

Kennedy-Wilson Holdings, Inc.  
Form 10-Q  
May 09, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-33824

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

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

26-0508760  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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  Accelerated Filer

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Non-Accelerated Filer

Smaller Reporting Company

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

The number of shares of common stock outstanding as of May 4, 2012 was 51,822,998.

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**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, are 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.

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FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	\$ 122,317,000	\$ 115,926,000
Accounts receivable	3,535,000	3,114,000
Accounts receivable — related parties	19,537,000	15,612,000
Notes receivable	8,250,000	7,938,000
Notes receivable — related parties	34,830,000	33,269,000
Real estate, net	112,790,000	115,880,000
Investments in joint ventures (\$51,139,000 and \$51,382,000 carried at fair value as of March 31, 2012 and December 31, 2011)	336,699,000	343,367,000
Loan pool participations	91,162,000	89,951,000
Marketable securities	13,571,000	23,005,000
Other assets	19,837,000	20,749,000
Goodwill	23,965,000	23,965,000
Total assets	\$ 786,493,000	\$ 792,776,000
Liabilities and equity		
Liabilities		
Accounts payable	\$ 997,000	\$ 1,798,000
Accrued expenses and other liabilities	27,461,000	24,262,000
Accrued salaries and benefits	2,301,000	14,578,000
Deferred tax liability	22,671,000	18,437,000
Senior notes payable	249,398,000	249,385,000
Mortgage loans payable	30,748,000	30,748,000
Junior subordinated debentures	40,000,000	40,000,000
Total liabilities	373,576,000	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 as of March 31, 2012 and December 31, 2011, mandatorily convertible on May 19, 2015	—	—
6.45% Series B, 32,550 shares issued as of March 31, 2012 and December 31, 2011, mandatorily convertible on November 3, 2018	—	—
Common stock, \$0.0001 par value: 125,000,000 shares authorized, 52,989,646 and 52,989,646 shares issued and 51,822,998 and 51,825,998 shares outstanding as of March 31, 2012 and December 31, 2011, respectively	5,000	5,000
Additional paid-in capital	408,217,000	407,335,000
Retained earnings	3,765,000	9,708,000

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Accumulated other comprehensive income	11,619,000	5,035,000
Common stock held in treasury, at cost, \$0.0001 par value, 1,166,648 and 1,163,648 held at March 31, 2012 and December 31, 2011, respectively	(11,889,000	) (11,848,000 )
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	411,717,000	410,235,000
Noncontrolling interests	1,200,000	3,333,000
Total equity	412,917,000	413,568,000
Total liabilities and equity	\$786,493,000	\$792,776,000
See accompanying notes to consolidated financial statements.		

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Consolidated Statements of Operations  
(unaudited)

	Three months ended March 31,	
	2012	2011
Revenue		
Management and leasing fees	\$3,156,000	\$2,449,000
Management and leasing fees — related party	5,585,000	2,562,000
Commissions	666,000	1,551,000
Commissions — related party	953,000	1,010,000
Sale of real estate	—	417,000
Rental and other income	1,470,000	738,000
Total revenue	11,830,000	8,727,000
Operating expenses		
Commission and marketing expenses	965,000	638,000
Compensation and related expenses	9,000,000	7,832,000
Cost of real estate sold	—	397,000
General and administrative	3,669,000	2,813,000
Depreciation and amortization	937,000	434,000
Rental operating expenses	870,000	411,000
Total operating expenses	15,441,000	12,525,000
Equity in joint venture income	5,516,000	5,256,000
Interest income from loan pool participations and notes receivable	538,000	2,546,000
Operating income	2,443,000	4,004,000
Non-operating income (expense)		
Interest income	30,000	38,000
Interest income — related party	1,087,000	228,000
Gain on sale of marketable securities	2,931,000	—
Realized foreign currency exchange loss	(112,000)	) —
Interest expense	(6,170,000)	) (1,529,000)
Income from continuing operation before benefit from (provision for) income taxes	209,000	2,741,000
Benefit from (provision for) income taxes	1,483,000	(663,000)
Income from continuing operations	1,692,000	2,078,000
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 income	1,482,000	2,078,000
Net income attributable to the noncontrolling interests	(2,798,000)	) (1,038,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(1,316,000)	) 1,040,000
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	) (2,036,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$(3,352,000)	) \$(996,000)
Basic and diluted loss per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders		
Continuing operations	\$(0.06)	) \$(0.02)
Discontinued operations, net of income taxes	\$—	) \$—
Earning per share - basic and diluted <sup>(a)</sup>	\$(0.07)	) \$(0.02)
Weighted average number of common shares outstanding	51,160,270	40,022,940

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Dividends declared per common share	\$0.05	\$—
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<sup>(a)</sup> EPS amounts may not add due to rounding.

