CYTOKINETICS INC
Form DEF 14A
April 03, 2019
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant
Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Cytokinetics, Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:
2. Aggregate number of securities to which transaction applies:
3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
4. Proposed maximum aggregate value of transaction:
5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

Cytokinetics, Incorporated

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 15, 2019

To the Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Cytokinetics, Incorporated (the "Company"), a Delaware corporation, will be held on Wednesday, May 15, 2019, at 10:30 a.m. local time, at the Embassy Suites Hotel, 250 Gateway Boulevard, South San Francisco, CA 94080, for the following purposes:

1. To elect Santo J. Costa, John T. Henderson, M.B, Ch.B. and B. Lynne Parshall, Esq. as Class III Directors, each to serve for a three-year term and until their successors are duly elected and qualified (Proposal One);
2. To approve the amendment and restatement of the Company's Amended and Restated 2004 Equity Incentive Plan (the "2004 EIP") to increase the number of authorized shares reserved for issuance under the 2004 EIP by 4,100,000 shares (Proposal Two);
3. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019 (Proposal Three);
4. To approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in our Proxy Statement for the 2019 Annual Meeting of Stockholders (Proposal Four); and
5. To transact such other business as may properly be brought before the meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on March 26, 2019 are entitled to notice of and to vote at the meeting or any adjournment thereof.

South San Francisco, California

March 27, 2019

YOUR VOTE IS IMPORTANT

THIS PROXY STATEMENT IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY THE COMPANY, ON BEHALF OF THE BOARD OF DIRECTORS, FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS. THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS IS BEING DISTRIBUTED ON OR ABOUT APRIL 5, 2019. IF YOU ARE A STOCKHOLDER OF RECORD YOU CAN VOTE YOUR SHARES USING ONE OF THE FOLLOWING METHODS:

- COMPLETE AND RETURN A WRITTEN PROXY CARD
- BY INTERNET OR TELEPHONE
- ATTEND OUR 2019 ANNUAL MEETING OF STOCKHOLDERS AND VOTE

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING. HOWEVER, TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE URGED TO MARK, SIGN, DATE AND RETURN THE PROXY CARD THAT MAY BE MAILED TO YOU AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE PROVIDED FOR THAT PURPOSE OR VOTE YOUR SHARES BY INTERNET OR TELEPHONE. ANY STOCKHOLDER ATTENDING THE MEETING MAY VOTE IN PERSON EVEN IF HE OR SHE HAS RETURNED A PROXY CARD OR VOTED BY INTERNET OR TELEPHONE. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of

Stockholders to be Held on May 15, 2019

This Proxy Statement, Notice of Annual Meeting, Form of Proxy Card and Annual Report to Stockholders are available at cytokinetics.com/proxy. You may obtain directions to the Annual Meeting of Stockholders by directing a request to:

Investor Relations

Cytokinetics, Incorporated

280 East Grand Avenue

South San Francisco, California 94080

Email: investor@cytokinetics.com

Telephone: 650-624-3283

TABLE OF CONTENTS

CYTOKINETICS, INCORPORATED

280 East Grand Avenue

South San Francisco, California 94080

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

May 15, 2019

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The Board of Directors of Cytokinetics, Incorporated (the "Company", "we", "us", or "our") is soliciting proxies for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at the Embassy Suites Hotel, 250 Gateway Boulevard, South San Francisco, CA 94080, on Wednesday, May 15, 2019, at 10:30 a.m. local time for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Our principal executive offices are located at the address listed at the top of the page and the telephone number is (650) 624-3000.

Pursuant to rules adopted by the Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials over the internet. Accordingly, we have sent you a Notice of Internet Availability of Proxy Materials (the "Notice") because our Board of Directors is soliciting your proxy to vote at the Annual Meeting, including at any adjournments of the meeting. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the internet or to request a printed copy may be found in the Notice.

We intend to mail the Notice on or about April 5, 2019 to all stockholders of record entitled to vote at the Annual Meeting. We may send you a proxy card, along with a second Notice, on or after April 16, 2019.

WE WILL PROVIDE WITHOUT CHARGE TO ANY STOCKHOLDER SOLICITED BY THESE PROXY SOLICITATION MATERIALS A COPY OF OUR ANNUAL REPORT ON FORM 10-K, TOGETHER WITH THE FINANCIAL STATEMENTS REQUIRED TO BE FILED WITH THE ANNUAL REPORT ON FORM 10-K, UPON REQUEST OF THE STOCKHOLDER MADE IN WRITING TO CYTOKINETICS, INCORPORATED, 280 EAST GRAND AVENUE, SOUTH SAN FRANCISCO, CALIFORNIA, 94080, ATTN: INVESTOR RELATIONS, ANNUAL STOCKHOLDER MEETING.

Record Date and Share Ownership

Common stockholders of record at the close of business on March 26, 2019 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. We have one class of common shares issued and outstanding, designated as Common Stock, $0.001 par value per share (the "Common Stock"). As of the Record Date, 163,000,000 shares of Common Stock were authorized and 55,373,139 shares were outstanding, and 10,000,000 shares of Preferred Stock were authorized and none were outstanding.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by: (i) issuing a later proxy, (ii) delivering to us at our principal offices a written notice of revocation to the attention of the Corporate Secretary or (iii) attending the Annual Meeting and voting in person.

Voting

On all matters, each common share has one vote.

Cost of Proxy Solicitation

We will pay for the entire cost of soliciting any proxies, unless otherwise stated herein. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the routine cost of forwarding proxy materials to beneficial owners.

Voting in Person or by Proxy Card

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using the proxy card. Whether you plan to attend the Annual Meeting or not, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person if you have already voted by proxy. To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive. To vote using the proxy card, simply complete, sign and date the proxy card (that you may request or that we may elect to deliver later), and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

Voting via the Internet or by Telephone

Stockholders may also vote their shares by proxy by means of the telephone or on the Internet. The laws of the State of Delaware, under which we are incorporated, specifically permit electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the Inspector of Elections (the “Inspector”) can determine that such proxy was authorized by the stockholder.

The telephone and Internet voting procedures below are designed to authenticate stockholders’ identities, to allow stockholders to grant a proxy to vote their shares and to confirm that stockholders’ instructions have been recorded properly. Stockholders granting a proxy to vote via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which must be borne by the stockholder.

For Shares Registered in Your Name

Stockholders of record as of the close of business on the Record Date may go to envisionreports.com/cytk to vote by proxy their shares by means of the Internet. They will be required to provide our number and the control number contained on your Notice. The stockholder will then be asked to complete an electronic proxy card. The votes represented by such proxy will be generated on the computer screen and the stockholder will be prompted to submit or revise them as desired. Any stockholder using a touch-tone telephone may also grant a proxy to vote shares by calling 1-800-652-8683 and following the recorded instructions.

For Shares Registered in the Name of a Broker or Bank

Most beneficial owners whose stock is held in street name receive instructions for granting proxies from their banks, brokers or other agents, rather than our proxy card.

A number of brokers and banks are participating in a program provided through Broadridge Financial Solutions that offers the means to grant proxies to vote shares via telephone and the Internet. If your shares are held in an account with a broker or bank participating in the Broadridge Financial Solutions program, you may grant a proxy to vote those shares telephonically by calling the telephone number shown on the instruction form received from your broker or bank, or via the Internet at Broadridge Financial Solutions’ web site at proxyvote.com.

General Information for All Shares Voted via the Internet or by Telephone

Votes submitted via the Internet or by telephone must be received by 1:00 a.m., Pacific Time on May 15, 2019. Submitting your proxy via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting.

Quorum; Abstentions; Broker Non-Votes

Votes cast by proxy or in person at the Annual Meeting (“Votes Cast”) will be tabulated by the Inspector of Elections who is expected to be a representative from Computershare Shareowner Services, our transfer agent and registrar. The Inspector will also determine whether or not a quorum is present. Except in certain specific circumstances, the affirmative vote of a majority of shares present in person or represented by proxy at a duly held meeting at which a quorum is present is required under Delaware law for approval of proposals presented to stockholders. In general, Delaware law provides that a quorum will be present if stockholders holding at least a majority of shares entitled to vote are present in person or represented by proxy at the meeting.

