividends or make any other distributions from restricted subsidiaries, redeem or repurchase capital stock, sell assets or subsidiary stock, engage in transactions with affiliates, create or permit liens on assets, enter into sale/leaseback transactions, and enter into consolidations or mergers. The indenture governing the 8.750% senior notes limits Kennedy-Wilson, Inc.'s ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, the maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of June 30, 2012, the balance sheet leverage ratio was 0.85 to 1.00. See Note 17 for the guarantor and non-guarantor financial statements.

NOTE 10—LINE OF CREDIT

In June 2012, Kennedy Wilson amended its existing unsecured revolving credit facility with U.S. Bank and East-West Bank which increased the total principal amount available to be borrowed by an additional $25.0 million, for an aggregate of $100.0 million. The loans bear interest at a rate equal to LIBOR plus 2.75% and the maturity date was extended to a maturity date of June 30, 2015 and adjusts the Minimum Rent Adjusted Fixed Charge Coverage Ratio to 1.50:1. The unsecured credit facility requires Kennedy Wilson to maintain (i) a minimum rent adjusted fixed charge coverage ratio (as defined in the unsecured credit facility) of not less than 1.50 to 1.00, measured on a four quarter rolling average basis and (ii) maximum balance sheet leverage (as defined in the unsecured credit facility) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of the most recent quarter end, Kennedy Wilson's adjusted fixed charge coverage ratio was 1.89 to 1.00 and its balance sheet leverage was 0.85 to 1.00. As of June 30, 2012, there was $34.2 million drawn on the line of credit.

NOTE 11—JUNIOR SUBORDINATED DEBENTURES

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of $40.0 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued $40.0 million of trust preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06%, and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly with the principal due in 2037.
The junior subordinated debentures require Kennedy Wilson to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing our junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four quarter rolling basis, and (ii) a ratio of total debt to net worth (as defined in the indenture governing the junior subordinated debentures) of not greater than 3.00 to 1.00 at any time. As of the most recent quarter end, Kennedy Wilson's fixed charge coverage ratio was 2.84 to 1.00 and its ratio of total debt to net worth was 0.88 to 1.00. As of June 30, 2012, Kennedy Wilson was in compliance with these ratios.

NOTE 12—RELATED PARTY TRANSACTIONS

Kennedy Wilson engaged in the following related party transactions during the six months ended June 30, 2012:

During the six months ended June 30, 2012, Kennedy Wilson acquired the remaining noncontrolling interests of a consolidated entity from Kennedy Wilson executives. In exchange for the noncontrolling interests, Kennedy Wilson issued 150,000 shares of common stock to the executives and also paid them $0.5 million.

During the six months ended June 30, 2012, noncontrolling interest holders of a consolidated entity, comprised of Kennedy Wilson executives, received $0.4 million in distributions from a joint venture investment as a result of the sale of a multifamily asset.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

During the three and six months ended June 30, 2012, the firm of Solomon, Winnett & Rosenfield was paid $50,000 and $97,000, respectively, for income tax services provided by the firm. Jerry Solomon, a partner in the firm and a member of Kennedy Wilson’s board of directors, was paid $8,000 and $16,000, respectively, for director’s fees for the same period. During the three and six months ended June 30, 2011, the firm of Solomon, Winnett & Rosenfield was paid $18,000 and $76,000, respectively, for income tax services provided by the firm. Jerry Solomon, a partner in the firm and a member of Kennedy Wilson’s board of directors, was paid $9,000 and $16,000, respectively, for director’s fees for the same period.

Kennedy Wilson earned fees and other income from affiliates and entities in which Kennedy Wilson holds ownership interests in the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Management and leasing fees	$6,131,000	$2,600,000	$11,716,000	$5,162,000
Commissions	1,031,000	647,000	1,984,000	1,657,000
Sale of real estate	—	—	—	417,000
Total related party revenue	$7,162,000	$3,247,000	$13,700,000	$7,236,000

NOTE 13—STOCKHOLDERS EQUITY

Warrants

In April 2010, the Board of Directors authorized a warrants repurchase program enabling Kennedy Wilson to repurchase up to 12.5 million of its outstanding warrants. During the six months ended June 30, 2012, Kennedy Wilson repurchased a total of 0.5 million of its outstanding warrants for total consideration of $1.4 million.

Dividend Distributions

Kennedy Wilson declared and paid the following cash distributions on its common and preferred stock:

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series A	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Series B	1,050,000	1,050,000	1,050,000	1,050,000
Total Preferred Stock	4,050,000	4,050,000	4,050,000	4,050,000
Common Stock	5,347,000	4,664,000	1,799,000	—
Total [(1)]	$9,397,000	$8,714,000	$5,849,000	$4,050,000

(1) Common stock dividends are declared at the end of each quarter and paid in the following quarter. The amount declared and not paid is accrued on the consolidated balance sheet.

Stock Compensation

In June 2012, Kennedy Wilson adopted and its shareholders approved the Amended and Restated 2009 Equity Participation Plan (the "Amended and Restated Plan) under which an additional 3,170,000 shares of common stock have been reserved for restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2009 Amended and Restated Equity Participation Plan are set by the Company's compensation committee at its discretion. During the six months ended June 30, 2012, 3,145,000 shares of restricted common stock were granted. The shares vest over five years with 40% vesting ratably in the first four years of the award period and the remaining 60% in the fifth year of the award period. Vesting of the restricted share awards is contingent upon the expected achievement of a performance target with the initial vesting of the first 10% in January 2013.

During the three and six months ended June 30, 2012, Kennedy Wilson recognized $1.2 million and $2.1 million, respectively, of compensation expense related to the vesting of restricted common stock awarded in 2012 and prior awards. During the three and six months ended June 30, 2011, Kennedy Wilson recognized $1.3 million and $2.5 million, respectively, of compensation expense related to the vesting of restricted common stock.

NOTE 14—EARNINGS PER SHARE

For the three and six months ended June 30, 2012, a total of 18,229,993 and 18,215,529 potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive.

For the three and six months ended June 30, 2011, a total of 21,725,054 and 21,950,708 potentially dilutive securities have not been included in the diluted weighted average shares as as they are anti-dilutive.

NOTE 15—SEGMENT INFORMATION

Kennedy Wilson's business is defined by two core segments: KW Investments and KW Services. KW Investments invests in multifamily, residential and office properties as well as loans secured by real estate. KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution-based clients. Kennedy Wilson’s segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these services and investments.

