

Kennedy-Wilson Holdings, Inc.

Form 424B3

November 08, 2011

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Filed by Kennedy-Wilson Holdings, Inc.

pursuant to Rule 424(b)(3) under the Securities Act of 1933

Commission File No.: 333-164926

#### QUARTERLY REPORT ON FORM 10-Q

On November 7, 2011, Kennedy-Wilson Holdings, Inc. filed with the Securities and Exchange Commission its Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, which is reproduced below as Appendix A to this filing.

In connection with the offering (the "Offering") of up to 20,278,690 shares of common stock and 4,993,471 warrants to purchase common stock of Kennedy-Wilson Holdings, Inc. (the "Company") by certain selling security holders, the Company has filed with the Securities and Exchange Commission ("SEC") a registration statement (the "Registration Statement") on Form S-1 (No. 333-164926), as amended, which was declared effective on June 11, 2010. A prospectus, dated June 11, 2010, covering the Offering was filed with the SEC on June 11, 2010 (as supplemented, the "Prospectus").

**ANY POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE URGED TO READ THE PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE OFFERING.**

This Prospectus Supplement and the Prospectus are required to be delivered by the selling security holders of the above-referenced securities or by their transferees, pledges, donees or their successors in connection with the offer and sale of the above-referenced securities.

The information contained herein, including the information attached hereto, supplements and supersedes, in part, the information contained in the Prospectus. This Prospectus Supplement should be read in conjunction with the Prospectus, and is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement supersedes the information contained in the Prospectus.

You may obtain a copy of the Registration Statement, the Prospectus and this Prospectus Supplement, as well as other filings containing information about the Company, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the Registration Statement, the Prospectus and this Prospectus Supplement can also be obtained, without charge, from the Company's corporate website at [www.kennedywilson.com](http://www.kennedywilson.com), or by directing a request to the Company, Attention: Investor Relations, 9701 Wilshire Blvd., Suite 700, Beverly Hills, California 90212.

In addition to the documents described above, the Company files annual, quarterly and current reports, proxy statements and other information with the SEC, which are available at the SEC's website at [www.sec.gov](http://www.sec.gov) or at the Company's website at [www.kennedywilson.com](http://www.kennedywilson.com).

**THIS FILING IS FOR INFORMATION PURPOSES ONLY AND SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES, NOR SHALL THERE BE ANY SALE OF SECURITIES IN ANY JURISDICTION IN WHICH SUCH SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH JURISDICTION.**

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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 September 30, 2011

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number 001-33824

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

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

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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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 November 4, 2011 was 44,974,706.

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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 those factors and the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2010. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filing with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

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FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	\$ 147,414,000	\$ 46,968,000
Accounts receivable	1,951,000	2,097,000
Accounts receivable — related parties	10,596,000	7,062,000
Notes receivable	16,946,000	20,264,000
Notes receivable — related parties	22,292,000	3,837,000
Real estate, net	113,619,000	82,701,000
Investments in joint ventures (\$45,127,000 and \$34,654,000 carried at fair value as of September 30, 2011 and December 31, 2010)	345,038,000	266,853,000
Loan pool participations	31,590,000	25,218,000
Marketable securities	5,658,000	33,000
Other assets	20,940,000	8,850,000
Goodwill	23,965,000	23,965,000
Total assets	\$ 740,009,000	\$ 487,848,000
Liabilities and equity		
Liabilities		
Accounts payable	\$ 353,000	\$ 1,504,000
Accrued expenses and other liabilities	30,896,000	9,064,000
Accrued salaries and benefits	5,014,000	10,721,000
Accrued and deferred tax liability	22,572,000	25,871,000
Senior notes payable	249,372,000	—
Notes payable	—	24,783,000
Borrowings under line of credit	—	27,750,000
Mortgage loans payable	38,217,000	35,249,000
Junior subordinated debentures	40,000,000	40,000,000
Total liabilities	386,424,000	174,942,000
Equity		
Cumulative preferred stock, \$0.0001 par value: 1,000,000 shares authorized \$1,000 per share liquidation preference,		
6.00% Series A, 100,000 shares issued as of September 30, 2011 and December 31, 2010, mandatorily convertible on May 19, 2015	—	—
6.46% Series B, 32,550 shares issued as of September 30, 2011 and December 31, 2010, mandatorily convertible on November 3, 2018	—	—
Common stock, \$0.0001 par value: 125,000,000 shares authorized, 46,089,646 and 41,291,596 shares issued and 44,974,706 and 40,179,906 shares outstanding as of September 30, 2011 and December 31, 2010, respectively	5,000	4,000