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income  
(unaudited)

	Three months ended March 31,	
	2012	2011
Net income	\$1,482,000	\$2,078,000
Other comprehensive income (loss), net of tax:		
Unrealized gain on marketable securities	5,463,000	—
Unrealized foreign currency translation loss	(2,867,000	) (1,611,000
Unrealized forward contract foreign currency gain	3,988,000	724,000
Total other comprehensive income (loss) for the period	6,584,000	(887,000
Comprehensive income	8,066,000	1,191,000
Comprehensive income attributable to noncontrolling interests	(2,798,000	) (1,038,000
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	\$5,268,000	\$153,000

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total	
	Shares	Amount	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	\$413,000
Repurchase of 3,000 common shares	—	(3,000 )	—	—	—	(41,000 )	—	(41,000 )	(41,000 )
Stock-based compensation	—	—	871,000	—	—	—	—	871,000	871,000
Other comprehensive income:									
Unrealized gain on marketable securities, net of tax of \$3,642,000	—	—	—	—	5,463,000	—	—	5,463,000	5,463,000
Unrealized foreign currency translation loss, net of tax of \$1,927,000	—	—	—	—	(2,867,000 )	—	—	(2,867,000 )	(2,867,000 )
Unrealized forward contract foreign currency gain, net of tax of \$2,659,000	—	—	—	—	3,988,000	—	—	3,988,000	3,988,000
Preferred stock dividends	—	—	—	(2,025,000 )	—	—	—	(2,025,000 )	(2,025,000 )
Common stock dividends	—	—	—	(2,591,000 )	—	—	—	(2,591,000 )	(2,591,000 )
Accretion of preferred stock issuance costs	—	—	11,000	(11,000 )	—	—	—	—	—
Net (loss) income	—	—	—	(1,316,000 )	—	—	2,798,000	1,482,000	1,482,000
Distributions to noncontrolling interests	—	—	—	—	—	—	(4,931,000 )	(4,931,000 )	(4,931,000 )

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Balance at  
March 31, 2012 132,550 \$-51,822,998 \$5,000 \$408,217,000 \$3,765,000 \$11,619,000 \$(11,889,000) \$1,200,000 \$412,000

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$1,482,000	\$2,078,000
Adjustments to reconcile net income to net cash used in operating activities:		
Net loss (gain) from sale of real estate	212,000	(20,000 )
Gain from sale of marketable securities	(2,931,000 )	—
Depreciation and amortization	937,000	434,000
Provision for deferred income taxes	(84,000 )	570,000
Amortization of deferred loan costs	252,000	71,000
Amortization of discount and accretion of premium on issuance of the senior notes payable	13,000	—
Equity in joint venture income	(5,516,000 )	(5,256,000 )
Accretion of interest income on loan pool participations and notes receivable	(538,000 )	(2,546,000 )
Stock based compensation	871,000	1,167,000
Change in assets and liabilities:		
Accounts receivable	(421,000 )	(472,000 )
Accounts receivable—related parties	(3,925,000 )	(275,000 )
Operating distributions from joint ventures	6,886,000	104,000
Operating distributions from loan pool participation	1,151,000	286,000
Other assets	110,000	380,000
Accounts payable	(801,000 )	(927,000 )
Accrued expenses and other liabilities	2,681,000	501,000
Accrued salaries and benefits	(12,277,000 )	(8,142,000 )
Net cash used in operating activities	(11,898,000 )	(12,047,000 )
Cash flows from investing activities:		
Additions to notes receivable	(61,000 )	—
Settlements of notes receivable	—	312,000
Additions to notes receivable—related parties	(1,561,000 )	(2,912,000 )
Net proceeds from sale of real estate	17,905,000	332,000
Purchases of and additions to real estate	(15,414,000 )	—
Proceeds from sale of marketable securities	21,386,000	—
Distributions from joint ventures	10,461,000	2,963,000
Contributions to joint ventures	(5,318,000 )	(17,112,000 )
Contributions to loan pool participations	—	(82,000 )
Net cash provided by (used in) investing activities	27,398,000	(16,499,000 )
Cash flow from financing activities:		
Repayment of notes payable	—	(1,400,000 )
Borrowings under lines of credit	—	19,000,000
Borrowings under mortgage loans payable	—	5,076,000
Repayment of mortgage loans payable	—	(871,000 )
Debt issue costs	—	(45,000 )
Repurchase of common stock	(41,000 )	(31,000 )
Dividends paid	(4,098,000 )	(2,025,000 )
Contributions from noncontrolling interests	—	377,000
Distributions to noncontrolling interests	(4,931,000 )	(334,000 )