The Inspector will treat shares that are voted WITHHELD or ABSTAIN as being present and entitled to vote for purposes of determining the presence of a quorum. However, such shares will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. When proxies are properly dated, executed and returned, or if instructions are properly carried out for Internet or telephone voting, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the stockholder's instructions. If no specific instructions are given, the shares will be voted (i) for the election of the nominees for directors set forth herein; (ii) for the ratification of Ernst & Young LLP as independent auditors for the year ended December 31, 2019; (iii) for the amendment and restatement of the 2004 EIP to increase the number of authorized shares reserved for issuance under the 2004 EIP by 4,100,000 shares; and (iv) for approval, on an advisory basis, of the compensation of the Named Executive Officers; and, upon such other business as may properly come before the Annual Meeting or any adjournment thereof, at the discretion of the proxy holder.

If a broker indicates on the proxy or its substitute that such broker does not have discretionary authority as to certain shares to vote on a particular matter ("broker non-votes"), then those shares will be considered as present with respect to establishing a quorum for the transaction of business. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange on which your broker or bank may vote shares held in street name in the absence of your voting instructions. Non-discretionary items are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested) and executive compensation, including the advisory stockholder votes on executive compensation and on the frequency of stockholder votes on executive compensation. On non-discretionary items for which you do not give your broker or bank instructions, the shares will be treated as broker non-votes. Accordingly, your broker, bank or nominee may not vote your shares on Proposal One and Proposal Two without your instructions, but may vote your shares on Proposals Three and Four. We believe that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

Broker non-votes with respect to proposals set forth in this proxy statement will not be considered "Votes Cast" and, accordingly, will not affect the determination as to whether the requisite number of Votes Cast has been obtained with respect to a particular matter. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

Deadline for Receipt of Stockholder Proposals

Stockholders are entitled to present proposals for action at a forthcoming meeting if they comply with the requirements of our bylaws and the rules established by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under these requirements, proposals of our stockholders that are intended to be presented by such stockholders at our 2020 Annual Meeting of Stockholders must be received by us no later than December 9, 2019. Proposals submitted by this date will also be considered for inclusion in next year's proxy materials. If you wish to bring a matter before the stockholders at next year's Annual Meeting and you do not notify us before December 9, 2019, for all proxies we receive, the proxyholders will have discretionary authority to vote on the matter, including discretionary authority to vote in opposition to the matter. A copy of the relevant bylaws provisions relating to stockholder proposals is available upon written request to Cytokinetics, Incorporated, 280 East Grand Avenue, South San Francisco, California 94080, Attention: Corporate Secretary.

Results of the Voting at the Annual Meeting

Preliminary voting results will be announced at the Annual Meeting. Results will be published in a current report on Form 8-K that we expect to file within four business days after the date of the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we will file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

PROPOSAL ONE

ELECTION OF THREE CLASS III DIRECTORS

Nominees

Our Board of Directors currently has nine members. We have a classified Board of Directors, which is divided into three classes of directors whose terms expire at different times. The three classes are currently comprised of the following directors:

- Class I consists of L. Patrick Gage, Ph.D., Edward M. Kaye, M.D. and Wendell Wierenga, Ph.D., who will serve until the 2020 Annual Meeting of Stockholders;
- Class II consists of Robert I. Blum, Robert M. Califf, M.D. and Sandford D. Smith, who will serve until the 2021 Annual Meeting of Stockholders and until their successors have been duly elected and qualified; and
- Class III consists of Santo J. Costa, John T. Henderson, M.B., Ch.B. and B. Lynne Parshall, Esq., who will serve until the 2019 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. Mr. Costa, Dr. Henderson and Ms. Parshall will stand for election as Class III directors at this Annual Meeting.

At each Annual Meeting of Stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third Annual Meeting of Stockholders following such election and until their successors have been duly elected and qualified or their earlier resignation of removal. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for our three nominees named below, who are currently directors of the Company who were previously elected by the stockholders. The nominees have consented to be named as nominees in the proxy statement and to continue to serve as directors if elected. If any nominee becomes unable or declines to serve as a director or if additional persons are nominated at the meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of the nominees listed below if possible (or, if new nominees have been designated by the Board of Directors, in such a manner as to elect such nominees), and the specific nominees to be voted for will be determined by the proxy holders.

The nominees for the Class III directors are:

- Santo J. Costa,
- John T. Henderson, M.B., Ch.B. and
- B. Lynne Parshall, Esq.

Biographical information for each director can be found below in the Board of Directors section. We are not aware of any reason that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a Class III director will continue until our 2022 Annual Meeting of Stockholders and until a successor has been elected and qualified, or their earlier resignation of removal. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which he or she is or was to be selected as a director or officer of the Company.

Vote Required

Directors will be elected by a plurality vote of the shares of Common Stock present or represented and entitled to vote on this matter at the Annual Meeting. Accordingly, the candidates receiving the highest number of affirmative votes of shares represented and voting on this proposal at the Annual Meeting will be elected directors of the Company. Votes withheld from a nominee and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. This is an uncontested election of directors because the number of nominees for director does not exceed the number of directors to be elected. Pursuant to our director resignation policy, if any nominee for director in this election receives a greater number of votes “withheld” from such nominee than votes “for”, the nominee for director must tender his or her resignation for consideration by our Nominating and Governance Committee. The Nominating and Governance Committee shall consider all of the relevant facts and circumstances and recommend to our Board of Directors the action to be taken with respect to such offer of resignation. The Board of Directors will then act on the Nominating and Governance Committee’s recommendation. Promptly following the Board of Director’s decision, we will disclose that decision and an explanation of such decision in a filing with the Securities and Exchange Commission and a press release. See “Quorum; Abstentions; Broker Non-Votes.”

THE CLASS I AND II DIRECTORS RECOMMEND THAT

STOCKHOLDERS VOTE FOR THE CLASS III NOMINEES LISTED ABOVE.

PROPOSAL TWO

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE

AMENDED AND RESTATED 2004 EQUITY INCENTIVE PLAN

We are asking our stockholders to approve the amendment and restatement of Company's Amended and Restated 2004 Equity Incentive Plan (the "2004 EIP"), to increase the number of authorized shares of Common Stock reserved for issuance under the 2004 EIP by 4,100,000 shares. The Board of Directors has approved the amendment and restatement of the 2004 EIP subject to approval from our stockholders at the Annual Meeting.

The 2004 EIP was originally adopted by our Board of Directors in January 2004 and approved by our stockholders in February 2004. Our stockholders approved amendments to the 2004 EIP in May 2008, May 2009, May 2010, May 2011, May 2012, May 2015 and May 2017. As of February 28, 2019, a total of 11,637,190 shares of our Common Stock were authorized for issuance under the 2004 EIP.

The Board of Directors believes that this is an appropriate time to update the terms of the 2004 EIP to increase the total number of shares of our Common Stock reserved for issuance and to reflect updates to Section 162(m) of the Internal Revenue Code of 1986, as amended and it therefore approved an amendment and restatement of the 2004 EIP. In addition, our Board of Directors believes that the number of shares of our Common Stock that remain available for issuance under the 2004 EIP is insufficient to achieve the purposes of the plan over the term of the plan. Accordingly, the Board of Directors is now requesting that the stockholders approve the amendment and restatement of 2004 EIP, including an increase to the number of authorized shares of Common Stock reserved for issuance under the 2004 EIP of 4,100,000 shares. The Board of Directors has approved this increase to the authorized share reserve, subject to approval from our stockholders at the Annual Meeting. If this Proposal Two is not approved by our stockholders, the 2004 EIP will continue in accordance with its existing terms, and there will be no such increase to the number of shares of Common Stock reserved for issuance under the 2004 EIP or updated regarding Section 162(m).