KW INVESTMENTS—Kennedy Wilson, on its own and through joint ventures, is an investor in real estate, including multifamily, residential and office properties as well as loans secured by real estate.

Substantially all of the revenue—related party was generated via inter-segment activity for the three and six months ended June 30, 2012 and 2011. Generally, this revenue consists of fees earned on investments in which Kennedy Wilson also has an ownership interest. The amounts representing investments with related parties and non-affiliates are included in the investment segment. No single third party client accounted for 10% or more of Kennedy Wilson's revenue during any period presented in these financial statements.

There have been no changes in the basis of segmentation or in the basis of measurement of segment profit or loss since the December 31, 2011 financial statements.

KW SERVICES—Kennedy Wilson offers a comprehensive line of real estate services for the full life cycle of real estate ownership and investment to clients that include financial institutions, developers, builders and government agencies. Kennedy Wilson provides auction and conventional sales, property management, investment management, asset management, leasing, construction management, acquisitions, dispositions and trust services.

The following tables summarize Kennedy Wilson’s income activity by segment and corporate for the three and six months ended June 30, 2012 and 2011 and balance sheet data as of June 30, 2012 and December 31, 2011:

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Investments				
Sale of real estate	$—	$—	$—	$417,000
Rental and other income	1,477,000	955,000	2,947,000	1,693,000
Total revenue	1,477,000	955,000	2,947,000	2,110,000
Operating expenses	5,445,000	4,281,000	10,139,000	8,585,000
Depreciation and amortization	860,000	380,000	1,682,000	739,000
Total operating expenses	6,305,000	4,661,000	11,821,000	9,324,000
Equity in joint venture income	5,108,000	2,551,000	10,624,000	7,807,000
Interest income from loan pool participations and notes receivable	2,876,000	2,241,000	3,414,000	4,787,000
Operating income	3,156,000	1,086,000	5,164,000	5,380,000
Remeasurement gain	—	6,348,000	—	6,348,000
Gain on sale of marketable securities	—	—	2,931,000	—
Realized foreign currency exchange gain (loss)	38,000	—	(74,000)	—
Interest income - related party	1,182,000	—	2,269,000	—
Interest expense	(159,000)	(74,000)	(317,000)	(151,000)
Income from continuing operations	4,217,000	7,360,000	9,973,000	11,577,000
Discontinued operations				
Income from discontinued operations, net of income taxes	—	—	2,000	—
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—
Income before benefit from and provision for income taxes	$4,217,000	$7,360,000	$9,763,000	$11,577,000
Total assets			$657,589,000	$591,459,000

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Services				
Management and leasing fees and commissions	$5,471,000	$4,308,000	$9,293,000	$8,308,000
Management and leasing fees and commissions - related party	7,162,000	3,247,000	13,700,000	6,819,000
Total revenue	12,633,000	7,555,000	22,993,000	15,127,000
Operating expenses	9,062,000	6,047,000	16,666,000	11,792,000
Depreciation and amortization	34,000	30,000	67,000	65,000
Total operating expenses	9,096,000	6,077,000	16,733,000	11,857,000
Operating income	3,537,000	1,478,000	6,260,000	3,270,000
Income before benefit from and provision for income taxes	$3,537,000	$1,478,000	$6,260,000	$3,270,000
Total assets			$62,965,000	$66,406,000

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Corporate				
Operating expenses	$2,936,000	$2,347,000	$5,142,000	$4,388,000
Depreciation and amortization	83,000	53,000	165,000	93,000
Total operating expenses	3,019,000	2,400,000	5,307,000	4,481,000
Operating loss	(3,019,000)	(2,400,000)	(5,307,000)	(4,481,000)
Interest income	25,000	152,000	55,000	190,000
Interest income - related party	—	249,000	—	477,000
Interest expense	(6,895,000)	(6,154,000)	(12,907,000)	(7,606,000)
Loss before benefit from (provision for) income taxes	(9,889,000)	(8,153,000)	(18,159,000)	(11,420,000)
Benefit from (provision) for income taxes	1,138,000	(172,000)	2,621,000	(835,000)
Net loss	$(8,751,000)	$(8,325,000)	$(15,538,000)	$(12,255,000)
Total assets			$86,264,000	$134,911,000

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Consolidated				
Management fees and commissions	$5,471,000	$4,308,000	$9,293,000	$8,308,000
Management fees and commissions - related party	7,162,000	3,247,000	13,700,000	6,819,000
Sale of real estate	—	—	—	417,000
Rental and other income	1,477,000	955,000	2,947,000	1,693,000
Total revenue	14,110,000	8,510,000	25,940,000	17,237,000
Operating expenses	17,443,000	12,675,000	31,947,000	24,765,000
Depreciation and amortization	977,000	463,000	1,914,000	897,000
Total operating expenses	18,420,000	13,138,000	33,861,000	25,662,000
Equity in joint venture income	5,108,000	2,551,000	10,624,000	7,807,000
Interest income from loan pool participations and notes receivable	2,876,000	2,241,000	3,414,000	4,787,000
Operating income	3,674,000	164,000	6,117,000	4,169,000
Interest income	25,000	152,000	55,000	190,000
Interest income - related party	1,182,000	249,000	2,269,000	477,000
Remeasurement gain	—	6,348,000	—	6,348,000
Gain on sale of marketable securities	—	—	2,931,000	—
Realized foreign currency exchange loss	38,000	—	(74,000)	—
Interest expense	(7,054,000)	(6,228,000)	(13,224,000)	(7,757,000)
(Loss) income from continuing operation before benefit from (provision for) income taxes	(2,135,000)	685,000	(1,926,000)	3,427,000
Benefit from (provision) for income taxes	1,138,000	(172,000)	2,621,000	(835,000)
(Loss) income from continuing operations	(997,000)	513,000	695,000	2,592,000
Discontinued operations				
Income from discontinued operations, net of income taxes	—	—	2,000	—
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—

Net (loss) income	$(997,000)	$513,000	$485,000	$2,592,000
Total assets			$806,818,000	$792,776,000

NOTE 16—INCOME TAXES

In determining quarterly provisions for income taxes, Kennedy Wilson uses an effective tax rate based on actual year-to-date income and statutory tax rates. The effective tax rate also reflects Kennedy Wilson's assessment of its potential exposure for uncertain tax positions.

The fluctuations between periods in the Company's effective tax rate are mainly due to varying levels of income and amounts attributable to foreign source income and non-controlling interests. Permanent differences that impact the Company's effective rate as compared to the U.S. federal statutory rate of 34% were not materially different in amount for all periods. The difference between the U.S. federal rate of 34% and the Company's effective rate is attributable to the taxation of foreign sourced income taxes being taxed at rates lower than the U.S. domestic rate and income attributable to non-controlling interests.

