

Kennedy-Wilson Holdings, Inc.  
Form 10-Q  
August 08, 2013  
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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 June 30, 2013

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 Filero  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 August 2, 2013 was 73,977,460.

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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 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, 2012. 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 filings 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 (Unaudited)

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

	June 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 139,651,000	\$ 120,855,000
Short-term investments	—	10,000,000
Accounts receivable	7,384,000	3,647,000
Accounts receivable — related parties	22,170,000	22,393,000
Notes receivable	12,840,000	136,607,000
Notes receivable — related parties	8,552,000	—
Real estate, net of accumulated depreciation of \$10,737,000 and \$7,412,000 at June 30, 2013 and December 31, 2012, respectively	488,435,000	289,449,000
Investments in joint ventures (\$73,968,000 and \$68,363,000 carried at fair value as of June 30, 2013 and December 31, 2012, respectively)	694,664,000	543,193,000
Investments in loan pool participations	68,719,000	95,601,000
Other assets	46,867,000	38,079,000
Goodwill	23,965,000	23,965,000
<b>Total assets</b>	<b>\$ 1,513,247,000</b>	<b>\$ 1,283,789,000</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Accounts payable	\$ 2,051,000	\$ 1,762,000
Accrued expenses and other liabilities	37,788,000	29,417,000
Accrued salaries and benefits	11,349,000	24,981,000
Deferred tax liability	12,720,000	22,671,000
Senior notes payable	409,348,000	409,640,000
Mortgage loans payable	318,813,000	236,538,000
Borrowings under line of credit	30,000,000	—
Junior subordinated debentures	40,000,000	40,000,000
<b>Total liabilities</b>	<b>862,069,000</b>	<b>765,009,000</b>
<b>Equity</b>		
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, 2013 and December 31, 2012, mandatorily convertible on May 19, 2015	—	—
6.45% Series B, 32,550 shares issued and outstanding as of June 30, 2013 and December 31, 2012, mandatorily convertible on November 3, 2018	—	—

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Common stock, \$0.0001 par value, 125,000,000 shares authorized, 73,975,960 and 64,789,646 shares issued and 73,975,960 and 63,772,598 shares	7,000	6,000
outstanding as of June 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	663,575,000	512,835,000
Accumulated deficit	(22,283,000	) (5,910,000
Accumulated other comprehensive income	361,000	12,569,000
Common stock held in treasury, at cost, \$0.0001 par value, 1,017,048 shares held at December 31, 2012	—	(9,856,000
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	641,660,000	509,644,000
Noncontrolling interests	9,518,000	9,136,000
Total equity	651,178,000	518,780,000
Total liabilities and equity	\$1,513,247,000	\$1,283,789,000
See accompanying notes to consolidated financial statements.		

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

	Three Months Ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue				
Management and leasing fees	\$4,754,000	\$4,101,000	\$9,463,000	\$7,257,000
Management and leasing fees — related party	9,356,000	6,131,000	17,313,000	11,716,000
Commissions	936,000	1,370,000	1,460,000	2,036,000
Commissions — related party	4,448,000	1,031,000	4,840,000	1,984,000
Sale of real estate	6,096,000	—	8,514,000	—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	35,955,000	14,110,000	58,352,000	25,940,000
Operating expenses				
Commission and marketing expenses	1,336,000	1,340,000	1,834,000	2,305,000
Compensation and related expenses	18,264,000	10,294,000	31,884,000	19,294,000
Cost of real estate sold	5,130,000	—	7,002,000	—
General and administrative	6,387,000	4,888,000	11,814,000	8,557,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Rental operating expenses	4,582,000	921,000	7,685,000	1,791,000
Total operating expenses	40,114,000	18,420,000	67,691,000	33,861,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	11,042,000	3,674,000	8,463,000	6,117,000
Non-operating income (expense)				
Interest income	127,000	25,000	167,000	55,000
Interest income — related party	72,000	1,182,000	72,000	2,269,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(12,531,000)	(7,054,000)	(23,963,000)	(13,224,000)
Other	—	38,000	—	(74,000)
Loss from continuing operations before benefit from income taxes	(1,800,000)	(2,135,000)	(6,312,000)	(1,926,000)
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
(Loss) income from continuing operations	(1,331,000)	(997,000)	(4,140,000)	695,000
Discontinued operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Net (loss) income	(1,331,000)	(997,000)	(3,926,000)	485,000
Net loss (income) attributable to the noncontrolling interests	899,000	(128,000)	1,898,000	(2,926,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc.	(432,000)	(1,125,000)	(2,028,000)	(2,441,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	(2,036,000)	(4,072,000)	(4,072,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common	\$(2,468,000)	\$(3,161,000)	\$(6,100,000)	\$(6,513,000)

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shareholders				
Basic and diluted earnings (loss) per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders				
Continuing operations	\$ (0.03	) \$ (0.06	) \$ (0.10	) \$ (0.12
Discontinued operations, net of income taxes	—	—	—	—
Earnings (loss) per share - basic and diluted <sup>(a)</sup>	\$ (0.03	) \$ (0.06	) \$ (0.09	) \$ (0.13
Weighted average number of common shares outstanding	70,976,247	51,401,674	66,432,823	51,280,986
Dividends declared per common share	\$0.07	\$0.05	\$0.14	\$0.10

<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 (Loss) Income  
(unaudited)

	Three Months Ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net (loss) income	\$(1,331,000 )	\$(997,000 )	\$(3,926,000 )	\$485,000
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on marketable securities	—	(1,998,000 )	—	3,465,000
Unrealized foreign currency translation (loss) gain	(3,685,000 )	1,688,000	(18,043,000 )	(1,179,000 )
Unrealized forward contract, foreign currency gain (loss)	2,239,000	(1,808,000 )	5,835,000	2,180,000
Total other comprehensive (loss) income for the period	(1,446,000 )	(2,118,000 )	(12,208,000 )	4,466,000
Comprehensive (loss) income	(2,777,000 )	(3,115,000 )	(16,134,000 )	4,951,000
Comprehensive loss (income) attributable to noncontrolling interests	899,000	(128,000 )	1,898,000	(2,926,000 )
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	\$(1,878,000 )	\$(3,243,000 )	\$(14,236,000 )	\$2,025,000

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balance at December 31, 2012	132,550	63,772,598	\$6,000	\$512,835,000	\$(5,910,000)	\$12,569,000	\$(9,856,000)	\$9,136,000	\$512,835,000
Issuance of 10,350,000 shares of common stock	—	10,350,000	1,000	153,870,000	—	—	—	—	154,871,000
Repurchase of 427,332 warrants	—	—	—	(1,393,000)	—	—	—	—	(1,393,000)
Retirement of common shares held in treasury	—	—	—	(9,856,000)	—	—	9,856,000	—	—
Shares forfeited under the 2009 Equity Participation Plan	—	(146,638)	—	(186,000)	—	—	—	—	(332,638)
Stock-based compensation	—	—	—	8,283,000	—	—	—	—	8,283,000
Other comprehensive income: Unrealized foreign currency translation loss, net of tax of \$12,027,000	—	—	—	—	—	(18,043,000)	—	—	(18,043,000)
Unrealized forward contract foreign currency gain, net of tax of \$3,887,000	—	—	—	—	—	5,835,000	—	—	5,835,000
Preferred stock dividends	—	—	—	—	(4,050,000)	—	—	—	(4,050,000)
Common stock dividends	—	—	—	—	(10,273,000)	—	—	—	(10,273,000)