Amendment to the Amended and Restated 2004 EIP

The following is a summary of the proposed amendment and restatement of the 2004 EIP. This summary is qualified in its entirety by reference to the actual text of the 2004 EIP and the proposed amendment and restatement thereto, which is appended to this Proxy Statement as Appendix A.

- We propose to increase the number of authorized shares of our Common Stock reserved for issuance under the 2004 EIP by an additional 4,100,000 shares, from 11,637,190 shares as of February 28, 2019 to 15,737,190 shares, subject to stockholder approval of the amendment and restatement.
- The 2004 EIP eliminates references to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and eliminates individual grant limits that applied under the 2004 EIP to awards that were intended to comply with the exemption for "performance-based compensation" under Code Section 162(m).

The Board of Directors believes that the approval of the amendment and restatement of the 2004 EIP is essential to our continued success. We believe that our employees are one of our most valuable assets and that the issuance of awards under the 2004 EIP is a critical factor in our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we operate. Such awards also are crucial to our ability to motivate our employees to achieve our goals. This Proposal Two is intended to provide sufficient shares to fund anticipated equity awards under the 2004 EIP until our 2021 Annual Meeting of Stockholders.

If approved, the number of authorized shares of Common Stock available for issuance under the 2004 EIP, as a percentage of the number of shares of our Common Stock issued and outstanding, would be consistent with those of our Peer Companies (as defined in the Compensation Discussion and Analysis section of this proxy statement). For our Peer Companies, this percentage ranges between 2.4% and 4.5% annually. For the past three years (2016 through

2018) we have granted an average of 3.6% annually of shares of our Common Stock then issued and outstanding.

The Board of Directors believes that our ability to issue awards to our employees under the 2004 EIP at a level that is competitive with our Peer Companies is critical to our ability to succeed.

2004 EIP Outstanding Awards and Available Shares

As of February 28, 2019, a total of 7,448,319 shares of our Common Stock were subject to outstanding stock options awarded under the 2004 EIP with a weighted average exercise price of $8.43 per share and a weighted average remaining term of 2.9 years. No stock option awards were granted under the 2004 EIP in which the exercise price for the underlying shares was less than the fair market value of such shares on the date of grant. As of February 28, 2019, there were 887,150 unvested restricted stock units outstanding and 704,309 shares available for grant.

Summary of the Amended and Restated 2004 EIP

The principal features of the 2004 EIP, subject to stockholder approval are summarized below. This summary is qualified in its entirety by reference to the 2004 EIP, attached as Appendix A.

The 2004 EIP provides for the grant of the following types of incentive awards: (i) stock options, including incentive stock options and nonstatutory stock options, (ii) stock appreciation rights (“SARs”), (iii) restricted stock, (iv) restricted stock units, (v) performance shares, and (vi) performance units. Each of these is referred to as an “Award.”

Eligibility. Under the 2004 EIP, eligible individuals include employees and consultants who provide services to us as well as members of our Board of Directors. As of
February&#16style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">

10,826,000

Operating expenses

Commission and marketing expenses

638,000

771,000

Compensation and related expenses

7,832,000

9,102,000

Cost of real estate sold

397,000

2,714,000

General and administrative

2,813,000

1,758,000

Depreciation and amortization

434,000

285,000

Rental operating expenses

411,000

241,000

Total operating expenses

12,525,000

14,871,000

Equity in joint venture income

5,256,000

657,000

Interest income from loan pool participations and notes receivable

2,546,000

651,000

Operating income (loss)

4,004,000

(2,737,000
)
Non-operating income (expense)

Interest income

38,000

63,000

Interest income — related party

228,000

218,000

Interest expense

(1,529,000
)

(2,114,000
)
Income (loss) before (provision for) benefit from income taxes

2,741,000

(4,570,000
)
(Provision for) benefit from income taxes

(663,000
)

1,998,000

Net income (loss)

2,078,000

(2,572,000
)
Net income attributable to the noncontrolling interests

(1,038,000
)

(568,000
)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.

1,040,000

(3,140,000
)
Preferred dividends and accretion of preferred stock issuance costs

(2,036,000
)

—

Net loss attributable to Kennedy-Wilson Holdings, Inc.
common shareholders

(996,000
)

(3,140,000
)
Other comprehensive loss, net of tax

(887,000
)

(196,000
)
Total comprehensive loss

$
(1,883,000
)

$
(3,336,000
)
Basic and diluted loss per share

Basic and diluted loss attributable to Kennedy-Wilson Holdings, Inc.
common shareholders

$
(0.02
)

$
(0.08
)
Weighted average number of common shares outstanding

40,022,940

38,980,351

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests
	Shares	Amount	Shares	Amount					
Balance, December 31, 2010	132,550	$—	40,179,906	$4,000	$284,669,000	$17,777,000	$9,043,000	$(11,301,000)	$12,714,000
Repurchase of 2,850 common shares	—	—	(2,850)	—	—	—	—	(31,000)	—
Stock-based compensation	—	—	—	—	1,167,000	—	—	—	—
Common stock issued under 2009 Equity Participation Plan	—	—	3,000	—	—	—	—	—	—
Other comprehensive income:									
Foreign currency translation loss, net of tax of $1,065,000	—	—	—	—	—	—	(1,611,000)	—	—
Foward foreign currency gain, net of tax of $497,000	—	—	—	—	—	—	724,000	—	—
Preferred stock dividends paid	—	—	—	—	—	(2,025,000)	—	—	—
Accretion of preferred stock issuance costs	—	—	—	—	11,000	(11,000)	—	—	—
Net income	—	—	—	—	—	1,040,000	—	—	1,038,000
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	377,000
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(334,000)
Balance, March 31, 2011	132,550	$—	40,180,056	$4,000	$285,847,000	$16,781,000	$8,156,000	$(11,332,000)	$13,795,000

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	$2,078,000	$(2,572,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain from sale of real estate	(20,000)	(1,223,000)
Depreciation and amortization	434,000	282,000
Provision for deferred income taxes	570,000	(1,999,000)
Amortization of deferred loan costs	71,000	58,000
Amortization of beneficial conversion of convertible subordinated debt	—	72,000
Equity in joint venture income	(5,256,000)	(657,000)
Accretion of interest income on loan pool participations and notes receivable	(2,546,000)	(651,000)
Stock based compensation	1,167,000	1,915,000
Change in assets and liabilities:		
Accounts receivable	(472,000)	(117,000)
Accounts receivable—related parties	(275,000)	345,000
Operating distributions from joint ventures	104,000	87,000
Operating distributions from loan pool participation	286,000	—
Other assets	380,000	203,000
Accounts payable	(927,000)	(495,000)
Accrued expenses and other liabilities	501,000	(805,000)
Accrued salaries and benefits	(8,142,000)	2,256,000
Net cash used in operating activities	(12,047,000)	(3,301,000)
Cash flows from investing activities:		
Settlements of notes receivable	312,000	—
Additions to notes receivable—related parties	(2,912,000)	—
Settlements of notes receivable—related parties	—	743,000
Net proceeds from sale of real estate	332,000	3,639,000
Purchases of and additions to real estate	—	(181,000)
Distributions from joint ventures	2,963,000	—
Contributions to joint ventures	(17,112,000)	(11,922,000)
Contributions to loan pool participations	(82,000)	—
Net cash used in investing activities	(16,499,000)	(7,721,000)
Cash flow from financing activities:		
Repayment of notes payable	(1,400,000)	(1,400,000)
Borrowings under lines of credit	19,000,000	4,000,000
Borrowings under mortgage loans payable	5,076,000	81,000
Repayment of mortgage loans payable	(871,000)	(3,243,000)
Debt issue costs	(45,000)	(46,000)
Repurchase of common stock	(31,000)	—
Dividends paid	(2,025,000)	—
Contributions from noncontrolling interests	377,000	—
Distributions to noncontrolling interests	(334,000)	(2,077,000)

Net cash provided by (used in) financing activities	19,747,000	(2,685,000)
Effect of currency exchange rate changes on cash and cash equivalents	(2,676,000)	(348,000)
Net change in cash and cash equivalents	(11,475,000)	(14,055,000)
Cash and cash equivalents, beginning of period	46,968,000	57,784,000
Cash and cash equivalents, end of period	$35,493,000	$43,729,000
Supplemental disclosure of non-cash investing activities:		
Unrealized loss on marketable security, net of tax of $129,000	$—	$194,000
Accretion of preferred stock issuance costs	11,000	—

See accompanying notes to consolidated financial statements.