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Net cash (used in) provided by financing activities	(9,070,000	) 19,747,000
Effect of currency exchange rate changes on cash and cash equivalents	(39,000	) (2,676,000 )
Net change in cash and cash equivalents	6,391,000	(11,475,000 )
Cash and cash equivalents, beginning of period	115,926,000	46,968,000
Cash and cash equivalents, end of period	\$122,317,000	\$35,493,000

See accompanying notes to consolidated financial statements.

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	Three months ended March 31,	
	2012	2011
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gain on marketable securities, net of tax of \$3,642,000	\$(5,463,000 )	\$—
Accretion of preferred stock issuance costs	11,000	11,000
Accrued dividends declared on common stock	2,591,000	—
	Three months ended March 31,	
	2012	2011
Supplemental cash flow information:		
Cash paid for:		
Interest	\$1,367,000	\$1,729,000
Interest capitalized	962,000	330,000
Income taxes	50,000	—

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 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 months ended March 31, 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 performances fees recognized through March 31, 2012 that may be reversed in future periods if there is negative fund or loan pool performance totaled \$6.1 million. Performance fees accrued as of March 31, 2012 and December 31, 2011 were \$6.1 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



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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

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 March 31, 2012, the Company had an immaterial allowance for doubtful accounts and during the three months ended March 31, 2012 and 2011 had 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 generally 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.

**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 three months ended March 31, 2012, Kennedy Wilson advanced an additional \$1.4 million on an unsecured note receivable to KW Property Fund II, LP, an equity method investment and related party. The note had an outstanding balance of \$24.1 million as of March 31, 2012. The note bears interest at a rate of 15%, is interest only, and is due on October 31, 2013. The interest recognized on the note is included in interest income - related party in the accompanying consolidated statements of operations.

**NOTE 4—REAL ESTATE**

During the three months ended March 31, 2012, Kennedy Wilson purchased a medical office building in Rancho Mirage, CA 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.

Additionally, during the first quarter of 2012, Kennedy Wilson sold a hotel in Palm Springs, CA for \$2.9 million. The property was acquired through a foreclosure on one of the loans in the Company's consolidated loan pools. The original basis the property was acquired for 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.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 2012  
(Unaudited)

**NOTE 5—INVESTMENTS IN JOINT VENTURES**

Kennedy Wilson has a number of joint venture interests, generally ranging from 5% to approximately 50%, which were formed to acquire, manage and/or sell real estate. Kennedy Wilson has significant influence over these entities, but not control, and accordingly, these investments are accounted for under the equity method.

During the three months ended March 31, 2012, Kennedy Wilson made \$5.3 million in contributions to existing joint venture investments. Of this amount, \$3.0 million was contributed to a joint venture to payoff existing debt.

Additionally, Kennedy Wilson received \$17.3 million in distributions from its joint ventures. The distributions included proceeds from the sale of a property in a joint venture which resulted in \$9.0 million in distributions.

The Company has determined that it has investments in four variable interest entities as of March 31, 2012 and has concluded that Kennedy Wilson is not the primary beneficiary in any of the investments. As of March 31, 2012, the variable interest entities had assets totaling \$659.2 million with Kennedy Wilson's exposure to loss as a result of its interests in these variable interest entities totaling \$73.6 million related to its equity contributions. In addition, as of March 31, 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 March 31, 2012, Kennedy Wilson has unfulfilled capital commitments totaling \$9.5 million to its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of our capital commitment obligations.

The Company 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 \$25.1 million and \$26.7 million as of March 31, 2012 and December 31, 2011, respectively. 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 March 31, 2012 and December 31, 2011 is immaterial.