NOTE 17—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS

The following consolidating financial information and condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of June 30, 2012 and December 31, 2011; consolidating statements of operations for the six months ended June 30, 2012 and 2011; consolidated statements of comprehensive income for the six months ended June 30, 2012 and 2011; and condensed consolidating statements of cash flows for the six months ended June 30, 2012 and 2011, of (a) Kennedy-Wilson Holdings, Inc., as the parent, (b) Kennedy-Wilson, Inc., as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the non-guarantor subsidiaries and (e) Kennedy-Wilson Holdings, Inc. on a consolidated basis; and

(2) Elimination entries necessary to consolidate Kennedy-Wilson Holdings, Inc., as the parent, with Kennedy-Wilson, Inc. and its guarantor and non-guarantor subsidiaries.

Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned by Kennedy Wilson as of December 31, 2010. Such guarantor subsidiaries were restructured prior to the exchange offer for Kennedy-Wilson, Inc.'s outstanding 8.750% senior notes such that Kennedy Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for these subsidiaries as of June 30, 2012.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2012

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$—	$70,052,000	$990,000	$15,452,000	$—	$86,494,000
Accounts receivable	—	857,000	1,942,000	666,000	—	3,465,000
Accounts receivable — related parties	—	1,482,000	5,323,000	9,321,000	—	16,126,000
Notes receivable	—	862,000	9,658,000	900,000	—	11,420,000
Notes receivable — related parties	—	40,101,000	—	—	—	40,101,000
Real estate, net of accumulated depreciation	—	—	48,675,000	64,095,000	—	112,770,000
Investments in joint ventures	—	9,047,000	335,358,000	16,376,000	—	360,781,000
Investments in and advances to consolidated subsidiaries	406,198,000	615,373,000	83,629,000	—	(1,105,200,000)	—
Investment in loan pool participations	—	—	121,328,000	—	—	121,328,000
Marketable securities	—	10,293,000	33,000	—	—	10,326,000
Other assets	—	14,377,000	2,386,000	3,279,000	—	20,042,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
Total Assets	$406,198,000	$762,444,000	$626,538,000	$116,838,000	$(1,105,200,000)	$806,818,000
Liabilities and equity						
Liabilities						
Accounts payable	$52,000	$63,000	$147,000	$410,000	$—	$672,000
Accrued expenses and other liabilities	3,267,000	8,439,000	5,819,000	4,609,000	—	22,134,000
Accrued salaries and benefits	—	3,088,000	1,196,000	433,000	—	4,717,000
Deferred tax liability	—	21,056,000	(388,000)	(76,000)	—	20,592,000
Senior notes payable	—	249,411,000	—	—	—	249,411,000
Mortgage loans payable	—	—	4,391,000	26,357,000	—	30,748,000
Borrowings under line of credit	—	34,189,000	—	—	—	34,189,000
	—	40,000,000	—	—	—	40,000,000

Junior subordinated debentures						
Total liabilities	3,319,000	356,246,000	11,165,000	31,733,000	—	402,463,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	402,879,000	406,198,000	615,373,000	83,629,000	(1,105,200,000)	402,879,000
Noncontrolling interests	—	—	—	1,476,000	—	1,476,000
Total equity	402,879,000	406,198,000	615,373,000	85,105,000	(1,105,200,000)	404,355,000
Total liabilities and equity	$406,198,000	$762,444,000	$626,538,000	$116,838,000	$(1,105,200,000)	$806,818,000

20

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$—	$95,812,000	$2,553,000	$17,561,000	$—	$115,926,000
Accounts receivable	—	751,000	2,043,000	320,000	—	3,114,000
Accounts receivable — related parties	—	2,328,000	6,822,000	6,462,000	—	15,612,000
Notes receivable	—	862,000	6,076,000	1,000,000	—	7,938,000
Notes receivable — related parties	—	33,269,000	—	—	—	33,269,000
Real estate, net of accumulated depreciation	—	53,000	51,212,000	64,615,000	—	115,880,000
Investments in joint ventures	—	8,785,000	316,219,000	18,363,000	—	343,367,000
Investments in and advances to consolidated subsidiaries	412,871,000	567,285,000	82,393,000	—	(1,062,549,000)	—
Investment in loan pool participations	—	—	89,951,000	—	—	89,951,000
Marketable securities	—	22,972,000	33,000	—	—	23,005,000
Other assets	—	13,334,000	3,656,000	3,759,000	—	20,749,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
Total Assets	$412,871,000	$745,451,000	$578,174,000	$118,829,000	$(1,062,549,000)	$792,776,000
Liabilities and equity						
Liabilities						
Accounts payable	$52,000	$1,250,000	$396,000	$100,000	$—	$1,798,000
Accrued expenses and other liabilities	2,584,000	10,768,000	5,346,000	5,564,000	—	24,262,000
Accrued salaries and benefits	—	12,622,000	1,195,000	761,000	—	14,578,000
Deferred tax liability	—	18,555,000	(439,000)	321,000	—	18,437,000
Senior notes payable	—	249,385,000	—	—	—	249,385,000
Mortgage loans payable	—	—	4,391,000	26,357,000	—	30,748,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
Total liabilities	2,636,000	332,580,000	10,889,000	33,103,000	—	379,208,000

Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	410,235,000	412,871,000	567,285,000	82,393,000	(1,062,549,000)	410,235,000
Noncontrolling interests	—	—	—	3,333,000	—	3,333,000
Total equity	410,235,000	412,871,000	567,285,000	85,726,000	(1,062,549,000)	413,568,000
Total liabilities and equity	$412,871,000	$745,451,000	$578,174,000	$118,829,000	$(1,062,549,000)	$792,776,000