4

Table of Contents

During the three month period ended March 31, 2011, as a result of the foreclosure of three assets in Kennedy-Wilson Holdings, Inc.'s consolidated loan portfolio, notes receivable decreased by $6,197,000 and real estate increased by $6,197,000.
See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2011
(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 the 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 month periods ended March 31, 2011 and 2010 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, 2011. For further information, your attention is directed to the footnote disclosures found in Kennedy-Wilson's 2010 Annual Report.

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 by the Variable Interest Entities Subsections 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 VIEs Subsections of 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—ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued Accounting Standards Codification (ASC) Update No. 2010-06, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, to improve disclosure requirements related to Fair Value Measurements and Disclosures — Subtopic 820. Update No. 2010-06 is effective for interim and annual reporting periods ending after December 15, 2009, except for the disclosures about purchases, sales, issuance, and settlements in the roll forward activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010. Update No. 2010-06 was adopted on January 1, 2010, and there was no material impact to the consolidated financial statements. Additionally, on January 1, 2011, Kennedy-Wilson has adopted the disclosures requirements about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 as well as additional disclosure about inputs and valuation techniques for fair value measurements.

NOTE 3—NOTES RECEIVABLE

During the three month period ended March 31, 2011, Kennedy-Wilson issued a note receivable in the amount of $1.1 million (with a maximum amount of $5.0 million) to KW Property Fund II, LP, an equity method investment and related party. The note bears an interest rate of 20%, is interest only, and is due on October 31, 2011.

During the three month period ended March 31, 2011, Kennedy-Wilson increased its notes receivable with the Bay Area Smart Growth Fund II, LLC, an equity method investment and related party, by $0.7 million to a total amount of $1.7 million (with a maximum amount of $2.0 million). The note bears an interest rate of 10%, is interest only, and is due on December 31, 2011.

During the three month period ended March 31, 2011, Kennedy-Wilson increased its notes receivable with 5th and Madison, LLC, an equity method investment and related party, by $1.0 million to a total amount of $3.9 million (with a maximum amount of $4.5 million). The note bears an interest rate of 15%, is interest only, and is due on December 31, 2011.

In 2010, Kennedy-Wilson purchased a pool of loans or notes receivable with deteriorated credit quality from a bank for $25.3 million. As of March 31, 2011, the assets and debt related to the pool of loans are $12.4 million and $10.6 million,

6

respectively. The amount contractually due under the terms of the notes as of March 31, 2011 is $18.9 million. Contractual payments of principal and interest of $0.1 million are due monthly. Kennedy-Wilson expects to accrete $4.2 million in interest on notes receivable over the total estimated collection period. During the three months ended March 31, 2011, Kennedy-Wilson accreted $0.4 million as interest on notes receivable in the accompanying consolidated statements of operations and comprehensive loss. From acquisition through March 31, 2011, Kennedy-Wilson has accreted $2.9 million of interest on notes receivable in the accompanying consolidated balance sheet.

Additionally, during the three month period ended March 31, 2011, Kennedy-Wilson foreclosed on three assets in Las Vegas, Nevada in the pool of loans discussed above that had been collateral for loans within the loan pool. As a result of these foreclosures, the real estate was removed from the pool and recorded on Kennedy-Wilson's consolidated balance sheet at a fair value of $6.2 million. Kennedy-Wilson determined the fair value based on the income approach. The fair value was consistent with the carrying amount within the loan pool and, as such, no unrealized gain or loss was recorded.

NOTE 4—REAL ESTATE

See note 3 for discussion of the additions to real estate related to the foreclosure of the real estate assets in our consolidated loan pool.

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 month period ended March 31, 2011, Kennedy-Wilson invested in two new joint ventures totaling $3.2 million and invested $2.7 million to buy out ownership interests from joint venture partners.

During the same period, Kennedy-Wilson made $14.3 million in contributions to existing joint venture investments. Of this amount, $12.1 million, including $0.5 million of noncontrolling interests, was contributed by Kennedy-Wilson to its joint venture in Japan for the purposes of refinancing a large portion of the Japanese multifamily portfolio.

In March 2011, a 9.0 magnitude earthquake hit the Tohoku region in northern Honshu, Japan, which also triggered multiple tsunamis along the Pacific coast of Japan, North America and South America, causing thousands of casualties and injuries as well as severe damage to roads, buildings and infrastructure. Following the earthquake and the tsunami, our office in Tokyo remained open with no material interruptions to business, none of our employees were injured, our investments suffered no material damages, and none of our tenants have had to evacuate.

Additionally, during the three month period ended March 31, 2011, Kennedy-Wilson received $3.0 million in distributions from its joint ventures.

Kennedy-Wilson has certain guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) Kennedy-Wilson could be required to make under the guarantees was approximately $33 million and $28 million as of March 31, 2011 and December 31, 2010, respectively. The guarantees expire through 2015 and Kennedy-Wilson’s performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales 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, 2011 and December 31, 2010 is immaterial.

NOTE 6—INVESTMENT IN LOAN POOL PARTICIPATION

In 2010, Kennedy-Wilson, in partnership with a bank, acquired two loan portfolios with deteriorated credit quality totaling approximately $424.5 million in unpaid principal balance. 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, 2011 is $294.4 million. Contractual payments of principal and interest of $1.0 million are due monthly. As of March 31, 2011, Kennedy-Wilson expects to accrete $18.0 million, including $2.4 million of noncontrolling interest, in interest income from loan pool

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)

participations over the total estimated collection period. During the three months ended March 31, 2011, Kennedy-Wilson recognized $2.1 million, including $0.3 million in noncontrolling interests, of interest income from loan pool participations in the accompanying consolidated statement of operations and comprehensive loss. From acquisition through March 31, 2011, Kennedy-Wilson has accreted $11.4 million, including $0.3 million of noncontrolling interests, of interest on notes receivable included in the accompanying consolidated balance sheet.

NOTE 7—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, 2011:

	Level 1	Level 2	Level 3	Total
Available-for-sale security	$33,000	$—	$—	$33,000
Investment in joint ventures	—	—	34,686,000	34,686,000
	$33,000	$—	$34,686,000	$34,719,000

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, 2010:

	Level 1	Level 2	Level 3	Total
Available-for-sale security	$33,000	$—	$—	$33,000
Investment in joint ventures	—	—	34,654,000	34,654,000
	$33,000	$—	$34,654,000	$34,687,000

The following table presents changes in Level 3 investments for the three months ended March 31, 2011 and 2010, respectively:

	2011	2010
Beginning balance	$34,654,000	$19,590,000
Unrealized and realized gains	82,000	332,000
Purchases	—	379,000
Sales	(50,000)	—
Ending balance	$34,686,000	$20,301,000

The change in unrealized gains and losses on Level 3 investments during the three month periods ended March 31, 2011 and 2010 for investments still held as of March 31, 2011 and 2010 was a loss of $1.1 million and a gain of $0.1 million, respectively.