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Additional paid-in capital	337,988,000	284,669,000
Retained earnings	3,890,000	17,777,000
Accumulated other comprehensive income	7,467,000	9,043,000
Common stock held in treasury, at cost, \$0.0001 par value, 1,114,940 and 1,111,690 held at September 30, 2011 and December 31, 2010, respectively	(11,337,000)	(11,301,000)
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	338,013,000	300,192,000
Noncontrolling interests	15,572,000	12,714,000
Total equity	353,585,000	312,906,000
Total liabilities and equity	\$740,009,000	\$487,848,000
See accompanying notes to consolidated financial statements.		

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue				
Management and leasing fees	\$4,862,000	\$2,300,000	\$9,657,000	\$6,513,000
Management and leasing fees — related party	2,989,000	3,829,000	8,151,000	9,589,000
Commissions	1,329,000	1,973,000	4,842,000	4,353,000
Commissions — related party	1,930,000	2,034,000	3,587,000	4,319,000
Sale of real estate	—	—	417,000	3,937,000
Rental and other income	1,666,000	1,637,000	3,359,000	2,934,000
Total revenue	12,776,000	11,773,000	30,013,000	31,645,000
Operating expenses				
Commission and marketing expenses	1,641,000	263,000	3,015,000	2,032,000
Compensation and related expenses	8,473,000	12,414,000	24,562,000	29,400,000
Cost of real estate sold	—	—	397,000	2,714,000
General and administrative	3,329,000	3,457,000	9,183,000	8,263,000
Depreciation and amortization	931,000	616,000	1,828,000	1,197,000
Rental operating expenses	1,195,000	897,000	2,248,000	1,421,000
Total operating expenses	15,569,000	17,647,000	41,233,000	45,027,000
Equity in joint venture (loss) income	(646,000 )	5,191,000	7,229,000	5,162,000
Interest income from loan pool participations and notes receivable	1,048,000	4,209,000	5,835,000	7,950,000
Operating (loss) income	(2,391,000 )	3,526,000	1,844,000	(270,000 )
Non-operating income (expense)				
Interest income	74,000	53,000	264,000	168,000
Interest income — related party	561,000	91,000	970,000	477,000
Remeasurement gain	—	—	6,348,000	2,108,000
Gain on extinguishment of debt	—	—	—	16,670,000
Loss on extinguishment of debt	—	(4,788,000 )	—	(4,788,000 )
Interest expense	(6,117,000 )	(2,198,000 )	(13,874,000 )	(6,492,000 )
(Loss) income before benefit from (provision for) income taxes	(7,873,000 )	(3,316,000 )	(4,448,000 )	7,873,000
Benefit from (provision for) income taxes	2,997,000	(383,000 )	2,162,000	(4,335,000 )
Net (loss) income	(4,876,000 )	(3,699,000 )	(2,286,000 )	3,538,000
Net loss (income) attributable to the noncontrolling interests	42,000	(1,215,000 )	(1,295,000 )	(2,374,000 )
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(4,834,000 )	(4,914,000 )	(3,581,000 )	1,164,000
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000 )	(1,804,000 )	(6,708,000 )	(2,524,000 )
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(6,870,000 )	(6,718,000 )	(10,289,000 )	(1,360,000 )
Other comprehensive (loss) income, net of tax	(1,783,000 )	2,912,000	(1,576,000 )	5,098,000
Total comprehensive (loss) income	\$(8,653,000 )	\$(3,806,000 )	\$(11,865,000 )	\$3,738,000
Basic and diluted loss per share				

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Basic and diluted loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$(0.16	) \$(0.17	) \$(0.25	) \$(0.03	)
Weighted average number of common shares outstanding	44,016,880	38,961,822	40,712,496	39,062,570	
Dividends declared per common share	\$0.04	\$—	\$0.08	\$—	
See accompanying notes to consolidated financial statements.					