21

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 313,000	$2,471,000	$ 1,317,000	$—	$4,101,000
Management and leasing fees — related party	—	—	2,622,000	3,509,000	—	6,131,000
Commissions	—	12,000	279,000	1,079,000	—	1,370,000
Commissions — related party	—	—	1,031,000	—	—	1,031,000
Rental and other income	—	—	150,000	1,327,000	—	1,477,000
Total revenue	—	325,000	6,553,000	7,232,000	—	14,110,000
Operating expenses						
Commission and marketing expenses		98,000	1,191,000	51,000	—	1,340,000
Compensation and related expenses	1,207,000	3,896,000	2,973,000	2,218,000	—	10,294,000
General and administrative	—	2,931,000	947,000	1,010,000	—	4,888,000
Depreciation and amortization	—	83,000	99,000	795,000	—	977,000
Rental operating expenses	—	—	250,000	671,000	—	921,000
Total operating expenses	1,207,000	7,008,000	5,460,000	4,745,000	—	18,420,000
Equity in joint venture income	—	364,000	4,525,000	219,000	—	5,108,000
Interest income from loan pool participations and notes receivable	—	—	2,857,000	19,000	—	2,876,000
Income from consolidated subsidiaries	210,000	10,236,000	1,808,000	—	(12,254,000)	—
Operating (loss) income	(997,000)	3,917,000	10,283,000	2,725,000	(12,254,000)	3,674,000
Non-operating income (expense)						
Interest income	—	1,000	24,000	—	—	25,000
Interest income — related party	—	1,182,000	—	—	—	1,182,000
Realized foreign currency exchange gain (loss)	—	—	—	38,000	—	38,000
Interest expense	—	(6,529,000)	(71,000)	(454,000)	—	(7,054,000)
Income from continuing operations before benefit from income taxes	(997,000)	(1,429,000)	10,236,000	2,309,000	(12,254,000)	(2,135,000)
Benefit from income taxes	—	1,639,000	—	(501,000)	—	1,138,000
Net (loss) income	(997,000)	210,000	10,236,000	1,808,000	(12,254,000)	(997,000)
Net income attributable to the noncontrolling interests	—	—	—	(128,000)	—	(128,000)

Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(997,000)	210,000	10,236,000	1,680,000	(12,254,000)	(1,125,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	—	—	—	—	(2,036,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,033,000)	$ 210,000	$10,236,000	$1,680,000	$(12,254,000)	$(3,161,000)

22

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 4,000	$ 1,601,000	$ 741,000	$—	$ 2,346,000
Management and leasing fees—related party	—	—	2,324,000	276,000	—	2,600,000
Commissions	—	51,000	1,842,000	69,000	—	1,962,000
Commissions—related party	—	—	637,000	10,000	—	647,000
Rental and other income	—	—	465,000	490,000	—	955,000
Total revenue	—	55,000	6,869,000	1,586,000	—	8,510,000
Operating expenses						
Commission and marketing expenses	—	—	649,000	87,000	—	736,000
Compensation and related expenses	1,298,000	2,870,000	3,322,000	767,000	—	8,257,000
General and administrative	—	1,839,000	933,000	268,000	—	3,040,000
Depreciation and amortization	—	53,000	233,000	177,000	—	463,000
Rental operating expenses	—	—	462,000	180,000	—	642,000
Total operating expenses	1,298,000	4,762,000	5,599,000	1,479,000	—	13,138,000
Equity in joint venture income	—	68,000	2,320,000	163,000	—	2,551,000
Interest income from loan pool participations and notes receivable	—	—	2,220,000	21,000	—	2,241,000
Income from consolidated subsidiaries	1,811,000	12,268,000	6,560,000	—	(20,639,000)	—
Operating income	513,000	7,629,000	12,370,000	291,000	(20,639,000)	164,000
Non-operating income (expense)						
Interest income	—	84,000	68,000	—	—	152,000
Interest income—related party	—	249,000	—	—	—	249,000
Remeasurement gain	—	—	—	6,348,000	—	6,348,000
Interest expense	—	(5,979,000)	(170,000)	(79,000)	—	(6,228,000)
Income from continuing operations before provision for income taxes	513,000	1,983,000	12,268,000	6,560,000	(20,639,000)	685,000
Provision for income taxes	—	(172,000)	—	—	—	(172,000)
Net income	513,000	1,811,000	12,268,000	6,560,000	(20,639,000)	513,000
Net income attributable to the noncontrolling interests	—	—	(296,000)	(3,000)	—	(299,000)

Net income attributable to Kennedy-Wilson Holdings, Inc.	513,000	1,811,000	11,972,000	6,557,000	(20,639,000)	214,000
Preferred stock dividends and accretion of issuance costs	(2,636,000)	—	—	—	—	(2,636,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2,123,000)	$ 1,811,000	$11,972,000	$6,557,000	$(20,639,000)	$(2,422,000)

---

(1) Included in the guarantor subsidiaries column above are data for certain subsidiaries that were less than 100% owned by Kennedy Wilson during the three months ended June 30, 2011. Such guarantor subsidiaries were restructured prior to registering the notes such that Kennedy Wilson now owns 100% of all the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 333,000	$4,061,000	$ 2,863,000	$—	$7,257,000
Management and leasing fees — related party	—	—	5,016,000	6,700,000	—	11,716,000
Commissions	—	55,000	841,000	1,140,000	—	2,036,000
Commissions — related party	—	—	1,984,000	—	—	1,984,000
Rental and other income	—	—	306,000	2,641,000	—	2,947,000
Total revenue	—	388,000	12,208,000	13,344,000	—	25,940,000
Operating expenses						
Commission and marketing expenses	—	98,000	2,090,000	117,000	—	2,305,000
Compensation and related expenses	2,078,000	6,923,000	5,945,000	4,348,000	—	19,294,000
General and administrative	—	4,666,000	1,885,000	2,006,000	—	8,557,000
Depreciation and amortization	—	165,000	192,000	1,557,000	—	1,914,000
Rental operating expenses	—	—	490,000	1,301,000	—	1,791,000
Total operating expenses	2,078,000	11,852,000	10,602,000	9,329,000	—	33,861,000
Equity in joint venture income	—	429,000	4,727,000	5,468,000	—	10,624,000
Interest income from loan pool participations and notes receivable	—	—	3,375,000	39,000	—	3,414,000
Income from consolidated subsidiaries	2,563,000	17,592,000	8,188,000	—	(28,343,000)	—
Operating income	485,000	6,557,000	17,896,000	9,522,000	(28,343,000)	6,117,000
Non-operating income (expense)						
Interest income	—	31,000	24,000	—	—	55,000
Interest income — related party	—	2,269,000	—	—	—	2,269,000
Gain on sale of marketable securities	—	2,931,000	—	—	—	2,931,000
Realized foreign currency exchange loss	—	(112,000)	—	38,000	—	(74,000)
Interest expense	—	(12,235,000)	(118,000)	(871,000)	—	(13,224,000)
Income (loss) from continuing operations before benefit from income taxes	485,000	(559,000)	17,802,000	8,689,000	(28,343,000)	(1,926,000)