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Accretion of preferred stock	—	—	—	22,000	(22,000	)	—	—	—	—
issuance costs										
Net loss	—	—	—	—	(2,028,000	)	—	—	(1,898,000	) (3,
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	2,428,000	2,4
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(148,000	) (14
Balance at June 30, 2013	132,550	\$-73,975,960	\$7,000	\$663,575,000	\$(22,283,000)	\$361,000	\$—	\$—	\$9,518,000	\$6

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows  
(unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net (loss) income	\$(3,926,000)	\$485,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net (gain) loss from sale of real estate	(1,729,000)	212,000
Acquisition-related gain	(9,459,000)	—
Gain from sale of marketable securities	—	(2,931,000)
Depreciation and amortization	7,472,000	1,914,000
Benefit from deferred income taxes	(1,803,000)	(809,000)
Amortization of deferred loan costs	1,061,000	625,000
Amortization of discount and accretion of premium on issuance of the senior notes and mortgage loan payable	(542,000)	26,000
Equity in joint venture income	(11,576,000)	(10,624,000)
Accretion of interest income on loan pool participations and notes receivable	(5,548,000)	(3,224,000)
Operating distributions from joint ventures	12,782,000	24,271,000
Operating distributions from loan pool participation	5,129,000	22,106,000
Stock-based compensation	3,431,000	2,078,000
Change in assets and liabilities:		
Accounts receivable	(3,679,000)	(351,000)
Accounts receivable—related parties	223,000	(514,000)
Other assets	(7,989,000)	4,000
Accounts payable	289,000	(1,126,000)
Accrued expenses and other liabilities	974,000	(3,357,000)
Accrued salaries and benefits	(8,966,000)	(9,861,000)
Net cash (used in) provided by operating activities	(23,856,000)	18,924,000
Cash flows from investing activities:		
Additions to notes receivable	(5,700,000)	(4,466,000)
Collections of notes receivable	33,574,000	1,301,000
Additions to notes receivable—related parties	(8,552,000)	(15,925,000)
Collections of notes receivable—related parties	—	9,093,000
Net proceeds from sale of real estate	8,991,000	17,905,000
Purchases of and additions to real estate	(108,321,000)	(15,817,000)
Proceeds from sale of marketable securities	—	21,386,000
Proceeds from maturities of short term investments	10,000,000	—
Distributions from joint ventures	25,666,000	20,599,000
Contributions to joint ventures	(173,068,000)	(49,469,000)
Distributions from loan pool participations	49,602,000	—
Contributions to loan pool participations	(27,417,000)	(49,925,000)
Net cash used in investing activities	(195,225,000)	(65,318,000)
Cash flows from financing activities:		
Borrowings under line of credit	85,000,000	45,000,000
Repayment of line of credit	(55,000,000)	(10,811,000)
Borrowings under mortgage loans payable	68,330,000	—
Repayment of mortgage loans payable	(592,000)	—

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Debt issue costs	(930,000	) (1,026,000	)
Issuance of common stock	153,871,000	—	
Repurchase of common stock	—	(47,000	)
Repurchase of warrants	(1,393,000	) (1,395,000	)
Dividends paid	(9,144,000	) (8,714,000	)
Acquisition of noncontrolling interests	—	(473,000	)
Contributions from noncontrolling interests	616,000	—	
Distributions to noncontrolling interests	(148,000	) (4,931,000	)
Net cash provided by financing activities	240,610,000	17,603,000	
Effect of currency exchange rate changes on cash and cash equivalents	(2,733,000	) (641,000	)
Net change in cash and cash equivalents	18,796,000	(29,432,000	)
Cash and cash equivalents, beginning of period	120,855,000	115,926,000	
Cash and cash equivalents, end of period	\$ 139,651,000	\$ 86,494,000	
See accompanying notes to consolidated financial statements.			

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## Supplemental cash flow information:

	Six Months Ended June 30,	
	2013	2012
Cash paid for:		
Interest	\$23,301,000	\$13,821,000
Interest capitalized	804,000	1,359,000
Income taxes	2,281,000	85,000

## Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2013	2012
Unrealized loss on marketable securities, net of tax	\$—	\$(3,465,000 )
Accretion of preferred stock issuance costs	22,000	22,000
Dividends declared on common stock	5,179,000	2,756,000

During the six months ended June 30, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities at fair value in accordance with Business Combination guidance as described in note 4.

During the six months ended June 30, 2013, the Company sold a 50% interest in an entity that held a note receivable secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, \$96,031,000 in notes receivable and \$78,704,000 in mortgage loans were deconsolidated as described in note 3.

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(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 pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. 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, 2013 and 2012 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, 2013. 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, 2012.

The consolidated financial statements include the accounts of Kennedy Wilson and its wholly owned or 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 Financial Accounting Standards Board ("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 funds 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, 2013 that may be reversed in future periods if there is negative fund or loan pool performance totaled \$17.8 million. Performance fees accrued as of June 30, 2013 and December 31, 2012 were \$17.8 million and \$12.8 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 with declining credit quality 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 that, 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. Interest income from investments in notes receivable acquired at a discount are recognized using the effective interest method and interest income from notes receivable which the Company originates are recognized at the stated interest rate.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

**DISTRIBUTIONS FROM UNCONSOLIDATED REAL ESTATE JOINT VENTURES**—During the quarter ended March 31, 2013, the Company changed its method of accounting for determining the allocation of cash flows received from unconsolidated real estate joint ventures on its consolidated statement of cash flows from the "cumulative earnings" method to the "look-through" method both of which are acceptable methods under GAAP. Under the "look-through" approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets), in which case it is reported as an investing activity. The newly adopted method is preferable because it enables the Company to look to the nature and source of the distribution received and classify it appropriately between operating and investing activities on the statement of cash flows based upon the source, which allows the Company to present financial statements more consistent with accounting principles of consolidation. The effects of the change upon the six month period ended June 30, 2012 are as follows:

	Cumulative earnings method	Look-through method
Operating Cash Flows:		
Operating distributions from joint ventures	\$ 15,248,000	\$ 24,271,000
Net cash provided from operating activities	9,901,000	18,924,000
Investing Cash Flows:		
Investing distributions from joint ventures	29,622,000	20,599,000
Net cash used in investing activities	(56,295,000	) (65,318,000 )

**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 based on historical experience. The Company reviews its accounts receivable for probable credit losses on a quarterly basis. As of June 30, 2013, the Company had an immaterial allowance for doubtful accounts and during the six months ended June 30, 2013 and 2012 recorded no provision for doubtful accounts.