Kennedy-Wilson records its investment in KW Property Fund III, 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 were based on management estimates of the assets and liabilities using a combination of the income and market approach. Kennedy-Wilson recorded an increase in fair value of $0.1 million and $0.3 million in equity in joint venture income in the consolidated statements of operations and comprehensive loss for the three months ended March 31, 2011 and 2010, respectively. Kennedy-Wilson's investment balance in the Funds was $20.5 million at March 31, 2011 and December 31, 2010, respectively, which are included in investments in joint ventures in the accompanying consolidated balance sheets. As of March 31, 2011 and December 31, 2010, Kennedy-Wilson has unfunded capital commitments to KW Property Fund III, L.P. and SG KW

Venture I, LLC in the amounts of $3.3 million and $6.0 million, respectively.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)

FAIR VALUE OPTION—Additionally Kennedy-Wilson elected the fair value option for two investments in joint venture entities that were acquired during 2008. Kennedy-Wilson elected to record these investments at fair value to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. There was no material change in the fair value of these investments during the three month periods ended March 31, 2011 and 2010. 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, 2011 and December 31, 2010, these two investments had fair values of $11.8 million and $2.3 million, respectively.
In estimating fair value of real estate held by the Funds and two fair value option investments, Kennedy-Wilson considers significant unobservable 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% — 6%	7.5% — 8.25%
Office	6.5%	7.5% — 9.0%
Land and condominium	n/a	8.0% — 15.0%

In valuing real estate related assets and indebtedness, Kennedy-Wilson considers significant inputs such as terms of debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. A third party assists management in valuing debt instruments, using credit spreads provided by Kennedy-Wilson for the investment entities. The credit spreads range from 4.5% to 9.5%.
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.

NOTE 8—LINE OF CREDIT
During the three month period ended March 31, 2011, Kennedy-Wilson borrowed an additional $19.0 million on its line of credit bringing the outstanding balance at March 31, 2011 to $46.8 million. As of March 31, 2011, the line of credit bore an interest rate at the floor amount of 4.00%. The line of credit was paid down in full on April 5, 2011.

NOTE 9—MORTGAGE LOANS PAYABLE
During the three month period ended March 31, 2011, Kennedy-Wilson entered into a mortgage loan payable for $5.0 million secured by its 2,700-acre ranch in Hawaii. The note bears interest at the First Hawaiian Bank Prime Rate plus 2.50% (6.875% at March 31, 2011), is interest only, and matures in April 2014. The loan was paid off in full on April 5, 2011.

NOTE 10—RELATED PARTY TRANSACTIONS
In addition to the related party transactions discussed above in Note 3, Kennedy-Wilson engaged in the following related party transactions during the three month period ended March 31, 2011.
During the three month period ended March 31, 2011, the firm of Kulik, Gottesman & Mouton Ltd. was paid $22,000 for legal services provided by the firm and $7,000 for director’s fees for Kent Mouton, a partner in the firm and a member of Kennedy-Wilson’s board of directors. During the three month period ended March 31, 2010, the amounts were $76,000 and $16,000, respectively.
During the three month period ended March 31, 2011, the firm of Solomon, Winnett & Rosenfield was paid $58,000 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 $7,000 for director's fees for the same period. During the three month period ended March 31, 2010, the amounts were $45,000 and $15,000, respectively.

9

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)

NOTE 11—EARNINGS PER SHARE

For the three month periods ended March 31, 2011 and 2010, a total of 22,178,931 and 22,998,219 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 12—SEGMENT INFORMATION

Kennedy-Wilson's business activities currently consist of services and various types of real estate and loan portfolio investments. Kennedy-Wilson's segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these services and its various investments.

SERVICES—Kennedy-Wilson provides a full range of commercial and residential real estate services. These services include property management, leasing, brokerage, asset management, auction and various other specialized commercial and residential real estate services.

INVESTMENTS—With joint venture partners and independently, Kennedy-Wilson invests in commercial and residential real estate where Kennedy-Wilson believes value can be added through company expertise or opportunistic investing. Kennedy-Wilson's current real estate portfolio focuses on commercial buildings and multifamily projects. Kennedy-Wilson also invests in loan portfolios collateralized by various classifications of real estate.

Substantially all of the revenue—related party was generated via intersegment activity for the three month periods ended March 31, 2011 and 2010. 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 provided Kennedy-Wilson with 10% or more of its 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, 2010 financial statements.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)

The following tables summarize Kennedy-Wilson's income activity by segment for the three month period ended March 31, 2011 and balance sheet data as of March 31, 2011:

	Services	Investments	Corporate	Consolidated
Management fees and commissions	$4,000,000	$—	$—	$4,000,000
Management fees and commissions — related party	3,572,000	—	—	3,572,000
Sale of real estate	—	417,000	—	417,000
Rental and other revenue	—	738,000	—	738,000
Total revenue	7,572,000	1,155,000	—	8,727,000
Operating expenses	5,747,000	4,303,000	2,041,000	12,091,000
Depreciation and amortization	35,000	359,000	40,000	434,000
Total operating expenses	5,782,000	4,662,000	2,081,000	12,525,000
Equity in joint venture income	—	5,256,000	—	5,256,000
Income from loan pool participations and notes receivable	—	2,546,000	—	2,546,000
Total operating income (loss)	1,790,000	4,295,000	(2,081,000)	4,004,000
Interest income	—	—	38,000	38,000
Interest income — related party	—	—	228,000	228,000
Interest expense	—	(77,000)	(1,452,000)	(1,529,000)
Income (loss) before provision for income taxes	$1,790,000	$4,218,000	(3,267,000)	2,741,000
Provision for income taxes			(663,000)	(663,000)
Net (loss) income			$(3,930,000)	$2,078,000
Total assets	$38,851,000	$425,355,000	$37,226,000	$501,432,000

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)

The following tables summarize Kennedy-Wilson's income activity by segment for the three month period ended March 31, 2010 and balance sheet data as of December 31, 2010:

	Services	Investments	Corporate	Consolidated
Management fees and commissions	$3,507,000	$—	$—	$3,507,000
Management fees and commissions — related party	2,713,000	—	—	2,713,000
Sale of real estate	—	3,937,000	—	3,937,000
Rental and other revenue	—	669,000	—	669,000
Total revenue	6,220,000	4,606,000	—	10,826,000
Operating expenses	4,955,000	4,706,000	4,925,000	14,586,000
Depreciation and amortization	16,000	232,000	37,000	285,000
Total operating expenses	4,971,000	4,938,000	4,962,000	14,871,000
Equity in joint venture income	—	657,000	—	657,000
Income from loan pool participations and notes receivable	—	651,000	—	651,000
Total operating income (loss)	1,249,000	976,000	(4,962,000)	(2,737,000)
Interest income	—	—	63,000	63,000
Interest income — related party	—	—	218,000	218,000
Interest expense	—	(163,000)	(1,951,000)	(2,114,000)
Income (loss) before provision for income taxes	$1,249,000	$813,000	(6,632,000)	(4,570,000)
Benefit from income taxes			1,998,000	1,998,000
Net loss			$(4,634,000)	$(2,572,000)
Total assets	$38,780,000	$400,519,000	$48,549,000	$487,848,000

NOTE 13—INCOME TAXES

Kennedy-Wilson's effective tax rates for the three month periods ended March 31, 2011 and 2010 were 24.2% and 43.7%, respectively. For the three month period ended March 31, 2011, the difference between the U.S. federal statutory rate of 34% and Kennedy-Wilson's effective tax rates is mainly attributable to state income taxes offset by income attributable to noncontrolling interests. For the three month period ended March 31, 2010, the difference between the U.S. federal statutory rate of 34% and Kennedy-Wilson's effective tax rates is mainly attributable to state income taxes and income attributable to noncontrolling interests.

In determining the quarterly provision for income taxes, the Company uses an effective tax rate based on actual year to date income and statutory tax rates. The effective tax rate also reflects the Company's assessment of the ultimate outcome of tax audits.