Benefit from income taxes	—	3,122,000	—	(501,000)	—	2,621,000
Income from continuing operations	485,000	2,563,000	17,802,000	8,188,000	(28,343,000)	695,000
Discontinued operations						
Income from discontinued operations, net of income taxes	—	—	2,000	—	—	2,000
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—	—	(212,000)
Net income	485,000	2,563,000	17,592,000	8,188,000	(28,343,000)	485,000
Net income attributable to the noncontrolling interests	—	—	—	(2,926,000)	—	(2,926,000)
Net income attributable to Kennedy-Wilson Holdings, Inc.	485,000	2,563,000	17,592,000	5,262,000	(28,343,000)	(2,441,000)
Preferred dividends and accretion of preferred stock issuance costs	(4,072,000)	—	—	—	—	(4,072,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,587,000)	$ 2,563,000	$17,592,000	$5,262,000	$(28,343,000)	$(6,513,000)

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 65,000	$3,218,000	$ 1,512,000	$—	$4,795,000
Management and leasing fees — related party	—	—	4,629,000	533,000	—	5,162,000
Commissions	—	397,000	3,017,000	99,000	—	3,513,000
Commissions — related party	—	—	1,647,000	10,000	—	1,657,000
Sale of real estate	—	—	417,000	—	—	417,000
Rental and other income	—	—	688,000	1,005,000	—	1,693,000
Total revenue	—	462,000	13,616,000	3,159,000	—	17,237,000
Operating expenses						
Commission and marketing expenses	—	—	1,220,000	153,000	—	1,373,000
Compensation and related expenses	2,465,000	5,485,000	6,676,000	1,463,000	—	16,089,000
Cost of real estate sold	—	—	397,000	—	—	397,000
General and administrative	—	3,420,000	1,951,000	482,000	—	5,853,000
Depreciation and amortization	—	93,000	447,000	357,000	—	897,000
Rental operating expenses	—	—	725,000	328,000	—	1,053,000
Total operating expenses	2,465,000	8,998,000	11,416,000	2,783,000	—	25,662,000
Equity in joint venture income	—	68,000	7,600,000	139,000	—	7,807,000
Interest income from loan pool participations and notes receivable	—	12,000	4,734,000	41,000	—	4,787,000
Income from consolidated subsidiaries	5,057,000	20,929,000	6,695,000	—	(32,681,000)	—
Operating income	2,592,000	12,473,000	21,229,000	556,000	(32,681,000)	4,169,000
Non-operating income (expense)						
Interest income	—	122,000	68,000	—	—	190,000
Interest income — related party	—	477,000	—	—	—	477,000
Remeasurement gain	—	—	—	6,348,000	—	6,348,000
Interest expense	—	(7,180,000)	(368,000)	(209,000)	—	(7,757,000)
Income from continuing operations before provision for income taxes	2,592,000	5,892,000	20,929,000	6,695,000	(32,681,000)	3,427,000
Provision for income taxes	—	(835,000)	—	—	—	(835,000)

Net income	2,592,000	5,057,000	20,929,000	6,695,000	(32,681,000)	2,592,000
Net income attributable to the noncontrolling interests	—	—	(1,329,000)	(8,000)	—	(1,337,000)
Net income attributable to Kennedy-Wilson Holdings, Inc.	2,592,000	5,057,000	19,600,000	6,687,000	(32,681,000)	1,255,000
Preferred dividends and accretion of preferred stock issuance costs	(4,672,000)	—	—	—	—	(4,672,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2,080,000)	$ 5,057,000	$19,600,000	$6,687,000	$(32,681,000)	$(3,417,000)

(1) Included in the guarantor subsidiaries column above are data for certain subsidiaries that were less than 100% owned by Kennedy Wilson during the six months ended June 30, 2011. Such guarantor subsidiaries were restructured prior to registering the notes such that Kennedy Wilson now owns 100% of all the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (Loss) Income	$(997,000)	$ 210,000	$10,236,000	$ 1,808,000	$(12,254,000)	$(997,000)
Other comprehensive (loss) income, net of tax:						
Unrealized holding loss on available for sale securities	—	(1,998,000)	—	—	—	(1,998,000)
Unrealized foreign currency translation gain (loss)	—	—	2,120,000	(432,000)	—	1,688,000
Unrealized forward contract foreign currency loss	—	(328,000)	(1,480,000)	—	—	(1,808,000)
Total other comprehensive (loss) income for the period	$—	$ (2,326,000)	$640,000	$ (432,000)	$—	$(2,118,000)
Comprehensive (loss) income	$(997,000)	$ (2,116,000)	$10,876,000	$ 1,376,000	$(12,254,000)	$(3,115,000)
Comprehensive income attributable to noncontrolling interests	—	—	—	(128,000)	—	(128,000)
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(997,000)	$ (2,116,000)	$10,876,000	$ 1,248,000	$(12,254,000)	$(3,243,000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net Income	$513,000	$ 1,811,000	$12,268,000	$ 6,560,000	$(20,639,000)	$513,000
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation gain	—	—	2,161,000	—	—	2,161,000
Unrealized forward contract foreign currency loss	—	—	(1,067,000)	—	—	(1,067,000)
Total other comprehensive gain for the period	$—	$ —	$1,094,000	$—	$—	$1,094,000
Comprehensive income	$513,000	$ 1,811,000	$13,362,000	$ 6,560,000	$(20,639,000)	$1,607,000

Comprehensive income attributable to noncontrolling interests	—	—	(296,000)	(3,000)	—	(299,000)
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$513,000	$ 1,811,000	$13,066,000	$6,557,000	$(20,639,000)	$1,308,000

(1) Included in the guarantor subsidiaries column above are data for certain subsidiaries that were less than 100% owned by Kennedy Wilson during the three months ended June 30, 2011. Such guarantor subsidiaries were restructured prior to registering the notes such that Kennedy Wilson now owns 100% of all the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net Income	$485,000	$ 2,563,000	$17,592,000	$ 8,188,000	$(28,343,000)	$485,000
Other comprehensive income (loss), net of tax:						
Unrealized holding gains on available for sale securities	—	3,465,000	—	—	—	3,465,000
Unrealized foreign currency translation gain (loss)	—	96,000	(887,000)	(388,000)	—	(1,179,000)
Unrealized forward contract foreign currency (loss) gain	—	(328,000)	2,508,000	—	—	2,180,000
Total other comprehensive income (loss) for the period	$—	$ 3,233,000	$1,621,000	$ (388,000)	$—	$4,466,000
Comprehensive income	$485,000	$ 5,796,000	$19,213,000	$ 7,800,000	$(28,343,000)	$4,951,000
Comprehensive income attributable to noncontrolling interests	—	—	—	(2,926,000)	—	(2,926,000)
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$485,000	$ 5,796,000	$19,213,000	$ 4,874,000	$(28,343,000)	$2,025,000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net Income	$2,592,000	$ 5,057,000	$20,929,000	$ 6,695,000	$(32,681,000)	$2,592,000
Other comprehensive income, net of tax:						
Unrealized foreign currency translation gain	—	—	550,000	—	—	550,000
Unrealized forward contract foreign currency loss	—	—	(343,000)	—	—	(343,000)
Total other comprehensive income for the period	$—	$ —	$207,000	$—	$—	$207,000
Comprehensive income	$2,592,000	$ 5,057,000	$21,136,000	$ 6,695,000	$(32,681,000)	$2,799,000
	—	—	(1,329,000)	(8,000)	—	(1,337,000)