**FOREIGN CURRENCIES**—The financial statements of subsidiaries located outside the United States 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 February 2013, the FASB issued ASC Update No. 2013-02 "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." Update No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. ASC 2013-02 requires an entity to present separately information about the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income. An entity can present the information on the face of the comprehensive income statement or as a separate disclosure in the notes to the financial

statements. Kennedy Wilson does not expect any effect from adoption as it has already adopted this policy. The FASB did not issue any other ASCs during the first six months of 2013 that we expect to be applicable and have a material impact on our financial position or results of operations.

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## NOTE 3—NOTES RECEIVABLE

The following table summarizes Kennedy Wilson's investment in notes receivable at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Note receivable, variable interest rate of 5.00% over LIBOR, interest only, due December 2016, secured by a shopping center and 107 residential units in the United Kingdom	\$—	\$122,770,000
Note receivable, fixed interest rate of 2.16%, due February 2017, secured by an office building in San Diego, CA	5,762,000	—
Note receivable, fixed interest rate of 10.75%, interest only, due October 2013, secured by a hotel in San Diego, CA <sup>(1)</sup>	4,275,000	4,275,000
Note receivable, fixed interest rate of 10.50%, interest only, due December 2013, secured by two office/research and development buildings in San Jose, CA. Repaid June 2013.	—	3,759,000
Note receivable, fixed interest rate of 11.50%, interest only, due November 2013, secured by 25 acres of land and an adjacent 204-slip marina in Portland, OR. Repaid May 2013.	—	3,000,000
Note receivable, fixed interest rate of 4%, interest only, due June 2017	1,193,000	1,193,000
Note receivable, fixed interest rate of 8%, interest only, due May 2013, secured by personal guarantees of borrowers <sup>(2)</sup>	900,000	900,000
Other	710,000	710,000
Notes receivable	12,840,000	136,607,000
Note receivable from a joint venture investment, fixed interest rate of 12%, principal and accrued interest due August 31, 2016.	2,544,000	—
Note receivable from a joint venture investment, fixed interest rate of 9%, principal and accrued interest due December 31, 2013.	6,008,000	—
Notes receivable — related parties	8,552,000	—
Notes receivable and notes receivable — related parties	\$21,392,000	\$136,607,000

<sup>(1)</sup> Note receivable was repaid in full in July 2013.

<sup>(2)</sup> The Company is currently in negotiations with debtor on an extension on the note receivable. The value of the collateral underlying the note receivable exceeds the carrying value of the note receivable.

During the six months ended June 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a note receivable secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, Kennedy Wilson deconsolidated the investment and is accounting for it as an equity method investment.

Also during the six months ended June 30, 2013, Kennedy Wilson acquired a loan at a 23% discount with an unpaid principal balance of \$7.4 million for \$5.7 million on an office building in San Diego, CA. During the same period, Kennedy Wilson made loans of \$2.5 million and \$6.0 million to joint venture investments that are related parties. Notes receivable on buildings in San Jose, CA and a marina in Portland, OR were paid off during the quarter.

Interest Income from Notes Receivable

Kennedy Wilson recognized interest income on note receivables of \$0.4 million and \$0.3 million during the three months ended June 30, 2013 and 2012 and \$0.8 million and \$0.5 million for the six months ended June 30, 2013 and 2012.

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NOTE 4—REAL ESTATE

The following table summarizes Kennedy Wilson's investment in consolidated real estate properties at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Land	\$157,662,000	\$99,595,000
Buildings	335,297,000	193,302,000
Building improvements	6,213,000	3,964,000
	499,172,000	296,861,000
Less accumulated depreciation	(10,737,000 )	(7,412,000 )
Real estate, net	\$488,435,000	\$289,449,000

On June 27, 2013, the Company acquired a Class A office building in the golden triangle section of Beverly Hills, CA for \$29.7 million which was financed with an \$18.7 million mortgage loan and equity.

On April 29, 2013, the Company acquired a 450-unit apartment building in Salt Lake City, UT for \$61.8 million and financed it with a \$49.7 million mortgage loan and equity.

On March 28, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. The original 15% interest had a book value of \$0 due to prior distributions. Cash consideration of \$15.7 million was paid by the Company to increase its ownership in the property to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities at fair value in accordance with Business Combination guidance. Kennedy Wilson recorded an acquisition related gain in the amount of \$9.5 million in the accompanying consolidated statements of operations for the six months ended June 30, 2013 as the fair value was in excess of the carrying value of its ownership interest. As the transaction was between willing third party market participants, the purchase price was an approximation of fair value.

Accordingly, \$1.3 million in cash and cash equivalents, \$0.1 million in accounts receivable, \$2.2 million in other assets (including \$1.2 million of acquired in-place lease values), \$120.1 million in real estate, net, \$0.1 million in accounts payable, \$3.1 million in accrued expenses and other liabilities, \$93.5 million in mortgage loans payable, and \$1.8 million in noncontrolling interest were recorded as a result of the consolidation.

The results of operations of the assets acquired have been included in our consolidated financial statements since the date of its acquisition. The unaudited pro forma data presented below assumes that the acquisitions occurred as of January 1, 2012. The Company's unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented.

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
Dollars in thousands, except for per share data	2013	2012	2013	2012
Pro forma revenues	\$36,420	\$18,062	\$63,069	\$33,785
Pro forma net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(2,564 )	(2,602 )	(6,224 )	(5,069 )

Pro forma net loss per share:

Basic and diluted \$(0.04 ) \$(0.05 ) \$(0.09 ) \$(0.10 )

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## 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, develop, 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.

## Joint Venture Holdings

As of June 30, 2013 and December 31, 2012, the Company's equity investment in joint ventures totaled \$694.7 million and \$543.2 million, respectively.

The following table details our investments in joint ventures by investment type and geographic location as of June 30, 2013:

	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	\$133,567,000	\$170,102,000	\$49,387,000	\$61,215,000	\$460,000	\$414,731,000
Japan	76,707,000	—	—	—	—	76,707,000
United Kingdom	—	19,476,000	33,933,000	—	—	53,409,000
Ireland	77,438,000	60,339,000	—	—	—	137,777,000
Other U.S.	372,000	3,857,000	20,000	221,000	7,570,000	12,040,000
Total	\$288,084,000	\$253,774,000	\$83,340,000	\$61,436,000	\$8,030,000	\$694,664,000

The following table details our investments in joint ventures by investment type and geographic location as of December 31, 2012:

	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	\$126,860,000	\$141,572,000	\$41,855,000	\$51,784,000	\$460,000	\$362,531,000
Japan	102,658,000	—	—	—	—	102,658,000
Ireland	22,359,000	9,530,000	36,729,000	—	—	68,618,000
Other U.S.	356,000	3,518,000	20,000	222,000	5,270,000	9,386,000
Total	\$252,233,000	\$154,620,000	\$78,604,000	\$52,006,000	\$5,730,000	\$543,193,000

## KW Residential LLC

The Company's largest joint venture investment, KW Residential, LLC ("KWR"), had a balance of \$76.7 million and \$102.7 million as of June 30, 2013 and December 31, 2012, respectively. KWR is a joint venture investment in a portfolio of 50 apartment buildings comprised of approximately 2,400 units, located primarily in Tokyo and surrounding areas. Kennedy Wilson owns approximately 41% of KWR.