**NOTE 6—INVESTMENT IN LOAN POOL PARTICIPATION**

In 2011, Kennedy Wilson, along with institutional partners, acquired a 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 March 31, 2012 the unpaid principal balance of the loans was \$1.6 billion due to loan resolutions of approximately \$446.1 million through March 31, 2012, representing 22% of the pool. Kennedy Wilson expects to accrete \$28.0 million in interest income from loan pool participations over the total estimated collection period.

During the three months ended March 31, 2012, Kennedy Wilson recognized \$1.8 million of interest income from this loan pool participation in the accompanying consolidated statements of operations.

During the three months ended March 31, 2012, Kennedy Wilson recognized \$2.1 million in gains from foreign currency translation adjustments from its investment in the UK Loan Pool. The foreign currency gain is included in other comprehensive income in the accompanying consolidated statement of equity and consolidated statements of comprehensive 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 is comprised of nine nonperforming loans secured by eight retail properties located in Southern California. The amount contractually due under the terms of the notes as of March 31, 2012 is \$43.7 million. Kennedy Wilson expects to accrete \$0.4 million in interest income from loan pool participations over the estimated collection period. During the three months ended March 31, 2012,

Kennedy Wilson recognized \$0.1 million of interest 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 March 31, 2012 are \$157.3 million. Contractual payments of principal and interest of \$0.4 million are due monthly. As of March 31, 2012, Kennedy Wilson expects to accrete \$11.1 million in interest income from loan pool participations over the total estimated collection period. During the three months ended March 31, 2012 Kennedy Wilson recognized a \$1.7 million reduction in accretion in the loan pool due to an increase in the estimated resolution periods as well as foreclosure on certain

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underlying real estate collateral in the accompanying consolidated statement of operations. During the three months ended March 31, 2011, Kennedy Wilson recognized \$2.1 million of interest income from loan pool participations in the accompanying consolidated statement of operations.

From acquisition through March 31, 2012, Kennedy Wilson has accreted \$14.3 million of interest on loan pool participations included in the accompanying consolidated balance sheet.

**NOTE 7—MARKETABLE SECURITIES**

During the three months ended March 31, 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 March 31, 2012, the remaining marketable securities had a cost basis of \$11.5 million and a fair value of \$13.5 million. The difference included unrealized gains of \$2.0 million which is included in other comprehensive income in the accompanying consolidated statement of equity and consolidated statements of comprehensive 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 March 31, 2012:

	Level 1	Level 2	Level 3	Total
Marketable securities	\$13,571,000	\$—	\$—	\$13,571,000
Investment in joint ventures	—	—	51,139,000	51,139,000
	\$13,571,000	\$—	\$51,139,000	\$64,710,000

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 holding gains on these securities are included in accumulated other comprehensive income.

The following table presents changes in Level 3 investments for the three months ended March 31, 2012 and 2011, respectively:

	Three months ended March 31,	
	2012	2011
Beginning balance	\$51,382,000	\$34,654,000
Unrealized and realized gains	—	82,000
Unrealized and realized losses	(32,000)	) —
Purchases	31,000	—
Sales	(242,000)	) (50,000)
Ending balance	\$51,139,000	\$34,686,000



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

There was no material change and a loss of \$1.1 million in unrealized gains and losses on Level 3 investments during the three months ended March 31, 2012 and 2011, respectively, for investments still held as of March 31, 2012. 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. There was no material change in the fair value of these investments for the three months ended March 31, 2012. During the three months ended March 31, 2011, Kennedy Wilson recorded an increase in fair value of \$0.1 million in equity in joint venture income in the consolidated statements of operations. Kennedy Wilson's investment balance in the Funds was \$23.3 million and \$23.4 million at March 31, 2012 and December 31, 2011, respectively, which are included in investments in joint ventures in the accompanying consolidated balance sheets. As of March 31, 2012 and December 31, 2011, Kennedy Wilson has unfunded capital commitments to the Funds in the amounts of \$6.1 million and \$9.2 million, respectively.

**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 fair value of these investments during the three months ended March 31, 2012 and 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 March 31, 2012 and December 31, 2011, these two investments had fair values of \$27.8 million and \$27.9 million, respectively.

In estimating fair value of real estate held by the Funds and 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	8.7%

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.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**—The carrying amount of cash and cash equivalents, accounts receivable, 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. Bank lines of credit and debt approximate fair value as the terms are comparable to the terms currently being offered to Kennedy Wilson.