Comprehensive income attributable to noncontrolling interests						
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$2,592,000	$ 5,057,000	$19,807,000	$6,687,000	$(32,681,000)	$1,462,000

---

(1) Included in the guarantor subsidiaries column above are data for certain subsidiaries that were less than 100% owned by Kennedy Wilson during the six months ended June 30, 2011. Such guarantor subsidiaries were restructured prior to registering the notes such that Kennedy Wilson now owns 100% of all the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

27

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash (used in) provided by operating activities	$—	$ (35,269,000)	$45,187,000	$ (17,000)	$9,901,000
Cash flows from investing activities:					
Additions to notes receivable	—	—	(4,466,000)	—	(4,466,000)
Collections of notes receivable	—	—	1,301,000	—	1,301,000
Additions to notes receivable—related party	—	(15,925,000)	—	—	(15,925,000)
Collections of notes receivable - related party	—	9,093,000	—	—	9,093,000
Net proceeds from sale of real estate	—	—	17,905,000	—	17,905,000
Purchases of and additions to real estate	—	—	(15,702,000)	(115,000)	(15,817,000)
Proceeds from sale of marketable securities	—	21,386,000	—	—	21,386,000
Distributions from joint ventures	—	—	29,495,000	127,000	29,622,000
Contributions to joint ventures	—	(1,202,000)	(44,805,000)	(3,462,000)	(49,469,000)
Contributions of loan pool participations	—	—	(49,925,000)	—	(49,925,000)
(Investments in) distributions from consolidated subsidiaries, net	10,156,000	(37,006,000)	20,088,000	6,762,000	—
Net cash provided by (used in) investing activities	10,156,000	(23,654,000)	(46,109,000)	3,312,000	(56,295,000)
Cash flow from financing activities:					
Borrowings under line of credit	—	45,000,000	—	—	45,000,000
Repayment of line of credit	—	(10,811,000)	—	—	(10,811,000)
Debt issue costs	—	(1,026,000)	—	—	(1,026,000)
Repurchase of common stock	(47,000)	—	—	—	(47,000)
Repurchase of warrants	(1,395,000)	—	—	—	(1,395,000)
Dividends paid	(8,714,000)	—	—	—	(8,714,000)
Acquisition of noncontrolling interests	—	—	—	(473,000)	(473,000)
Distributions to noncontrolling interests	—	—	—	(4,931,000)	(4,931,000)
Net cash (used in) provided by financing activities	(10,156,000)	33,163,000	—	(5,404,000)	17,603,000
Effect of currency exchange rate changes on cash and cash equivalents	—	—	(641,000)	—	(641,000)
Net change in cash and cash equivalents	—	(25,760,000)	(1,563,000)	(2,109,000)	(29,432,000)
Cash and cash equivalents, beginning of year	—	95,812,000	2,553,000	17,561,000	115,926,000
Cash and cash equivalents, end of year	$—	$ 70,052,000	$990,000	$ 15,452,000	$86,494,000

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2012
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Consolidated Total
Cash flows provided by (used in) operating activities:	$1,799,000	$ (16,294,000)	$ 1,501,000	$ 118,000	$(12,876,000)
Cash flows from investing activities:					
Collections of notes receivable	—	—	486,000	—	486,000
Additions to notes receivable - related party	—	(8,322,000)	—	—	(8,322,000)
Collections of notes receivable - related party	—	3,479,000	—	—	3,479,000
Net proceeds from sale of real estate	—	—	416,000	—	416,000
Purchases of and additions to real estate	—	—	(889,000)	—	(889,000)
Distributions from joint ventures	—	—	9,729,000	1,437,000	11,166,000
Contributions to joint ventures	—	(2,000,000)	(69,155,000)	(2,512,000)	(73,667,000)
(Investment in) distributions from consolidated subsidiaries, net	(47,761,000)	(26,686,000)	64,314,000	10,133,000	—
Net cash (used in) provided by investing activities	(47,761,000)	(33,529,000)	4,901,000	9,058,000	(67,331,000)
Cash flow from financing activities:					
Issuance of senior notes payable	—	249,344,000	—	—	249,344,000
Repayment of notes payable	—	(20,533,000)	—	(4,250,000)	(24,783,000)
Borrowings under line of credit	—	19,000,000	—	—	19,000,000
Repayment of lines of credit	—	(46,750,000)	—	—	(46,750,000)
Borrowings under mortgage loans payable	—	—	5,077,000	12,000,000	17,077,000
Repayment of mortgage loans payable	—	—	(13,282,000)	(16,827,000)	(30,109,000)
Debt issue costs	—	(7,181,000)	—	—	(7,181,000)
Issuance of common stock	51,360,000	—	—	—	51,360,000
Repurchase of common stock	(36,000)	—	—	—	(36,000)
Repurchase of warrants	(1,312,000)	—	—	—	(1,312,000)
Dividends paid	(4,050,000)	—	—	—	(4,050,000)
Contributions from noncontrolling interests	—	—	1,488,000	—	1,488,000
Distributions to noncontrolling interests	—	—	(484,000)	(32,000)	(516,000)
Net cash provided by (used in) financing activities	45,962,000	193,880,000	(7,201,000)	(9,109,000)	223,532,000
Effect of currency exchange rate changes on cash and cash equivalents	—	—	925,000	—	925,000
Net change in cash and cash equivalents	—	144,057,000	126,000	67,000	144,250,000
	—	42,793,000	3,350,000	825,000	46,968,000

Cash and cash equivalents, beginning of period					
Cash and cash equivalents, end of period	$—	$ 186,850,000	$ 3,476,000	$ 892,000	$191,218,000

(1) Included in the guarantor subsidiaries column above are data for certain subsidiaries that were less than 100% owned by Kennedy Wilson during the six months ended June 30, 2011. Such guarantor subsidiaries were restructured prior to registering the notes such that Kennedy Wilson now owns 100% of all the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

Table of Contents

NOTE 18—SUBSEQUENT EVENTS

During July 2012, Kennedy Wilson completed a secondary offering of 8.6 million shares of its common stock, which raised $106.5 million of net proceeds. We used $40.0 million of the proceeds to pay off the outstanding balance on our line of credit.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements within the meaning of the federal securities laws. See the discussion under the heading “Forward-Looking Statements” elsewhere in this report. Unless specifically noted otherwise, as used throughout this Management’s Discussion and Analysis section, “we,” “our,” "us," "the Company" or “Kennedy Wilson” refers to the business, operations and financial results of Kennedy-Wilson Holdings, Inc. and its subsidiaries.