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Consolidated Statement of Equity  
(unaudited)

	Preferred Stock Shares	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balance at 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	\$3,000,000
Issuance of 4,800,000 shares of common stock	—	4,800,000	1,000	51,959,000	—	—	—	—	51,960,000
Repurchase of 3,250 common shares	—	(3,250)	—	—	—	—	(36,000)	—	(36,000)
Repurchase of 1,400,000 warrants	—	—	—	(2,434,000)	—	—	—	—	(2,434,000)
Stock-based compensation	—	—	—	3,761,000	—	—	—	—	3,761,000
Shares forfeited net of 3,000 common stock	—	—	—	—	—	—	—	—	—
issued under 2009 Equity Participation Plan	—	(1,950)	—	—	—	—	—	—	—
Other comprehensive income: Unrealized holding losses on available for sale securities, net of tax of \$3,063,000	—	—	—	—	—	(4,592,000)	—	—	(4,592,000)
Foreign currency translation gain, net of tax of \$3,311,000	—	—	—	—	—	5,058,000	—	—	5,058,000
Forward foreign	—	—	—	—	—	(2,042,000)	—	—	(2,042,000)

currency loss,  
net of tax  
of

\$1,347,000

Preferred stock dividends	—	—	—	—	(6,675,000)	)	—	—	—	(6,
Common stock dividends	—	—	—	—	(3,598,000)	)	—	—	—	(3,
Accretion of preferred stock issuance costs	—	—	—	33,000	(33,000)	)	—	—	—	—
Net (loss) income	—	—	—	—	(3,581,000)	)	—	—	1,295,000	(2,
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	2,259,000	2,2
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(696,000)	) (69

Balance at

September 30, 2011 132,550 \$-44,974,706 \$5,000 \$337,988,000 \$3,890,000 \$7,467,000 \$(11,337,000) \$15,572,000 \$3

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows  
(unaudited)

	Nine months ended September	
	30,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$(2,286,000 )	\$3,538,000
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Gain from sale of real estate	(20,000 )	(1,223,000 )
Gain on extinguishment of debt	—	(16,670,000 )
Loss on extinguishment of debt	—	4,788,000
Remeasurement gain	(6,348,000 )	(2,108,000 )
Depreciation and amortization	1,828,000	1,197,000
Provision for deferred income taxes	(2,200,000 )	6,752,000
Amortization of deferred loan costs	549,000	190,000
Amortization of beneficial conversion of convertible subordinated debt	—	168,000
Amortization of discount and accretion of premium on issuance of the senior notes payable	28,000	—
Equity in joint venture income	(7,229,000 )	(5,162,000 )
Accretion of interest income on loan pool participations and notes receivable	(5,762,000 )	(6,353,000 )
Stock based compensation	3,761,000	5,976,000
Change in assets and liabilities:		
Accounts receivable	190,000	(1,318,000 )
Accounts receivable—related parties	(3,534,000 )	(2,954,000 )
Income tax receivable	—	6,848,000
Operating distributions from joint ventures	2,640,000	4,242,000
Operating distributions from loan pool participation	1,198,000	—
Other assets	(3,487,000 )	(730,000 )
Accounts payable	(1,238,000 )	(260,000 )
Accrued expenses and other liabilities	13,148,000	(365,000 )
Accrued salaries and benefits	(5,707,000 )	2,477,000
Net cash used in operating activities	(14,469,000 )	(967,000 )
Cash flows from investing activities:		
Additions to notes receivable	(5,644,000 )	(27,190,000 )
Settlements of notes receivable	559,000	70,000
Additions to notes receivable—related parties	(23,322,000 )	(3,975,000 )
Settlements of notes receivable—related parties	4,867,000	8,721,000
Net proceeds from sale of real estate	416,000	3,639,000
Purchases of and additions to real estate	(1,930,000 )	(18,578,000 )
Investment in marketable securities	(7,382,000 )	—
Distributions from joint ventures	18,507,000	4,461,000
Contributions to joint ventures	(95,492,000 )	(66,833,000 )
Contributions to loan pool participations	(2,901,000 )	(9,612,000 )
Net cash used in investing activities	(112,322,000 )	(109,297,000)
Cash flow from financing activities:		
Issuance of senior notes payable	249,344,000	—
Borrowings under notes payable	—	4,250,000
Repayment of notes payable	(24,783,000 )	(4,200,000 )