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NOTE 9—SENIOR NOTES

In April 2011, Kennedy-Wilson, Inc., a wholly-owned subsidiary of Kennedy Wilson, in a private placement, issued \$200 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 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 March 31, 2012, Kennedy-Wilson, Inc. was in compliance with this ratio. See Note 16 for the guarantor and non-guarantor financial statements.

NOTE 10—LINE OF CREDIT

In July 2010, Kennedy Wilson entered into a new unsecured revolving credit facility with US Bank and East West Bank, which effectively increased its existing revolving credit facility from \$30 million to \$75 million, extended the maturity date to August 2013, and established an interest rate floor of 4%. The facility is available for acquisitions and working capital. The facility bears interest at rates ranging from LIBOR plus 2.50% to LIBOR plus 3.00%, with a floor of 4%. 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 1.75 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 1.95 to 1.00 and its balance sheet leverage was 0.75 to 1.00. Total available on the line of credit is \$75 million. As of March 31, 2012, there were no amounts drawn on the line of credit.

NOTE 11—JUNIOR SUBORDINATED DEBENTURES

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of \$40 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued \$40 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 2.88 to 1.00 and its ratio of total debt to net worth was 0.78 to 1.00. As of

March 31, 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 three months ended March 31, 2012: During the three months ended March 31, 2012, a noncontrolling 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. During the three months ended March 31, 2012 and 2011, the firm of Solomon, Winnett & Rosenfield was paid \$47,000

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and \$58,000, 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 \$7,000, respectively, for director's fees for the same period.

**NOTE 13—EARNINGS PER SHARE**

For the three months ended March 31, 2012 and 2011, a total of 18,201,057 and 22,178,931 potentially dilutive securities have not been included in the diluted weighted average shares as Kennedy Wilson has a net loss attributable to common shareholders.

**NOTE 14—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 months ended March 31, 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 for the three months ended March 31, 2012 and 2011 and balance sheet data as of March 31, 2012 and December 31, 2011:

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	Three Months Ended March 31,	
	2012	2011
Investments		
Sale of real estate	\$—	\$417,000
Rental and other income	1,470,000	738,000
Total revenue	1,470,000	1,155,000
Operating expenses	4,693,000	4,303,000
Depreciation and amortization	822,000	359,000
Total operating expenses	5,515,000	4,662,000
Equity in joint venture income	5,516,000	5,256,000
Interest income from loan pool participations and notes receivable	538,000	2,546,000
Operating income	2,009,000	4,295,000
Gain on sale of marketable securities	2,931,000	—
Realized foreign currency exchange loss	(112,000	) —
Interest income - related party	1,087,000	—
Interest expense	(158,000	) (77,000
Income from continuing operations	5,757,000	4,218,000
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	\$5,547,000	\$4,218,000
Total assets	\$598,218,000	\$425,355,000
	Three Months Ended March 31,	
	2012	2011
Services		
Management and leasing fees and commissions	\$3,822,000	\$4,000,000
Management and leasing fees and commissions - related party	6,538,000	3,572,000
Total revenue	10,360,000	7,572,000
Operating expenses	7,604,000	5,747,000
Depreciation and amortization	33,000	35,000
Total operating expenses	7,637,000	5,782,000
Operating income	2,723,000	1,790,000
Income before benefit from and provision for income taxes	\$2,723,000	\$1,790,000
Total assets	\$68,661,000	\$38,851,000

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	Three Months Ended March 31,	
	2012	2011
Corporate		
Operating expenses	\$2,207,000	\$2,041,000
Depreciation and amortization	82,000	40,000
Total operating expenses	2,289,000	2,081,000
Operating loss	(2,289,000)	(2,081,000)
Interest income	30,000	38,000
Interest income - related party	—	228,000
Interest expense	(6,012,000)	(1,452,000)
Loss before benefit from (provision for) income taxes	(8,271,000)	(3,267,000)
Benefit from (provision) for income taxes	1,483,000	(663,000)
Net loss	\$(6,788,000)	\$(3,930,000)
Total assets	\$119,614,000	\$37,226,000
	Three Months Ended March 31,	
	2012	2011
Consolidated		
Management fees and commissions	\$3,822,000	\$4,000,000
Management fees and commissions - related party	6,538,000	3,572,000
Sale of real estate	—	417,000
Rental and other income	1,470,000	738,000
Total revenue	11,830,000	8,727,000
Operating expenses	14,504,000	12,091,000
Depreciation and amortization	937,000	434,000
Total operating expenses	15,441,000	12,525,000
Equity in joint venture income	5,516,000	5,256,000
Interest income from loan pool participations and notes receivable	538,000	2,546,000
Operating income	2,443,000	4,004,000
Interest income	30,000	38,000
Interest income - related party	1,087,000	228,000
Gain on sale of marketable securities	2,931,000	—
Realized foreign currency exchange loss	(112,000)	—
Interest expense	(6,170,000)	(1,529,000)
Income from continuing operation before benefit from (provision for) income taxes	209,000	2,741,000
Benefit from (provision) for income taxes	1,483,000	(663,000)
Income from continuing operations	1,692,000	2,078,000
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 income	\$1,482,000	\$2,078,000
Total assets	\$786,493,000	\$501,432,000