NOTE 14—SUBSEQUENT EVENTS

On April 5, and 12, 2011, Kennedy-Wilson, Inc. (the "Issuer"), a wholly-owned subsidiary of Kennedy-Wilson Holdings, Inc., issued $200 million and $50 million, respectively, of senior notes (the "Notes"). The Notes bear interest at a rate of 8.75% which is paid in arrears semiannually on April 1 and October 1 of each year until maturity of the Notes on April, 1 2019. If the Notes are redeemed prior to April 1, 2017 a premium must be paid on the redeemed amount. The April 12 offering was issued at a premium of 101.5% plus accrued interest from April 5, 2011. The terms of the Notes are governed by an indenture, dated April 5 and April 12, 2011, by and among the Issuer, Kennedy-Wilson, as parent guarantor, certain subsidiaries of the Issuer, as subsidiary guarantors (the "Subsidiary

Guarantors”) and Wilmington Trust FSB, as trustee. The indenture contains various restrictive covenants, including, among others, limitations on our ability to incur additional indebtedness and limitations on our ability to make restricted payments.
In connection with the debt issuance, on April 5, 2011, Kennedy-Wilson's two outstanding notes payable in the amounts

12

Table of Contents

of $19.2 million and $4.3 million and two mortgage loans payable in the amounts of $5.0 million (including a full repayment guaranty) and $2.7 million were paid off. Additionally, Kennedy-Wilson paid down $46.8 million on its line of credit bringing the balance to zero.

Table of Contents

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

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

Overview

Founded in 1977, we are an international real estate investment and services firm. We have grown from a real estate auction business into a vertically-integrated real estate operating company with approximately 300 professionals in 22 offices throughout the U.S. and Japan. We have over $7 billion of assets under management totaling over 40 million square feet of properties throughout the U.S. and Japan, including ownership in 12,906 multifamily apartment units (including 1,008 units in escrow and excluding 286 units sold on May 6, 2011).

Our operations are defined by two core business units: KW Investments and KW Services.

When reading our financial statements and the information included in this section, it should be considered that we have experienced the same material trends that have affected the nation. It is, therefore, a challenge to predict our future performance based on our historical results, but we believe that the following material trends assist in understanding our historical earnings and cash flows and the potential for the future.

The following table describes our investment account, which includes the following financial statement captions and is derived from our consolidated balance sheet for the year ended March 31, 2011:

Dollars in millions		
Investment in joint ventures	$287.4	
Real estate	88.3	
Mortgage debt	(39.5	)
Notes receivable	21.0	
Loan pool participations	27.1	
	$384.3	

The following table breaks down our investment account information derived from our consolidated balance sheet by investment type and geographic location:

	Dollars in millions					
	Multifamily	Loans Secured by Real Estate	Residential (1)	Office	Other	Total
California	$83.3	$60.9	$1.6	$18.3	$—	$164.1
Japan	117.8	—	—	6.1	—	123.9
Hawaii	—	10.9	42.3	—	—	53.2
Washington	23.5	3.9	1.9	1.5	—	30.8
Other	3.1	2.2	0.3	2.6	4.1	12.3
Total	$227.7	$77.9	$46.1	$28.5	$4.1	$384.3

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

Kennedy Wilson's Q1 2011 Highlights

Investments

- Our investment account (Kennedy-Wilson's equity in real estate and loan investments) increased by $20.6 million to $384.3 million at March 31, 2011 from $363.7 million as of December 31, 2010.

14

Table of Contents

- Our total assets topped $500 million for the first time in the Company's history.

Improved Adjusted EBITDA Metrics

- During the three month period ended March 31, 2011, we achieved an Adjusted EBITDA of $15.1 million, a 165% increase from $5.7 million for the same period in 2010.
- During the three month period ended March 31, 2011, our investments segment achieved an Adjusted EBITDA of $13.8 million, a 176% increase from $5.0 million for the same period in 2010.
- During the three month period ended March 31, 2011, our services segment achieved an Adjusted EBITDA of $1.8 million, a 38% increase from $1.3 million for the same period in 2010.

Robust Acquisition Program

- During the three month period ended March 31, 2011, the Company and our equity partners closed $216 million of real estate acquisitions through direct and joint venture investments.

Significant Multifamily Platform

- Our current multifamily platform, owned directly and through joint ventures, consists of 12,906 units (including 1,008 units in escrow and excluding 286 units sold on May 6, 2011) within 78 apartment communities. The units are located in California (53%), the Pacific Northwest (28%), and Japan (19%).
- The Company's multifamily portfolio, which is 96% occupied, on a trailing 12-month basis produced an annualized net operating income of $123 million (annualized for communities purchased in 2011 and stabilized for one community in lease up). The current debt associated with these properties is approximately $1.5 billion, and Kennedy-Wilson's equity interest in the portfolio is approximately 30%. In many cases, in addition to our ownership percentage, we have a promoted interest in the profits of these investments. Management believes that our multifamily investments are in supply constrained markets which will experience rent growth over the next several years.

Expansion of Service Business

- Management and leasing fees increased by 14% to $5.0 million for the three month period ended March 31, 2011 from $4.4 million for the same period in 2010, driven primarily by higher asset management fees earned through the increased investment of partner equity.
- Commissions increased by 44% to $2.6 million for the three month period ended March 31, 2011 from $1.8 million for the same period in 2010, driven primarily by increased acquisition fees generated by our acquisition activities.

Accessed Debt Financing

- During the three month period ended March 31, 2011, the Company and our equity partners completed $333 million of property level financings at a weighted average interest rate of 2.71%.
- In April 2011, the Company completed the sale and issuance of $250 million in aggregate principal amount of senior notes.

Results of Operations

Table of Contents

The following table sets forth items derived from our consolidated statement of operations for the three month periods ended March 31, 2011 and 2010.

	Three Months Ended March 31,	
	2011	2010
Revenue		
Management and leasing fees	$5,011,000	$4,407,000
Commissions	2,561,000	1,813,000
Sale of real estate	417,000	3,937,000
Rental and other income	738,000	669,000
Total revenue	8,727,000	10,826,000
Operating expenses		
Commission and marketing expenses	638,000	771,000
Compensation and related expenses	7,832,000	9,102,000
Cost of real estate sold	397,000	2,714,000
General and administrative	2,813,000	1,758,000
Depreciation and amortization	434,000	285,000
Rental operating expenses	411,000	241,000
Total operating expenses	12,525,000	14,871,000
Equity in joint venture income	5,256,000	657,000
Interest income from loan pool participations and notes receivable	2,546,000	651,000
Operating income (loss)	4,004,000	(2,737,000)
Non-operating income (expense)		
Interest income	38,000	63,000
Interest income — related party	228,000	218,000
Interest expense	(1,529,000)	(2,114,000)
Income (loss) before (provision for) benefit from income taxes	2,741,000	(4,570,000)
(Provision for) benefit from income taxes	(663,000)	1,998,000
Net income (loss)	2,078,000	(2,572,000)
Net income attributable to the noncontrolling interests	(1,038,000)	(568,000)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	1,040,000	(3,140,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	—
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(996,000)	$(3,140,000)
EBITDA (1)	$13,895,000	$1,580,000
Adjusted EBITDA (2)	$15,062,000	$5,710,000

Table of Contents

Additionally, we use certain non-GAAP measures to analyze our business, they include EBITDA[(1)] and Adjusted EBITDA[(2)] calculated as follows:

	Three Months Ended March 31, 2011	2010
Net income (loss)	$2,078,000	$(2,572,000)
Add back:		
Interest expense	1,529,000	2,114,000
Kennedy-Wilson's share of interest expense included in investment in joint ventures and loan pool participations	5,466,000	1,802,000
Depreciation and amortization	434,000	285,000
Kennedy-Wilson's share of depreciation and amortization included in investment in joint ventures	3,725,000	1,949,000
Income taxes	663,000	(1,998,000)
EBITDA [(1)]	13,895,000	1,580,000
Add back:		
Merger-related compensation expense	—	2,215,000
Stock-based compensation	1,167,000	1,915,000
Adjusted EBITDA [(2)]	$15,062,000	$5,710,000

(1) EBITDA represents earnings before interest expense, income taxes, and depreciation and amortization. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe EBITDA is useful to management in assisting us in evaluating the performance of the Company.