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Borrowings under lines of credit	19,000,000	37,250,000
Repayment of lines of credit	(46,750,000 )	(25,500,000 )
Borrowings under mortgage loans payable	17,077,000	20,016,000
Repayment of mortgage loans payable	(30,109,000 )	(19,763,000 )
Repayment of convertible subordinated debt	—	(32,550,000 )
Debt issue costs	(7,486,000 )	(645,000 )
Issuance of preferred stock	—	132,294,000
Issuance of common stock	51,360,000	—
Repurchase of common stock	(36,000 )	(10,180,000 )
Repurchase of warrants	(2,434,000 )	(8,584,000 )
Dividends paid	(7,874,000 )	(2,508,000 )
Contributions from noncontrolling interests	2,259,000	6,952,000
Distributions to noncontrolling interests	(696,000 )	(2,096,000 )
Net cash provided by financing activities	218,872,000	94,736,000
Effect of currency exchange rate changes on cash and cash equivalents	8,365,000	8,457,000
Net change in cash and cash equivalents	100,446,000	(7,071,000 )
Cash and cash equivalents, beginning of period	46,968,000	57,784,000
Cash and cash equivalents, end of period	\$147,414,000	\$50,713,000

See accompanying notes to consolidated financial statements.

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	Nine months ended September 30,	
	2011	2010
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized loss on marketable securities, net of tax of \$3,063,000 and \$8,000	\$(4,590,000 )	\$(14,000 )
Accretion of preferred stock issuance costs	33,000	—
During the nine months ended September 30, 2011, as a result of the acquisition of a 100% interest in an approximate 200,000 square foot office portfolio, real estate increased by \$17,680,000, accounts receivable increased by \$44,000, other assets increased by \$50,000, accounts payable increased by \$87,000, accrued expenses and other liabilities increased by \$991,000 and mortgage loans payable increased by \$16,000,000	(696,000 )	—
During the nine months ended September 30, 2011, as a result of the sale of a controlling interest in a piece of land in Kent, Washington, real estate decreased \$696,000	696,000	—
During the nine months ended September 30, 2010, as a result of the consolidation of two of Kennedy-Wilson's joint ventures, accounts receivable increased by \$171,000, real estate increased by \$71,862,000, investment in joint venture decreased by \$6,256,000, other assets increased by \$3,174,000, accrued expenses and other liabilities increased by \$323,000 and mortgage loans payable increased by \$66,501,000	—	(2,127,000 )
During the nine months ended September 30, 2011, as a result of Kennedy-Wilson's foreclosure of four assets in its consolidated loan portfolio, notes receivable decreased by \$9,496,000 and real estate increased by \$9,496,000.		
During the nine months ended September 30, 2011, Kennedy-Wilson issued 4,400,000 shares of its common stock to an institutional investor for \$10.70 per share when the market value was \$12.20. In addition, as a result of its contractual rights, the preferred shareholder also acquired 400,000 shares for \$10.70 per share, representing a \$600,000 discount. Because the discount was the result of the preferred shareholder's contractual rights, it is reflected as a non-cash preferred dividend.		
On September 12, 2011, Kennedy-Wilson declared dividends on its common stock totaling \$1.8 million. The dividends were paid subsequent to September 30, 2011.		
See accompanying notes to consolidated financial statements.		

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 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 and nine months ended September 30, 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 Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

Certain amounts previously reported in our December 31, 2010 financial statements have been reclassified to conform to the September 30, 2011 presentation on the consolidated balance sheet.

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

**REVENUE RECOGNITION**—Performance fees or carried interest 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 cumulative performance of the fund and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, Kennedy-Wilson calculates the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset manager or (b) negative performance that would cause the amount due to Kennedy-Wilson to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. Substantially all of the carried interest is recognized in equity in joint venture income and substantially all of the performance fees are recognized in management and leasing fees in our consolidated statement of operations and comprehensive (loss) income. Total performances fees recognized through September 30, 2011 that may be reversed in future periods if there is negative fund performance were \$2.6 million. \$1.1 million of the performance fees were recognized during the nine months ended September 30, 2011. None of the performance fees



were recognized during the nine months ended September 30, 2010.

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

**ACCOUNTS RECEIVABLE**—Accounts receivable are recorded at the contractual amount as determined by the underlying

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

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(Unaudited)

agreements and do not bear interest. An allowance for doubtful accounts is provided when the Company determines there are probable credit losses in the Company's existing accounts receivable and is determined based on historical experience. The Company reviews its accounts receivable for probable credit losses on a quarterly basis. As of September 30, 2011, the Company had no allowance for doubtful accounts and during the three and nine months ended September 30, 2011 and September 30, 2010 had recorded no provision for doubtful accounts.

**INVESTMENTS IN MARKETABLE SECURITIES**—Investments in marketable equity securities are categorized as available-for-sale in accordance with the provision of Investments - Debt and Equity Securities ASC Subtopic 320-10. Available for-sale securities are carried at fair value with period unrealized gains and losses included in other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary are included in net income. Interest and dividends on securities classified as available-for-sale are included in interest and other income.