NOTE 15—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 the ultimate outcome of

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tax audits.

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 16—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS**

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

(1) Condensed consolidating balance sheets as of March 31, 2012 and December 31, 2011; consolidating statements of operations for the three months ended March 31, 2012 and 2011; consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011; and condensed consolidating statements of cash flows for the three months ended March 31, 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 March 31, 2012.

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## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF March 31, 2012

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
Cash and cash equivalents	\$—	\$ 102,042,000	\$ 5,336,000	\$ 14,939,000	\$—	\$ 122,317,000
Accounts receivable	—	473,000	1,997,000	1,065,000	—	3,535,000
Accounts receivable related parties	—	3,541,000	7,094,000	8,902,000	—	19,537,000
Notes receivable	—	862,000	6,388,000	1,000,000	—	8,250,000
Notes receivable related parties	—	34,830,000	—	—	—	34,830,000
Real estate, net of accumulated depreciation	—	—	48,724,000	64,066,000	—	112,790,000
Investments in joint ventures	—	10,452,000	312,770,000	13,477,000	—	336,699,000
Investments in and advances to consolidated subsidiaries	414,872,000	563,050,000	81,057,000	—	(1,058,979,000)	—
Investment in loan pool participations	—	—	91,162,000	—	—	91,162,000
Marketable securities	—	13,538,000	33,000	—	—	13,571,000
Other assets	—	13,762,000	2,564,000	3,511,000	—	19,837,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
<b>Total Assets</b>	<b>\$ 414,872,000</b>	<b>\$ 742,550,000</b>	<b>\$ 574,341,000</b>	<b>\$ 113,709,000</b>	<b>\$ (1,058,979,000)</b>	<b>\$ 786,493,000</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Accounts payable	\$ 52,000	\$ 606,000	\$ 166,000	\$ 173,000	\$—	\$ 997,000
Accrued expenses and other liabilities	3,103,000	14,312,000	5,585,000	4,461,000	—	27,461,000
Accrued salaries and benefits	—	1,051,000	980,000	270,000	—	2,301,000
Deferred tax liability	—	22,311,000	169,000	191,000	—	22,671,000
Senior notes payable	—	249,398,000	—	—	—	249,398,000
Mortgage loans payable	—	—	4,391,000	26,357,000	—	30,748,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
<b>Total liabilities</b>	<b>3,155,000</b>	<b>327,678,000</b>	<b>11,291,000</b>	<b>31,452,000</b>	<b>—</b>	<b>373,576,000</b>



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Equity						
Kennedy-Wilson						
Holdings, Inc.	411,717,000	414,872,000	563,050,000	81,057,000	(1,058,979,000 )	411,717,000
shareholders' equity						
Noncontrolling						
interests	—	—	—	1,200,000	—	1,200,000
Total equity	411,717,000	414,872,000	563,050,000	82,257,000	(1,058,979,000 )	412,917,000
Total liabilities and						
equity	\$414,872,000	\$742,550,000	\$574,341,000	\$113,709,000	\$(1,058,979,000)	\$786,493,000

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## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2011

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
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
<b>Total Assets</b>	<b>\$ 412,871,000</b>	<b>\$ 745,451,000</b>	<b>\$ 578,174,000</b>	<b>\$ 118,829,000</b>	<b>\$ (1,062,549,000)</b>	<b>\$ 792,776,000</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>2,636,000</b>	<b>332,580,000</b>	<b>10,889,000</b>	<b>33,103,000</b>	<b>—</b>	<b>379,208,000</b>