During the three and six months ended June 30, 2013, Kennedy Wilson recognized \$2.5 million and \$6.3 million, respectively, in losses from foreign currency translation adjustments, net of hedges from its investment in KWR. For the three and six months ended June 30, 2012 Kennedy Wilson recognized \$2.3 million and \$2.1 million, respectively, in gains from foreign currency translation adjustments, net of hedges from its investment in KWR.

During the three and six months ended June 30, 2013 and 2012 the Company received the following cash distributions from its investment in KWR for the settlement of hedges, refinancing of property level debt, and operating distributions:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Settlement of hedges	\$222,000	\$—	\$10,838,000	\$—
Refinancing of property level debt	4,335,000	1,766,000	5,273,000	1,766,000
Operating distributions	514,000	1,398,000	2,465,000	7,257,000
Total	\$5,071,000	\$3,164,000	\$18,576,000	\$9,023,000

The cash received as a result of unwinding KWR's hedges will not be realized in our statement of operations until the underlying investment is substantially liquidated.





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As of June 30, 2013, the Company did not have any other joint venture investments which individually exceeded 10% of the investments in the joint venture balance.

**Irish Commercial Investment Joint Venture**

On April 16, 2013, a joint venture investment of the Company foreclosed on a class A office building and adjacent 3.5 acre site in Dublin, Ireland. This constitutes an acquisition of a business under ASC 805 - Business Combinations. As a result of acquiring this business, the joint venture was required to consolidate the assets and liabilities at fair value in accordance with the aforementioned guidance. As the fair value of the business was in excess of the basis in the previously held mortgage notes, the joint venture recognized a \$30.1 million acquisition related gain. The Company's portion of the gain was \$15.0 million and was recognized in equity in joint venture income.

**Contributions to Joint Ventures**

During the six months ended June 30, 2013, Kennedy Wilson made \$173.1 million in contributions to new and existing joint venture investments.

See the table below for a breakdown of contributions to new joint venture investments for the six months ended June 30, 2013:

	Multifamily		Commercial		Residential		Total
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties	
Western U.S.	\$9,085,000	2	\$22,695,000	3	\$800,000	1	\$32,580,000
United Kingdom	—	—	39,072,000	2	—	—	39,072,000
Ireland	57,951,000	1	—	—	—	—	57,951,000
Total contributions - new joint venture investments	\$67,036,000	3	\$61,767,000	5	\$800,000	1	\$129,603,000

In addition to the capital contributions above to new joint venture investments, Kennedy Wilson contributed \$43.5 million to existing joint ventures to pay off external debt, fund our share of a development project and working capital needs.

**Distributions from Joint Ventures**

The following table details cash distributions by investment type and geographic location as of June 30, 2013:

	Multifamily		Commercial		Loan		Residential		Total	
	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	\$3,555,000	\$6,730,000	\$3,814,000	\$1,778,000	\$—	\$—	\$2,049,000	\$221,000	\$9,418,000	\$8,729,000
Japan	1,996,000	16,580,000	—	—	—	—	—	—	1,996,000	16,580,000
United Kingdom	—	—	—	—	226,000	304,000	—	—	226,000	304,000
Ireland	—	—	1,137,000	—	—	—	—	—	1,137,000	—
Other	5,000	—	—	—	—	—	—	53,000	5,000	53,000
Total	\$5,556,000	\$23,310,000	\$4,951,000	\$1,778,000	\$226,000	\$304,000	\$2,049,000	\$274,000	\$12,782,000	\$25,666,000

During the six months ended June 30, 2013, Kennedy Wilson received \$38.4 million in operating and investing distributions from its joint ventures. Investing distributions resulted from KWR's favorable settlement of Japanese yen-related hedges and refinancing a portion of its multifamily portfolio and the refinancing of property level debt and loan resolutions. Operating distributions resulted from operating cash flow generated by the joint venture investments.

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Variable Interest Entities

Kennedy Wilson has determined that it has investments in five variable interest entities ("VIEs") as of June 30, 2013 and has concluded that Kennedy Wilson is not the primary beneficiary of any of the investments. As of June 30, 2013, the five VIEs had assets totaling \$227.6 million with Kennedy Wilson's exposure to loss as a result of its interests in these VIEs totaling \$93.0 million related to its equity contributions.

The Company determines the appropriate accounting method with respect to all investments that are not VIEs 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 cited 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 limited liability companies). Limited partners' substantive participation rights may overcome this presumption of control. The Company accounts for joint ventures it is deemed not to control using the equity method of accounting while controlled entities are consolidated.

Capital Commitments

As of June 30, 2013, Kennedy Wilson has unfulfilled capital commitments totaling \$7.2 million to four of its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of Kennedy Wilson capital commitment obligations.

Guarantees

Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets or assets held directly or in various joint ventures. As of June 30, 2013 the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately \$55.7 million which is approximately 2.1% of the property level debt of the Company. 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 from the property. Based upon Kennedy Wilson's evaluation of guarantees under ASC Subtopic 460-10 "Estimated Fair Value of Guarantees," the estimated fair value of guarantees made as of June 30, 2013 and December 31, 2012 is immaterial.

NOTE 6—INVESTMENT IN LOAN POOL PARTICIPATION

As of June 30, 2013 and December 31, 2012, the Company's investment in loan pool participations totaled \$68.7 million and \$95.6 million, respectively.

The Company's largest loan pool, which is secured by real estate primarily located in the United Kingdom (the "UK Loan Pool"), had a balance of \$23.0 million and \$60.4 million as of June 30, 2013 and December 31, 2012, respectively. In 2011, the Company, along with institutional partners, acquired this loan portfolio consisting of 58 performing loans. The 58 loans were secured by more than 170 properties comprised of the following product types: commercial, multifamily, retail, industrial, hotel and land. The Company, through a 50/50 joint venture with one of its partners, acquired a 25% participation interest in the pool for \$440.9 million, of which \$323.4 million was funded with debt, which was paid off on March 21, 2013. As of June 30, 2013, the unpaid principal balance ("UPB") of the loans was \$316.7 million due to collections of \$1.8 billion, representing 85% of the pool. The Company expects to accrete \$19.8 million in interest income on the UK Loan Pool over the total estimated collection period (excluding asset management fees) and has accreted \$13.8 million to date.

The following table represents the demographics of the Company's investment in the loan pools including the initial UPB and the UPB as of June 30, 2013.