(2) Adjusted EBITDA represents EBITDA, as defined above, adjusted for merger-related compensation expense and stock-based compensation. Management uses Adjusted EBITDA to analyze our business because it adjusts EBITDA for items we believe are not representative of the operating performance of our business going forward. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to management as it provides a supplemental measure in assisting us in evaluating the performance of the Company.

However, EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management’s discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

Table of Contents

The following summarizes revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculates EBITDA and Adjusted EBITDA by our services, investments, and corporate operating segments for the three months ended March 31, 2011:

	Services	Investments	Corporate	Consolidated
Revenue	$7,572,000	$1,155,000	$—	$8,727,000
Operating expenses	5,782,000	4,662,000	2,081,000	12,525,000
Equity in income of joint ventures	—	5,256,000	—	5,256,000
Income from loan pool participations and notes receivable	—	2,546,000	—	2,546,000
Non-operating expenses	—	77,000	1,186,000	1,263,000
Operating income (loss)	$1,790,000	$4,218,000	$(3,267,000)	$2,741,000
Net income (loss)	$1,790,000	$4,218,000	$(3,930,000)	$2,078,000
Add back:				
Interest expense	—	77,000	1,452,000	1,529,000
Kennedy-Wilson's share of interest expense included in investment in joint ventures and loan pool participations	—	5,466,000	—	5,466,000
Depreciation and amortization	35,000	359,000	40,000	434,000
Kennedy-Wilson's share of depreciation and amortization included in investment in joint ventures	—	3,725,000	—	3,725,000
Income taxes	—	—	663,000	663,000
EBITDA	1,825,000	13,845,000	(1,775,000)	13,895,000
Add back:				
Stock based compensation	—	—	1,167,000	1,167,000
Adjusted EBITDA	$1,825,000	$13,845,000	$(608,000)	$15,062,000

Table of Contents

The following summarizes revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculates EBITDA and Adjusted EBITDA by our services, investments, and corporate operating segments for the three months ended March 31, 2010:

	Services	Investments	Corporate	Consolidated
Revenue	$6,220,000	$4,606,000	$—	$10,826,000
Operating expenses	4,971,000	4,938,000	4,962,000	14,871,000
Equity in income of joint ventures	—	657,000	—	657,000
Income from loan pool participations and notes receivable	—	651,000	—	651,000
Non-operating (expense)	—	163,000	1,670,000	1,833,000
Operating income (loss)	$1,249,000	$813,000	$(6,632,000)	$(4,570,000)
Net income (loss)	$1,249,000	$813,000	$(4,634,000)	$(2,572,000)
Add back:				
Interest expense	—	163,000	1,951,000	2,114,000
Kennedy-Wilson's share of interest expense included in investment in joint ventures and loan pool participations	—	1,802,000	—	1,802,000
Depreciation and amortization	16,000	232,000	37,000	285,000
Kennedy-Wilson's share of depreciation and amortization included in investment in joint ventures	—	1,949,000	—	1,949,000
Income taxes	—	—	(1,998,000)	(1,998,000)
EBITDA	1,265,000	4,959,000	(4,644,000)	1,580,000
Add back:				
Merger related compensation expense	—	—	2,215,000	2,215,000
Stock based compensation	—	—	1,915,000	1,915,000
Adjusted EBITDA	$1,265,000	$4,959,000	$(514,000)	$5,710,000

(1) (2) refer to previous discussion

Our Consolidated Financial Results: Three Months Ended March 31, 2011 compared to the Three Months Ended March 31, 2010

Our revenues for the three months ended March 31, 2011 and 2010 were $8.7 million and $10.8 million, respectively. Total operating expenses for the same periods were $12.5 million and $14.9 million, respectively, and net loss attributable to our common shareholders was $1.0 million and $3.1 million, respectively. Adjusted EBITDA was $15.1 million and $5.7 million, respectively, for the three month periods ended March 31, 2011 and 2010.

Revenues

Service Segment Revenues

During the three month period ended March 31, 2011, management and leasing generated revenues of $5.0 million (including related party fees of approximately $2.6 million) compared to approximately $4.4 million (including related party fees of approximately $2.3 million). Comparing the two periods, management and leasing fees increased $0.6 million or 14% which is primarily due to increased asset management fees generated from investing additional joint venture partner equity during the last three quarters of 2010 and the first quarter of 2011.

During the three month period ended March 31, 2011, commission revenues increased to $2.6 million (including related party fees of approximately $1.0 million) compared to commission revenues for the same period in 2010 of $1.8 million (including related party fees of approximately $0.4 million). The increase of $0.8 million or 44% is primarily due to a $0.5

million increase in acquisition fees generated from the increased acquisition activity during the first quarter of 2011.
Investments Segment Revenues
Sale of real estate sold decreased to $0.4 million for the three month period ended March 31, 2011 from $3.9 million for the same period in 2010. The decrease can primarily be attributed to the sale of 11 condominium units in southern California and the sale of a 50% interest in an apartment project in northern California in 2010 versus the sale of a controlling interest in land in Kent, Washington in 2011.
Operating Expenses
Operating expenses for the three month period ended March 31, 2011 were approximately $12.1 million (not including sale of real estate) as compared to $12.2 million for the same period in 2010 (not including sale of real estate).
Services Segment Operating Expenses
Consistent with management expectations, operating expenses had a minor increase of $0.3 million for the three months March 31, 2011 as compared to the same period in 2010.
Investments Segment Operating Expenses
Compensation and related expenses were approximately $2.5 million for the three month period ended March 31, 2011, as compared to $1.3 million for the same period in 2010. The increase can be primarily attributed to additional employees hired in the last three quarters of 2010 and the first quarter of 2011 as well as the bonus accrual for 2011.
Cost of real estate sold decreased to $0.4 million for the three month period ended March 31, 2011 from $2.7 million for the same period in 2010. The decrease can primarily be attributed to the sale of 11 condominium units in southern California and the sale of a 50% interest in an apartment project in northern California in 2010 versus the sale of a controlling interest in land in Kent, Washington in 2011.
General and administrative expenses were $1.0 million for the three month period ended March 31, 2011, as compared to $0.4 million in 2010. The increase can be primarily attributed to the purchase of a controlling interest in a 2,700 acre ranch in the 2nd quarter of 2010.
Corporate Operating Expenses
Compensation and related expenses were approximately $1.4 million for the three month period ended March 31, 2011, as compared to $4.6 million for the same period in 2010. The decrease can be primarily attributed to bonuses paid in 2010 in connection with the November 2009 merger as well as a decrease in stock based compensation expense.
Investments Segment Equity in Joint Venture Income
Equity in joint ventures generated income of $5.3 million for the three month period ended March 31, 2011, as compared to $0.7 million in 2010. The increase can be primarily attributed to fair value gains recognized in connection with a joint venture's foreclosure of a first trust deed position into ownership of a class A multifamily project in San Jose, California.
Investments Segment Income from Loan Pool Participations and Notes Receivable
Income from loan pool participations and notes receivable generated income of $2.5 million for the three month period ended March 31, 2011 as compared to $0.7 million for the same period in 2010. The change can be attributed to accretion income recognized on our loan pools purchased during 2010.
Non-Operating Items
Interest expense was $1.5 million for the three months ended March 31, 2011, a decrease of 29% compared to $2.1 million for same period in 2010. The decrease can primarily be attributed to the early extinguishment of convertible subordinated debt in July 2010.
Net income attributable to noncontrolling interests was approximately $1.0 million in the three months ended March 31, 2011 as compared to $0.6 million for the three months ended March 31, 2010. The increase is primarily due to additional income generated from new investments acquired subsequent to March 31, 2010.