Overview

Founded in 1977, we are an international real estate investment and services firm. We are a vertically-integrated real estate operating company with approximately 300 professionals in 23 offices throughout the U.S., United Kingdom, Ireland and Japan. Based on management's estimate of fair value as of June 30, 2012, we have approximately $11.7 billion of real estate and real estate related assets under our management ("AUM"), totaling approximately 58 million square feet of properties throughout the U.S., Europe and Japan. This includes ownership in 14,114 multifamily apartment units, of which 204 units are owned by our consolidated subsidiaries and 13,910 are held in joint ventures. AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is intended principally to reflect the extent of our presence in the real estate market, and is not the basis for determining our management fees. Our material assets under management consist of the total estimated fair value of the real estate properties and other assets either owned by third parties, wholly-owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in this component of our AUM. The estimated value of development properties is included at estimated completion cost. Our operations are defined by two core business units: KW Investments and KW Services. KW Investments invests our capital and our partners' capital in real estate related assets including multifamily, loans secured by real estate, commercial, and residential properties. KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution based clients.

The following table describes our investment account (Kennedy Wilson's equity in real estate, marketable securities, and loan investments), which includes the following financial statement captions and is derived from our consolidated balance sheet, as of June 30, 2012 and December 31, 2011 (dollars in millions):

	June 30, 2012	December 31, 2011
Investment in joint ventures	$360.8	$343.4
Real estate	112.8	115.9
Mortgage debt	(30.7)	(30.7)
Notes receivable	51.5	41.2
Loan pool participations	121.3	90.0
Marketable securities	10.3	23.0
	$626.0	$582.8

The following table breaks down our investment account information derived from our consolidated balance sheet by investment type and geographic location as of June 30, 2012:

Table of Contents

	Dollars in millions					
	Multifamily	Loans Secured by Real Estate	Commercial	Residential [1]	Other	Total
Western U.S.	$128.7	$153.0	$53.5	$80.4	$—	$415.6
Japan	105.2	—	9.0	—	—	114.2
United Kingdom and Ireland	15.5	62.3	—	—	10.3	88.1
Other	0.4	—	2.2	0.2	5.3	8.1
Total	$249.8	$215.3	$64.7	$80.6	$15.6	$626.0

The following table breaks down our investment account information derived from our consolidated balance sheet by investment type and geographic location as of December 31, 2011:

	Dollars in millions					
	Multifamily	Loans Secured by Real Estate	Commercial	Residential [1]	Other	Total
Western U.S.	$131.3	$106.5	$52.3	$78.4	$—	$368.5
Japan	112.1	—	9.3	—	—	121.4
United Kingdom and Ireland	—	60.0	—	—	23.0	83.0
Other	0.2	4.8	0.7	0.1	4.1	9.9
Total	$243.6	$171.3	$62.3	$78.5	$27.1	$582.8

____

(1) Includes for-sale residential properties, condominiums and residential land.

Kennedy Wilson's Recent Highlights

Operating metrics

- During the three months ended June 30, 2012, the Company achieved an adjusted EBITDA of $18.8 million, an 8% increase from $17.5 million for the same period in 2011. Excluding the remeasurement gain of $6.3 million recognized during the three months ended June 30, 2011, the Company achieved a 69% increase in adjusted EBITDA for the three months ended June 30, 2012 as compared to the same period in 2011.
- During the six months ended June 30, 2012, the Company achieved an adjusted EBITDA of $38.0 million, a 17% increase from $32.6 million for the same period in 2011. Excluding the remeasurement gain of $6.3 million recognized during the six months ended June 30, 2011, the Company achieved a 45% increase in adjusted EBITDA for the six months ended June 30, 2012 as compared to the same period in 2011.

Investments business

Investment Account

- Our investment account (Kennedy Wilson's equity in real estate, joint ventures, loan investments, and marketable securities) increased by 7% to $626.0 million from $582.8 million at December 31, 2011. This change was comprised of approximately $160.0 million of cash contributed to and income earned on investments and approximately $116.6 million of cash distributed from investments.

Operating metrics

- During the three months ended June 30, 2012, our investments business achieved an EBITDA of $17.0 million, a 2% increase from $16.6 million for the same period in 2011. Excluding the remeasurement gain of $6.3 million recognized during the three months ended June 30, 2011, the Company achieved a 65% increase in adjusted EBITDA for the three months ended June 30, 2012 as compared to the same period in 2011.
- During the six months ended June 30, 2012, our investments business achieved an EBITDA of $34.7 million, a 14% increase from $30.5 million for the same period in 2011. Excluding the remeasurement gain of $6.3 million recognized during the six months ended June 30, 2011, the Company achieved a 44% increase in adjusted EBITDA for the six months ended June 30,

32

Table of Contents

2012 as compared to the same period in 2011.

Acquisition/disposition program

- During the six months ended June 30, 2012, the Company and its equity partners acquired approximately $889.5 million of real estate related investments. We invested $107.0 million of our equity in the investment vehicles that acquired these real estate related investments. We expect to earn approximately $5.0 million of EBITDA per quarter going forward over the life these income-producing real estate related investments, of which $1.4 million was recognized for the three and six months ended June 30, 2012. Additionally, as of June 30, 2012, we and our equity partners are under contract to acquire approximately $514.0 million of real estate related investments. Since January 1, 2010 through June 30, 2012, we, together with our equity partners, have acquired or are under contract to acquire approximately $6.5 billion of real estate related investments. As of June 30, 2012, the Company and its equity partners own or are under contract to own 14,114 apartment units and approximately 3.6 million square feet of commercial real estate.
- The composition of the $889.5 million of real estate related investments acquired by the Company and its equity partners during the six months ended June 30, 2012 is as follows:

During the six months ended June 30, 2012, we, along with our equity partners, acquired approximately $788.8 million of income producing real estate assets. The underlying assets are located primarily in the Western U.S. (70% in terms of our equity invested) and Ireland (30% in terms of our equity invested) and include six multifamily properties with 1,801 units and eight commercial properties totaling 1.6 million square feet. We invested $52.8 million of our equity in the joint ventures that acquired these real estate assets.