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Acquisition Date	Location	Kennedy Wilson Ownership	Unpaid Principal Balance		Kennedy Wilson Initial Equity Invested	Investment Balance at June 30, 2013	Expected Accretion Over Total Estimated Collection Period	Accreted to Date
			Initial	June 30, 2013				
February 2010	Western U.S.	15.0%	\$ 342,395,000	\$ 16,289,000	\$ 11,154,000	\$ 1,884,000	\$ 4,620,000	\$ 4,565,000
December 2011	United Kingdom	12.5%	2,111,326,000	316,682,000	61,200,000	22,996,000	19,762,000	13,763,000
April 2012	Western U.S.	75.0%	43,383,000	7,623,000	30,900,000	6,016,000	4,280,000	3,427,000
August 2012	Ireland	10.0%	477,169,000	408,160,000	7,032,000	7,613,000	1,774,000	256,000
December 2012	United Kingdom	5.0%	593,403,000	457,736,000	19,273,000	17,917,000	1,807,000	272,000
April 2013	United Kingdom	10.0%	177,170,000	176,790,000	12,988,000	12,293,000	3,924,000	164,000
		Total	\$ 3,744,846,000	\$ 1,383,280,000	\$ 142,547,000	\$ 68,719,000	\$ 36,167,000	\$ 22,447,000

The following table presents the interest income and foreign currency gain and (loss) recognized by Kennedy Wilson during the three and six months ended June 30, 2013 and 2012 for the loan pools that were outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income recognized	\$ 2,892,000	\$ 2,579,000	\$ 5,410,000	\$ 2,907,000
Foreign currency translation (loss) gain	(1,099,000 )	(1,399,000 )	(4,978,000 )	651,000
Total	\$ 1,793,000	\$ 1,180,000	\$ 432,000	\$ 3,558,000

**NOTE 7—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, 2013:

	Level 1	Level 2	Level 3	Total
Short-term investments	\$—	\$—	\$—	\$—
Investment in joint ventures	—	—	73,968,000	73,968,000
Currency forward contract	—	(437,000 )	—	(437,000 )
Total	\$—	\$(437,000 )	\$ 73,968,000	\$ 73,531,000

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, 2012:

	Level 1	Level 2	Level 3	Total
Short-term investments	\$—	\$ 10,000,000	\$—	\$ 10,000,000
Investments in joint ventures	—	—	68,363,000	68,363,000
Currency forward contract	—	(1,188,000 )	—	(1,188,000 )
Total	\$—	\$ 8,812,000	\$ 68,363,000	\$ 77,175,000
Short term investments				

The carrying value of short-term investments approximates fair value due to the short-term maturities of these investments at December 31, 2012. The short-term investments matured during the second quarter of 2013.

Investments in joint ventures

Kennedy Wilson records its investments 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. Kennedy Wilson's investment balance in the Funds was \$27.0 million and \$25.8 million at June 30, 2013 and December 31, 2012, respectively, which is included in investments in

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joint ventures in the accompanying consolidated balance sheets. As of June 30, 2013, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of \$7.1 million.

Kennedy Wilson elected to use the fair value option ("FV Option") for two investments in joint venture entities to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. Kennedy Wilson's investment balance in the FV Option investments was \$47.0 million and \$42.6 million at June 30, 2013 and December 31, 2012, respectively, which are included in investments in joint ventures in the accompanying balance sheets.

The following table summarizes our investments in joint ventures held at fair value by type:

	June 30, 2013	December 31, 2012
Funds	\$26,986,000	\$25,795,000
FV Option	46,982,000	42,568,000
Total	\$73,968,000	\$68,363,000

The following table presents changes in Level 3 investments for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Beginning balance	\$68,360,000	\$51,139,000	\$68,363,000	\$51,382,000
Unrealized and realized gains	—	119,000	—	87,000
Unrealized and realized losses	—	—	—	—
Contributions	5,636,000	2,483,000	5,848,000	2,514,000
Distributions	(28,000 )	(1,965,000 )	(243,000 )	(2,207,000 )
Ending balance	\$73,968,000	\$51,776,000	\$73,968,000	\$51,776,000

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

There was no material change in unrealized gains and losses on Level 3 investments during the three and six months ended June 30, 2013 and 2012 for investments still held as of June 30, 2013.

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

	Estimated Rates Used for	
	Capitalization rates	Discount Rates
Multifamily	5.75% - 7.00%	7.50% - 9.00%
Commercial	6.25% - 7.50%	7.00% - 9.75%
Retail	8.00%	9.00% - 12.00%
Land and condominium units	n/a	8.00% - 12.00%
Loan	n/a	2.00% - 9.30%

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 2.00% to 9.30%.

The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision and cannot be substantiated by comparison to quoted prices in active markets. As such, estimated fair value 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



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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.

Currency forward contracts

Kennedy Wilson has currency forward contracts to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros) of certain of its wholly owned subsidiaries. To accomplish this objective, Kennedy Wilson hedged these exposures by entering into currency forward contracts to partially hedge Kennedy Wilson's exposure to its net investment in certain foreign operations caused by currency fluctuations. The currency forward contracts are 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 fall within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the derivative utilize Level 3 inputs. However, as of June 30, 2013, Kennedy Wilson assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its derivative positions and determined that the counterparty valuation adjustments are not significant to the overall valuation of its derivative. As a result, Kennedy Wilson has determined that its derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.

Changes in fair value are recorded in other comprehensive income in the accompanying consolidated statements of comprehensive income (loss) as the portion of the currency forward contract used to hedge currency exposure of its certain wholly owned subsidiaries qualifies as a net investment hedge under ASC Topic 815. The fair value of the derivative instruments held as of June 30, 2013 are included in accrued expenses and other liabilities on the balance sheet.

The table below details the currency forward contracts Kennedy Wilson had as of June 30, 2013:

Currency	Trade Date	Settlement Date	Exchange Rate	Fair Value	Change in Unrealized Gains (Losses)	
					Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
€16.0 million	5/31/2012	6/4/2015	1.2400	\$(1,064,000)	\$(202,000)	\$394,000
€20.0 million	5/8/2013	5/10/2016	1.3133	(50,000)	(50,000)	(50,000)
€20.0 million	6/6/2013	6/10/2016	1.3105	(128,000)	(128,000)	(128,000)
€15.0 million	6/12/2013	6/14/2016	1.3312	205,000	205,000	205,000
€18.0 million	6/12/2013	8/14/2013	1.3336	600,000	600,000	600,000
			Total	\$(437,000)	\$425,000	\$1,021,000

In order to manage currency fluctuations between the Company's functional currency (U.S. dollar) and the functional currency of KWR's functional currency (Japanese yen), the Company entered into forward foreign currency contracts to hedge a portion of its net investment in KWR. During the three and six months ended June 30, 2013, the Company recognized a gross unrealized gain of \$3.3 million and \$8.7 million, respectively, related to these hedges.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable including related party receivables, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, and deferred and accrued income taxes 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) approximates fair value as the terms are similar to loans with similar characteristics available in the market.

The Company accounts for its debt liabilities at face value plus net unamortized debt premiums. The fair value as of June 30, 2013 and December 31, 2012 for the senior notes payable, borrowings under lines of credit, mortgage loans payable and junior subordinated debentures were estimated to be approximately \$829.9 million and \$708.2 million,



respectively, 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 \$798.2 million and \$686.2 million at June 30, 2013 and December 31, 2012, respectively.