Table of Contents

Liquidity and Capital Resources

Our liquidity and capital resources requirements include expenditures for joint venture investments, real estate, loan portfolios and working capital needs. Historically, we have not required significant capital resources to support our brokerage and property management operations. We finance these operations with internally generated funds. Our investments in real estate are typically financed by mortgage loans secured primarily by that real estate. These mortgage loans are generally nonrecourse in that, in the event of default, recourse will be limited to the mortgaged property serving as collateral. Our investments in loan portfolios are typically financed by loans secured primarily by the loan portfolios and underlying assets. These loans are generally nonrecourse in that, in the event of default, recourse will be limited to the loan portfolios and underlying assets serving as collateral. In a few cases, we guarantee a portion of the loan related to an investment, usually until some condition, such as completion of construction or leasing or certain net operating income criteria, has been met. We do not expect these guarantees to materially affect liquidity or capital resources.

Cash Flows

For the three month period ended March 31, 2011, cash used in operating activities of $12.0 million primarily included net income of $2.1 million and stock based compensation of $1.2 million, offset by equity in joint venture income of $5.3 million, income from loan pool participation of $2.5 million, and $8.1 million of accrued salaries and benefits. For the same period in 2010, cash used in operating activities was $3.3 million, primarily from the net loss of $2.6 million, provision for deferred income taxes of $2.0 million, gain on sale of real estate of $1.2 million, and equity in joint venture income of $0.7 million. This was offset by stock based compensation of $1.9 million and accrued salaries and benefits of $2.3 million.

For the three month period ended March 31, 2011, cash used in investing activities of $16.5 million was comprised primarily of contributions to new and existing joint ventures of $17.1 million and additions to related party notes reveivables of $2.9 million, offset by $3.0 million of distributions from joint ventures. For the same period in 2010, cash used in investing activities was $7.7 million, including contributions to joint ventures of $11.9 million offset by proceeds from sales of real estate of $3.6 million.

Cash provided by financing activities was $19.7 million for the three month period ended March 31, 2011 compared to cash used by financing activities of $2.7 million for the same period in 2010. For the three month period ended March 31, 2011, financing activities primarily included $19.0 million of borrowings on our line of credit and $5.1 million of mortgage notes payable, offset by $2.0 million of dividends paid and $1.4 million of amortization paydowns on notes payable. For the same period in 2010, cash used in financing activities included net repayment of mortgage loans of $3.2 million, $1.4 million of amortization paydowns on notes payable, and $2.1 million of distributions to noncontrolling interests, offset by $4.0 million of borrowings on our line of credit.

We believe that existing cash and cash equivalents plus capital generated from property management and leasing, brokerage, sales of real estate owned, collections from notes receivable, as well as our current line of credit, will provide us with sufficient capital requirements for the foreseeable future.

Under our current joint venture strategy, we generally contribute property expertise, and typically a fully funded initial cash contribution (without commitment to additional funding by us). Capital required for additional improvements and supporting operations during lease-up and stabilization periods is generally obtained at the time of acquisition via debt financing or third party investors. Accordingly, we generally do not have significant capital commitments with unconsolidated entities. Infrequently, there may be some circumstances when we, usually with the other members of the joint venture entity, may be required to contribute additional capital for a limited period of time. We believe that we have the capital resources, generated from our business activities and borrowing capacity, to finance any such capital requirements, and do not believe that any additional capital contributions to joint ventures will materially affect liquidity.

We intend to retain earnings to finance our growth and, therefore, do not anticipate paying dividends on our common stock.

Contractual Obligations and Commercial Commitments

During the three months ended March 31, 2011 and primarily as a result of draws on our line of credit and mortgage debt placed on one our our consolidated investments, we have approximately $23 million of additional contractual obligations and commercial commitments as compared to December 31, 2010. The addition of these obligations is within our ordinary course of business. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for further discussion of our contractual obligations and commercial commitments.

Table of Contents

Off-Balance Sheet Arrangements

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for discussion of our off-balance sheet arrangements as there have been no material changes to this disclosure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk exposure of our Company relates to changes in interest rates in connection with our short-term borrowings, some of which bear interest at variable rates based on lender's base rate, prime rate, or LIBOR plus an applicable borrowing margin. These borrowings do not give rise to a significant interest rate risk because they have short maturities. However, the amount of income or loss we recognize for unconsolidated joint ventures may be impacted by changes in interest rates. Historically, the impact from the changes in rates have not been significant.

Interest Rate Risk

We have established an interest rate management policy, which attempts to minimize our overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, we have elected to maintain a combination of variable and fixed rate debt.

The tables below represent contractual balances of our financial instruments at the expected maturity dates as well as the fair value as of March 31, 2011. The expected maturity categories take into consideration actual amortization of principal and do not take into consideration reinvestment of cash. The weighted average interest rate for the various assets and liabilities presented are actual as of March 31, 2011. We closely monitor the fluctuation in interest rates, and if rates were to increase significantly, we believe that we would be able to either hedge the change in the interest rate or to refinance the loans with fixed interest rate debt. All instruments included in this analysis are non-trading.

	Principal maturing in:							Fair Value March 31,
(in thousands)	2011	2012	2013	2014	2015	Thereafter	Total	2011
Interest rate sensitive assets								
Cash equivalents	$35,493	—	—	—	—	—	$35,493	$35,493
Average interest rate	0.24 %	—	—	—	—	—	0.24 %	
Variable rate receivables	—	$12,361	—	—	—	—	12,361	13,644
Average interest rate	—	4.78 %	—	—	—	—	4.78 %	
Fixed rate receivables	8,611	—	—	—	—	—	8,611	8,611
Average interest rate	13.49 %	—	—	—	—	—	13.49 %	
Total	$44,104	$12,361	—	—	—	—	$56,465	$57,748
Weighted average interest rate	1.83 %	4.78 %	—	—	—	—	3.26 %	
Interest rate sensitive liabilities								
Variable rate borrowings	—	$19,486	$61,718	$24,133	—	—	$105,337	$100,102
Average interest rate	—	1.99 %	4.06 %	4.60 %	—	—	3.65 %	
	$4,250	—	—	—	—	$40,000	44,250	44,686

Fixed rate borrowings								
Average interest rate	5.00 %	—	—	—	—	9.06 %	8.67 %	
Total	$4,250	$19,486	$61,718	$24,133	—	$40,000	$149,587	$144,788
Weighted average interest rate	5.00 %	1.99 %	4.06 %	4.60 %	—	9.06 %	5.24 %	

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal

Table of Contents

executive officer and principal financial officer concluded that, as of the end of the record period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes In Internal Controls Over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We may be involved in various legal proceedings arising in the ordinary course of business, none of which are material to our business. From time to time, our real estate management division is named in "slip and fall" type litigation relating to buildings we manage. Our standard management agreement contains an indemnity provision whereby the building owner indemnifies and agrees to defend its real estate management division against such claims. In such cases, we are defended by the building owner's liability insurer.

Item 1A. Risk Factors

The discussion of our business and operations in this Quarterly Report on form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC, which describe various risks and uncertainties to which we are or may become subject. Other than that noted below, there were no material changes from the risk factors disclosed in Item 1A of our report on Form 10-K for the fiscal year ended December 31, 2010.

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

Period	Total Number of Shares (or Units) Purchased		Average Price Paid per Share (or Unit) ($)	Total Number of Shares (or Units) Purchased as Part of Publically Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 1 — March 31	2,850	(1)	$ 10.79	—	—

(1) Repurchased 2,850 shares of common stock in private transactions from shareholders at a purchase price equal to the prior day's closing price for our common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Table of Contents

Exhibit No.	Description
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.

Table of Contents

SIGNATURE

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

KENNEDY-WILSON HOLDINGS, INC.

Dated: May 6, 2011

By: /S/ FREEMAN LYLE
Freeman Lyle
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and Accounting Officer)