During the six months ended June 30, 2012, we, along with our equity partners, acquired or originated approximately $100.7 million of loans at an average discount of 14% to their principal balance. These loans are secured by 12 underlying properties all located in the Western U.S. and have an average coupon rate of 10.6% per annum. We invested approximately $54.2 million of our equity in participations in these loans. In addition, we generally earn origination and exit fees on our share of these loans.

- During the six months ended June 30, 2012, the Company and its equity partners sold four multifamily properties located in the Western U.S. for a total of $243.0 million, which resulted in a total gain of $32.6 million, of which our share was $7.9 million.

Debt financing

- During the six months ended June 30, 2012, the Company and its equity partners completed approximately $283.3 million of property financings at an average interest rate of 3.1% and a weighted average maturity of 7.9 years. During the six months ended June 30, 2011, the Company and its equity partners completed approximately $731.2 million of property financings at an average interest rate of 3.5% and a weighted average maturity of 4.4 years.

United Kingdom and Ireland

- In December 2011, we and our equity partners acquired a loan pool secured by real estate located in the United Kingdom with an unpaid principal balance of $2.1 billion. As of June 30, 2012, the unpaid principal balance was $1.4 billion due to loan resolutions of approximately $689.6 million, representing 33% of the pool.
- On March 13, 2012, we announced a €250 million (approximately $325 million) capital commitment from Fairfax Financial Holdings to acquire real estate and loans secured by real estate in the United Kingdom and Ireland. Investments under this program require Fairfax's agreement to participate on an investment by investment basis. In June 2012, we purchased our first investment within this platform, the historic 210-unit Alliance Building in Dublin, Ireland, located adjacent to Google's European headquarters, for $50.0 million. We invested $15.8 million of our equity in the joint venture that acquired this asset.
- On May 2, 2012, we entered into a term sheet with a major European financial institution to create a framework to target the acquisition of €2 billion (approximately $2.5 billion) of performing, sub-performing and non-performing loans secured by commercial and residential real estate in Europe, with a focus on the United Kingdom and Ireland.

Japan

- Maintained 93% occupancy in 50 apartment buildings with over 2,400 units. Excluding one 86-unit building with an expired corporate master lease that is now being leased to individual tenants, our Japanese apartment portfolio maintained 96% occupancy.

- Since Fairfax became our partner in the Japanese apartment portfolio in September 2010, we have distributed a total of $51.5 million, of which our share was $24.0 million.

Services business

33

Table of Contents

- Management and leasing fees and commissions increased by 67% to $12.6 million for the three months ended June 30, 2012 from $7.6 million for the same period in 2011.
- During the three months ended June 30, 2012, our services business achieved an EBITDA of $3.6 million, a 140% increase from $1.5 million for the same period in 2011.
- Management and leasing fees and commissions increased by 52% to $23.0 million for the six months ended June 30, 2012 from $15.1 million for the same period in 2011.
- During the six months ended June 30, 2012, our services business achieved an EBITDA of $6.3 million, a 91% increase from $3.3 million for the same period in 2011.

Corporate financing

- In June 2012, we amended our existing revolving credit facility to, among other things, increase the total amount that may be borrowed thereunder by $25.0 million to $100 million and extend the maturity to June 30, 2015. Existing and future loans under the amended facility will bear interest at a rate equal to LIBOR plus 2.75%.

Subsequent events

- In July 2012, the Company issued 8.6 million shares of common stock primarily to institutional investors, resulting in gross proceeds of $112.1 million of which $40 million was used to pay off the outstanding balance on our line of credit.
- In July 2012, the Company was awarded its first auction assignment from a European financial institution and simultaneously opened an auction office in Madrid, Spain.

Results of Operations

The following table sets forth items derived from our consolidated statement of operations for the three and six months periods ended June 30, 2012 and 2011:

Table of Contents

	Three Months Ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue				
Management and leasing fees	$10,232,000	$4,946,000	$18,973,000	$9,957,000
Commissions	2,401,000	2,609,000	4,020,000	5,170,000
Sale of real estate	—	—	—	417,000
Rental and other income	1,477,000	955,000	2,947,000	1,693,000
Total revenue	14,110,000	8,510,000	25,940,000	17,237,000
Operating expenses				
Commission and marketing expenses	1,340,000	736,000	2,305,000	1,373,000
Compensation and related expenses	10,294,000	8,257,000	19,294,000	16,089,000
Cost of real estate sold	—	—	—	397,000
General and administrative	4,888,000	3,040,000	8,557,000	5,853,000
Depreciation and amortization	977,000	463,000	1,914,000	897,000
Rental operating expenses	921,000	642,000	1,791,000	1,053,000
Total operating expenses	18,420,000	13,138,000	33,861,000	25,662,000
Equity in joint venture income	5,108,000	2,551,000	10,624,000	7,807,000
Interest income from loan pool participations and notes receivable	2,876,000	2,241,000	3,414,000	4,787,000
Operating income	3,674,000	164,000	6,117,000	4,169,000
Non-operating income (expense)				
Interest income	1,207,000	401,000	2,324,000	667,000
Remeasurement gain	—	6,348,000	—	6,348,000
Gain on sale of marketable securities	—	—	2,931,000	—
Realized foreign currency exchange gain (loss)	38,000	—	(74,000)	—
Interest expense	(7,054,000)	(6,228,000)	(13,224,000)	(7,757,000)
(Loss) income from continuing operations before benefit from (provision for) income taxes	(2,135,000)	685,000	(1,926,000)	3,427,000
Benefit from (provision for) income taxes	1,138,000	(172,000)	2,621,000	(835,000)
(Loss) income from continuing operations	(997,000)	513,000	695,000	2,592,000
Income from discontinued operations, net of income taxes	—	—	2,000	—
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—
Net (loss) income	(997,000)	513,000	485,000	2,592,000
Net income attributable to the noncontrolling interests	(128,000)	(299,000)	(2,926,000)	(1,337,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(1,125,000)	214,000	(2,441,000)	1,255,000
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	(2,636,000)	(4,072,000)	(4,672,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,161,000)	$(2,422,000)	$(6,513,000)	$(3,417,000)
EBITDA [(1)]	$17,611,000	$16,203,000	$35,902,000	$