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## NOTE 8—OTHER ASSETS

Other assets consist of the following:

	June 30, 2013	December 31, 2012
Loan fees, net of accumulated amortization of \$3,367,000 and \$2,413,000 at June 30, 2013 and December 31, 2012, respectively	\$ 13,633,000	\$ 14,508,000
Deposits and other, net of accumulated amortization of \$685,000 and \$230,000 at June 30, 2013 and December 31, 2012, respectively	10,333,000	6,089,000
Acquired in-place leases, net of accumulated amortization of \$6,464,000 and \$3,086,000 at June 30, 2013 and December 31, 2012, respectively	7,585,000	9,311,000
Prepaid expenses	10,902,000	5,330,000
Office furniture and equipment net of accumulated amortization of \$1,564,000 and \$1,240,000 at June 30, 2013 and December 31, 2012, respectively	4,414,000	2,841,000
Other Assets	\$ 46,867,000	\$ 38,079,000

The estimated annual amortization expense of in-place leases for each of the years ending December 31, 2013 through December 31, 2017 approximates \$2.7 million, \$3.5 million, \$1.1 million, \$0.2 million and \$0.0 million, respectively. Depreciation and amortization expense related to the above depreciable assets were \$4.1 million and \$1.1 million, for the six months ended June 30, 2013 and 2012, respectively.

## NOTE 9—SENIOR NOTES

	June 30, 2013			December 31, 2012				
	Interest Rate	Maturity Date	Face Value	Unamortized Net Premium/(Discount)	Carrying Value	Face Value	Unamortized Net Premium/(Discount)	Carrying Value
2042 Notes	7.75%	12/1/2042	\$ 55,000,000	\$ —	\$ 55,000,000	\$ 55,000,000	\$ —	\$ 55,000,000
2019 Notes	8.75%	4/1/2019	350,000,000	4,348,000	354,348,000	350,000,000	4,640,000	354,640,000
Senior notes			\$ 405,000,000	\$ 4,348,000	\$ 409,348,000	\$ 405,000,000	\$ 4,640,000	\$ 409,640,000

The indentures governing the 2019 Notes and the 2042 Notes contain 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 indentures limit Kennedy-Wilson, Inc.'s ability and the ability of its restricted subsidiaries 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, 2013, the balance sheet leverage ratio was 0.73 to 1.00. See Note 18 for the guarantor and non-guarantor financial statements.



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## NOTE 10—MORTGAGE LOANS AND NOTES PAYABLE

Mortgage loans at June 30, 2013 and December 31, 2012 consist of the following:

Types of Property Pledged as Collateral	Region	Carrying Amount of Mortgage Notes as of <sup>(1)</sup>	
		June 30, 2013	December 31, 2012
Notes receivable	United Kingdom	\$—	\$78,705,000
Multifamily properties <sup>(1)</sup>	Western U.S.	239,979,000	97,649,000
Commercial buildings	Western U.S.	72,946,000	54,296,000
Total mortgage loans payable		312,925,000	230,650,000
Notes payable		5,888,000	5,888,000
Total notes payable		5,888,000	5,888,000
Mortgage and notes payable <sup>(2)</sup>		\$318,813,000	\$236,538,000

<sup>(1)</sup> The mortgage loan payable balances include the unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan premium as of June 30, 2013 and December 31, 2012 was \$5.7 million and \$2.3 million, respectively.

<sup>(2)</sup> The mortgage payables had a weighted average interest rate of 3.95% and 4.44% at June 30, 2013 and December 31, 2012 and the note payable had a 15.00% interest rate at June 30, 2013 and December 31, 2012.

In December 2012, Kennedy Wilson acquired a loan secured by a shopping center and 107 residential units in the United Kingdom. At the time of acquisition, Kennedy Wilson invested \$43.6 million of equity and borrowed \$79.3 million in order to finance the transaction (see Note 3). During the six months ended June 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a note receivable to an institutional investor. As a result of the sale, Kennedy Wilson deconsolidated the investment and is accounting for it as an equity method investment.

During the six months ended June 30, 2013, two mortgage loans were consolidated as part of the acquisition of an apartment building in northern California. Additionally, during the six months ended June 30, 2013, the acquisition of an apartment building in Salt Lake City, UT and an office building in Beverly Hills, CA were partially financed with mortgages. See note 4 for more detail on the acquisitions.

The aggregate maturities of mortgage loans and notes payable subsequent to June 30, 2013 are as follows :

2013	\$13,141,000
2014	9,994,000
2015	5,095,000
2016	36,304,000
2017	31,018,000
Thereafter	217,544,000
	313,096,000
Debt premium	5,717,000
	\$318,813,000

NOTE 11—LINE OF CREDIT

Kennedy-Wilson, Inc. has an unsecured revolving credit facility with U.S. Bank and East-West Bank for \$100.0 million. The loan bears interest at a rate equal to LIBOR plus 2.75% and the maturity date is June 30, 2015. The revolving loan agreement that governs the unsecured credit facility requires Kennedy-Wilson, Inc. to maintain (i) a minimum rent, adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four quarter rolling

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average basis and (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) 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, Inc.'s adjusted fixed charge coverage ratio was 2.59 to 1.00 and its balance sheet leverage ratio was 0.79 to 1.00.

The revolving loan agreement also requires Kennedy-Wilson, Inc. to maintain unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least \$40.0 million, tested quarterly and to maintain a maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of June 30, 2013, Kennedy-Wilson, Inc. was in compliance with these covenants

During the six months ended June 30, 2013, the Company drew \$85.0 million on its unsecured credit facility to fund acquisitions. The Company repaid \$55.0 million during the six months ended June 30, 2013. As of June 30, 2013, there was \$30.0 million drawn on the unsecured credit facility and \$70.0 million still available.

**NOTE 12—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. Kennedy Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

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 3.39 to 1.00 and ratio of total debt to net worth was 1.24 to 1.00. As of June 30, 2013, Kennedy Wilson was in compliance with these covenants.

**NOTE 13—RELATED PARTY TRANSACTIONS**

During the following periods, 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,	
	2013	2012	2013	2012
Management and leasing fees	\$9,356,000	\$6,131,000	\$17,313,000	\$11,716,000
Commissions	4,448,000	1,031,000	4,840,000	1,984,000
Related party revenue	\$13,804,000	\$7,162,000	\$22,153,000	\$13,700,000

**NOTE 14—STOCKHOLDERS' EQUITY****Common Stock**

In March 2013, Kennedy Wilson completed a follow-on offering of 9.0 million shares of its common stock, which raised \$133.8 million of net proceeds. In April 2013, Kennedy Wilson issued approximately 1.4 million shares of its common stock as a result of the underwriters fully exercising their option to purchase additional shares, which resulted in net proceeds of \$20.1 million.

**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. On May 7, 2013, Kennedy Wilson's board authorized an increase to its warrant repurchase program by 5.3 million warrants. The program now covers all currently outstanding

warrants issued by Kennedy Wilson.

Since April 2010, Kennedy Wilson has repurchased 12.4 million of its outstanding warrants for \$20.6 million. During the six months ended June 30, 2013, Kennedy Wilson repurchased 0.4 million of its outstanding warrants for \$1.4 million. As of June 30, 2013, there were 5.4 million warrants outstanding with a market value of \$24.8 million.