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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

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2012

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	\$—	\$ 20,000	\$ 1,590,000	\$ 1,546,000	\$—	\$ 3,156,000
Management and leasing fees related party	—	—	2,394,000	3,191,000	—	5,585,000
Commissions	—	43,000	562,000	61,000	—	666,000
Commissions — related party	—	—	953,000	—	—	953,000
Rental and other income	—	—	156,000	1,314,000	—	1,470,000
Total revenue	—	63,000	5,655,000	6,112,000	—	11,830,000
Operating expenses						
Commission and marketing expenses		—	899,000	66,000	—	965,000
Compensation and related expenses	871,000	3,027,000	2,972,000	2,130,000	—	9,000,000
General and administrative	—	1,735,000	938,000	996,000	—	3,669,000
Depreciation and amortization	—	82,000	93,000	762,000	—	937,000
Rental operating expenses	—	—	240,000	630,000	—	870,000
Total operating expenses	871,000	4,844,000	5,142,000	4,584,000	—	15,441,000
Equity in joint venture income	—	65,000	202,000	5,249,000	—	5,516,000
Interest income from loan pool participations and notes receivable	—	—	518,000	20,000	—	538,000
Income from consolidated subsidiaries	2,353,000	7,356,000	6,380,000	—	(16,089,000 )	—
Operating income	1,482,000	2,640,000	7,613,000	6,797,000	(16,089,000 )	2,443,000
Non-operating income (expense)						
Interest income	—	30,000	—	—	—	30,000
Interest income — related party	—	1,087,000	—	—	—	1,087,000
Gain on sale of marketable securities	—	2,931,000	—	—	—	2,931,000
Realized foreign currency exchange loss	—	(112,000 )	—	—	—	(112,000 )
Interest expense	—	(5,706,000 )	(47,000 )	(417,000 )	—	(6,170,000 )
Income from continuing operations before benefit from income taxes	1,482,000	870,000	7,566,000	6,380,000	(16,089,000 )	209,000
Benefit from income taxes	—	1,483,000	—	—	—	1,483,000
Income from continuing operations	1,482,000	2,353,000	7,566,000	6,380,000	(16,089,000 )	1,692,000
Discontinued operations						

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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	1,482,000	2,353,000	7,356,000	6,380,000	(16,089,000 )	1,482,000
Net income attributable to the noncontrolling interests	—	—	—	(2,798,000 )	—	(2,798,000 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	1,482,000	2,353,000	7,356,000	3,582,000	(16,089,000 )	(1,316,000 )
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	\$(554,000)	\$ 2,353,000	\$7,356,000	\$ 3,582,000	\$(16,089,000)	\$(3,352,000)

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2011

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	\$ —	\$ 61,000	\$ 1,617,000	\$ 771,000	\$ —	\$ 2,449,000
Management and leasing fees—related party	—	—	2,305,000	257,000	—	2,562,000
Commissions	—	346,000	1,175,000	30,000	—	1,551,000
Commissions—related party	—	—	1,010,000	—	—	1,010,000
Sale of real estate	—	—	417,000	—	—	417,000
Rental and other income	—	—	223,000	515,000	—	738,000
Total revenue	—	407,000	6,747,000	1,573,000	—	8,727,000
Operating expenses						
Commission and marketing expenses	—	—	572,000	66,000	—	638,000
Compensation and related expenses	1,167,000	615,000	3,354,000	696,000	—	7,832,000
Cost of real estate sold	—	—	397,000	—	—	397,000
General and administrative	—	1,581,000	1,018,000	214,000	—	2,813,000
Depreciation and amortization	—	40,000	214,000	180,000	—	434,000
Rental operating expenses	—	—	263,000	148,000	—	411,000
Total operating expenses	1,167,000	2,236,000	5,818,000	1,304,000	—	12,525,000
Equity in joint venture income	—	—	5,280,000	(24,000 )	—	5,256,000
Interest income from loan pool participations and notes receivable	—	12,000	2,514,000	20,000	—	2,546,000
Income from consolidated subsidiaries	3,245,000	660,000	135,000	—	(12,040,000)	—
Operating income	2,078,000	843,000	8,858,000	265,000	(12,040,000)	1,004,000
Non-operating income (expense)						
Interest income	—	38,000	—	—	—	38,000
Interest income—related party	—	228,000	—	—	—	—