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## Dividend Distributions

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

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	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	10,273,000	5,094,000	5,347,000	4,664,000
Total <sup>(1)</sup>	\$14,323,000	\$9,144,000	\$9,397,000	\$8,714,000

<sup>(1)</sup> 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.

## Cumulative dividend distributions

Since being listed in November 2009, cumulative earnings, preferred and common dividends declared were:

	June 30, 2013	
Cumulative preferred shareholders	\$ (28,618,000)	)
Cumulative common shareholders	(27,668,000)	)
Total cumulative dividends declared	\$ (56,286,000)	)

## Stock Compensation

During the six months ended June 30, 2013 and 2012, Kennedy Wilson recognized \$3.4 million and \$2.1 million, respectively, of compensation expense related to the vesting of restricted stock grants.

## Accumulated Other Comprehensive Income

The following table summarizes the changes in each component of accumulated other comprehensive income (loss), net of 40% estimated tax:

	Foreign Currency Translation	Forward Contract Foreign Currency	Total Accumulated Other Comprehensive Income
Balance at December 31, 2012	\$10,800,000	\$1,769,000	\$12,569,000
Unrealized (losses) gains, arising during the period	(30,070,000)	) 9,722,000	(20,348,000)
Taxes on unrealized (losses) gains, arising during the period	12,027,000	(3,887,000)	) 8,140,000
Balance at June 30, 2013	\$ (7,243,000)	) \$7,604,000	\$361,000

The local currencies for our interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on our balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on our statements of operations are translated at the average exchange rates during the respective period. The increase in the unrealized losses on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the six months ended June 30, 2013.





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In order to manage currency fluctuations, the Company entered into forward foreign currency contracts to hedge a portion of its Japanese yen-based investments. During the six months ended June 30, 2013, the Company recognized a gross unrealized gain of \$8.7 million related to these hedges. Additionally, during the year, KWR settled several Japanese yen-related hedges resulting in cash proceeds of \$23.1 million, of which Kennedy Wilson received \$10.8 million. The cash received as a result of unwinding these hedges will not be realized in our statement of operations until the underlying investment is substantially liquidated. Kennedy Wilson also has a currency forward contract to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros) of certain of its wholly-owned subsidiaries (see Note 7 for more detail). During the six months ended June 30, 2013, the Company recognized a gross unrealized gain of \$1.0 million related to these hedges.

**NOTE 15—EARNINGS PER SHARE**

For the three and six months ended June 30, 2013, a total of 19,507,357 and 19,775,968, respectively, 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, 2012, a total of 18,229,993 and 18,215,529, respectively, potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive. Potentially anti-dilutive securities include preferred stock, warrants, and unvested restricted stock grants.

**NOTE 16—SEGMENT INFORMATION**

Kennedy Wilson's business is defined by two core segments: KW Investments and KW Services. KW Investments invests in multifamily, residential and commercial 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 commercial properties as well as loans secured by real estate.

Substantially all of the revenue—related party was generated via inter-segment activity for the six months ended June 30, 2013 and 2012. 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, 2012 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, research 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, 2013 and 2012 and balance sheet data as of June 30, 2013 and December 31, 2012:

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	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Investments				
Sale of real estate	\$6,096,000	\$—	\$8,514,000	\$—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	16,461,000	1,477,000	25,276,000	2,947,000
Operating expenses	18,699,000	5,445,000	31,263,000	10,139,000
Depreciation and amortization	4,135,000	860,000	6,931,000	1,682,000
Total operating expenses	22,834,000	6,305,000	38,194,000	11,821,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	8,828,000	3,156,000	4,884,000	5,164,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Other	—	38,000	—	(74,000)
Interest income - related party	72,000	1,182,000	72,000	2,269,000
Interest expense	(2,817,000)	(159,000)	(4,559,000)	(317,000)
Income from continuing operations	5,573,000	4,217,000	9,346,000	9,973,000
Discontinued Operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Income before benefit from income taxes	\$5,573,000	\$4,217,000	\$9,560,000	\$9,763,000
	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Services				
Management and leasing fees and commissions	\$5,690,000	\$5,471,000	\$10,923,000	\$9,293,000
Management and leasing fees and commissions - related party	13,804,000	7,162,000	22,153,000	13,700,000
Total revenue	19,494,000	12,633,000	33,076,000	22,993,000
Operating expenses	9,886,000	9,062,000	18,252,000	16,666,000
Depreciation and amortization	147,000	34,000	267,000	67,000
Total operating expenses	10,033,000	9,096,000	18,519,000	16,733,000
Operating income	9,461,000	3,537,000	14,557,000	6,260,000
Income before benefit from income taxes	\$9,461,000	\$3,537,000	\$14,557,000	\$6,260,000

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Corporate</b>				
Operating expenses	\$7,114,000	\$2,936,000	\$10,704,000	\$5,142,000
Depreciation and amortization	133,000	83,000	274,000	165,000
Total operating expenses	7,247,000	3,019,000	10,978,000	5,307,000
Operating loss	(7,247,000 )	(3,019,000 )	(10,978,000 )	(5,307,000 )
Interest income	127,000	25,000	167,000	55,000
Interest expense	(9,714,000 )	(6,895,000 )	(19,404,000 )	(12,907,000 )
Loss before benefit from income taxes	(16,834,000 )	(9,889,000 )	(30,215,000 )	(18,159,000 )
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
Net loss	\$(16,365,000)	\$(8,751,000 )	\$(28,043,000)	\$(15,538,000)
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Consolidated</b>				
Management fees and commissions	\$5,690,000	\$5,471,000	\$10,923,000	\$9,293,000
Management fees and commissions - related party	13,804,000	7,162,000	22,153,000	13,700,000
Sale of real estate	6,096,000	—	8,514,000	—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	35,955,000	14,110,000	58,352,000	25,940,000
Operating expenses	35,699,000	17,443,000	60,219,000	31,947,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Total operating expenses	40,114,000	18,420,000	67,691,000	33,861,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	11,042,000	3,674,000	8,463,000	6,117,000
Interest income	127,000	25,000	167,000	55,000
Interest income - related party	72,000	1,182,000	72,000	2,269,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000 )	—	(510,000 )	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(12,531,000 )	(7,054,000 )	(23,963,000 )	(13,224,000 )
Other	—	38,000	—	(74,000 )
Loss from continuing operations before benefit from income taxes	(1,800,000 )	(2,135,000 )	(6,312,000 )	(1,926,000 )
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
Loss from continuing operations	(1,331,000 )	(997,000 )	(4,140,000 )	695,000
<b>Discontinued Operations</b>				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000 )	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000 )
Net (loss) income	\$(1,331,000 )	\$(997,000 )	\$(3,926,000 )	\$485,000

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	June 30, 2013	December 31, 2012
Total Assets		
Investments	\$ 1,284,469,000	\$ 1,070,607,000
Services	106,327,000	105,370,000
Corporate	122,451,000	107,812,000
Total assets	\$ 1,513,247,000	\$ 1,283,789,000

**NOTE 17—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 sourced income and noncontrolling 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 being taxed at rates lower than the U.S. domestic rate and income attributable to noncontrolling interests. The Company's subsidiaries in Ireland and the United Kingdom are subject to corporate tax rates of 12.5% and 23%, respectively.

**NOTE 18—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS**

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

(1) Condensed consolidating balance sheets as of June 30, 2013 and December 31, 2012; consolidating statements of operations for the three and six months ended June 30, 2013 and 2012; consolidating statements of comprehensive income for the three and six months ended June 30, 2013 and 2012; and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2012, 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.

Kennedy Wilson owns 100% of all of the guarantor subsidiaries, and, 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 and for the six months ended June 30, 2013 or 2012.

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## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2013

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
Cash and cash equivalents	\$107,370,000	\$4,681,000	\$12,370,000	\$15,230,000	\$—	\$139,651,000
Accounts receivable	—	1,458,000	3,014,000	2,912,000	—	7,384,000
Accounts receivable — related parties	—	257,000	5,224,000	16,689,000	—	22,170,000
Intercompany receivables	—	5,704,000	—	—	(5,704,000)	—
Notes receivable	—	1,902,000	10,038,000	900,000	—	12,840,000
Notes receivable - related parties	—	6,008,000	2,544,000	—	—	8,552,000
Intercompany loans receivable	—	56,745,000	—	—	(56,745,000)	—
Real estate, net of accumulated depreciation	—	—	116,944,000	371,491,000	—	488,435,000
Investments in joint ventures	—	7,793,000	573,982,000	112,889,000	—	694,664,000
Investments in and advances to consolidated subsidiaries	539,626,000	954,964,000	193,965,000	—	(1,688,555,000)	—
Investments in loan pool participations	—	—	68,719,000	—	—	68,719,000
Other assets	—	17,635,000	12,143,000	17,089,000	—	46,867,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
<b>Total assets</b>	<b>\$646,996,000</b>	<b>\$1,057,147,000</b>	<b>\$1,016,159,000</b>	<b>\$543,949,000</b>	<b>\$(1,751,004,000)</b>	<b>\$1,513,247,000</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Accounts payable	\$142,000	\$883,000	\$538,000	\$488,000	\$—	\$2,051,000
Accrued expenses and other liabilities	5,194,000	13,830,000	7,850,000	10,914,000	—	37,788,000
Intercompany payables	—	—	—	5,704,000	(5,704,000)	—
	—	9,050,000	1,253,000	1,046,000	—	11,349,000

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Accrued salaries and benefits						
Deferred tax liability	—	14,410,000	(487,000	) (1,203,000	) —	12,720,000
Senior notes payable	—	409,348,000	—	—	—	409,348,000
Intercompany loans payable	—	—	—	56,745,000	(56,745,000	) —
Mortgage loans payable	—	—	52,041,000	266,772,000	—	318,813,000
Borrowings under line of credit	—	30,000,000	—	—	—	30,000,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
Total liabilities	5,336,000	517,521,000	61,195,000	340,466,000	(62,449,000	) 862,069,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	641,660,000	539,626,000	954,964,000	193,965,000	(1,688,555,000	) 641,660,000
Noncontrolling interests	—	—	—	9,518,000	—	9,518,000
Total equity	641,660,000	539,626,000	954,964,000	203,483,000	(1,688,555,000	) 651,178,000
Total liabilities and equity	\$646,996,000	\$1,057,147,000	\$1,016,159,000	\$543,949,000	\$(1,751,004,000)	\$1,513,247,000

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2012

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
Cash and cash equivalents	\$—	\$64,517,000	\$38,489,000	\$17,849,000	\$—	\$120,855,000
Short-term investments	—	10,000,000	—	—	—	10,000,000
Accounts receivable	—	377,000	2,105,000	1,165,000	—	3,647,000
Accounts receivable — related parties	—	186,000	4,774,000	17,433,000	—	22,393,000
Intercompany receivables	—	3,269,000	—	—	(3,269,000)	—
Notes receivable	—	1,902,000	133,805,000	900,000	—	136,607,000
Intercompany loans receivable	—	39,587,000	—	—	(39,587,000)	—
Real estate, net of accumulated depreciation	—	—	93,928,000	195,521,000	—	289,449,000
Investments in joint ventures	—	5,670,000	450,199,000	87,324,000	—	543,193,000
Investments in and advances to consolidated subsidiaries	514,310,000	873,768,000	142,441,000	—	(1,530,519,000)	—
Investment in loan pool participations	—	—	95,601,000	—	—	95,601,000
Other assets	—	18,443,000	11,505,000	8,131,000	—	38,079,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
<b>Total assets</b>	<b>\$514,310,000</b>	<b>\$1,017,719,000</b>	<b>\$990,063,000</b>	<b>\$335,072,000</b>	<b>\$(1,573,375,000)</b>	<b>\$1,283,789,000</b>
<b>Liabilities</b>						
Accounts payable	\$—	\$785,000	\$236,000	\$741,000	\$—	\$1,762,000
Accrued expenses and other liabilities	—	14,878,000	7,249,000	7,290,000	—	29,417,000
Intercompany payables	—	—	—	3,269,000	(3,269,000)	—
Accrued salaries and benefits	4,666,000	17,917,000	1,614,000	784,000	—	24,981,000
Deferred tax liability	—	20,189,000	2,327,000	155,000	—	22,671,000



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Senior notes payable	—	409,640,000	—	—	—	409,640,000
Intercompany loans payable	—	—	—	39,587,000	(39,587,000)	—
Mortgage loans and notes payable	—	—	112,096,000	124,442,000	—	236,538,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
Total liabilities	4,666,000	503,409,000	123,522,000	176,268,000	(42,856,000)	765,009,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	509,644,000	514,310,000	873,768,000	142,441,000	(1,530,519,000)	509,644,000
Noncontrolling interests	—	—	(7,227,000)	16,363,000	—	9,136,000
Total equity	509,644,000	514,310,000	866,541,000	158,804,000	(1,530,519,000)	518,780,000
Total liabilities and equity	\$514,310,000	\$1,017,719,000	\$990,063,000	\$335,072,000	\$(1,573,375,000)	\$1,283,789,000

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	\$ —	\$ 60,000	\$ 3,068,000	\$ 1,626,000	\$ —	\$ 4,754,000
Management and leasing fees — related party	—	—	3,162,000	6,194,000	—	9,356,000
Commissions	—	374,000	281,000	281,000	—	936,000
Commissions — related party	—	—	776,000	3,672,000	—	4,448,000
Sale of real estate	—	—	6,096,000	—	—	6,096,000
Rental income	—	—	1,535,000	8,830,000	—	10,365,000
Total revenue	—	434,000	14,918,000	20,603,000	—	35,955,000
Operating expenses						
Commission and marketing expenses	—	264,000	1,042,000	30,000	—	1,336,000
Compensation and related expenses	1,662,000	8,601,000	3,375,000	4,626,000	—	18,264,000
Cost of real estate sold	—	—	5,130,000			