**RECENT ACCOUNTING PRONOUNCEMENTS**—In June 2011, the FASB issued Accounting Standards Codification (ASC) Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Update No. 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Update 2011-05 requires an entity to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The adoption of this update is not expected to have a material impact to our financial statements.

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

In September 2011, the FASB issued Accounting Standards Codification (ASC) Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment intended to simplify goodwill impairment testing. Entities will be permitted to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. The adoption of this update is not expected to have a material impact on our financial statements.

**NOTE 3—BUSINESS COMBINATION**

On June 28, 2011, Kennedy-Wilson acquired a 100% interest in an approximate 200,000 square foot office portfolio in Oakland, California (the "Portfolio") from a related party fund (the "Seller") in which Kennedy-Wilson has a 5% ownership interest. The assets and liabilities of the Portfolio since the date of acquisition have been consolidated at fair value in accordance with Business Combinations ASC Subtopic 805-10. The results of the operations of the Portfolio from the acquisition date to September 30, 2011 were immaterial. The amounts of \$15.0 million in building, \$2.5 million in acquired intangibles, \$6.2 million in land, \$0.6 million in cash and cash equivalents, \$0.1 million in accounts receivables and other assets, \$16.0 million in mortgage loans payable, and \$1.1 million in other liabilities were recorded as a result of the combination. Direct costs of the business combination have been charged to operations in the period that such costs were incurred. Additionally, Kennedy-Wilson will pay the Seller 15% of all profits realized by Kennedy-Wilson in excess of a 10% internal rate of return. Accordingly, Kennedy-Wilson has

recorded a liability of \$0.7 million, at fair value, for the 15% contingent interest. This interest will be re-evaluated on an on-going basis.

As a result of remeasuring its basis at fair value (utilizing an income approach), Kennedy-Wilson recorded a remeasurement gain in the amount of \$6.3 million in the accompanying consolidated statement of operations and comprehensive (loss) income. The gain recognized represented the fair value in excess of the price paid.

The Portfolio revenue and earnings included in the accompanying consolidated statement of operations and comprehensive (loss) income for the three months ended September 30, 2011, and the revenue and earnings on a pro forma basis, assuming the acquisition of the Portfolio occurred on January 1, 2011 and January 1, 2010, were as follows:

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(Unaudited)

Unaudited, dollars in thousands, except for per share data	Revenue	Net Income Attributable to Kennedy-Wilson common shareholders	Basic loss per share
Actual Portfolio from June 28, 2011 - September 30, 2011	\$ 709	\$(66 )	\$—
Supplemental pro forma from January 1, 2011 - September 30, 2011	31,342	(10,899 )	(0.27 )
Supplemental pro forma from January 1, 2010 - September 30, 2010	33,639	(2,270 )	(0.06 )

This unaudited pro forma information is not intended to represent or be indicative of what would have occurred if the transaction had taken place on the dates presented and is not indicative of what Kennedy-Wilson's actual results of operations would have been had the acquisition been completed at the beginning of the periods indicated above.

**NOTE 4—NOTES RECEIVABLE**

In September 2011, Kennedy-Wilson issued and advanced, through a promissory note, \$10.0 million to One Baxter Way, L.P., an equity method investment and related party. The note bears interest at a rate of 12%, is interest only, and is due on November 20, 2011. The interest recognized on the note is included in interest income - related party in the accompanying consolidated statement of operations and comprehensive (loss) income.

In May 2011, Kennedy-Wilson collected the \$2.0 million outstanding balance on its note receivable due from the Bay Area Smart Growth Fund II, LLC.

During the nine months ended September 30, 2011, Kennedy-Wilson issued and advanced additional monies on an unsecured note receivable to KW Property Fund II, LP, an equity method investment and related party. The note had an outstanding balance of \$8.4 million as of September 30, 2011. The note bears interest at a rate of 20%, is interest only, and is due on October 31, 2011. The interest recognized on the note is included in interest income - related party in the accompanying consolidated statement of operations and comprehensive (loss) income.

During the nine months ended September 30, 2011, Kennedy-Wilson increased its unsecured note receivable with 5th and Madison, LLC, an equity method investment and related party, by \$1.0 million to \$3.9 million. The note bears interest at a rate of 15%, is interest only, and is due on December 31, 2011. The interest recognized on the note is included in interest income - related party in the accompanying consolidated statement of operations and comprehensive (loss) income.

In September 2011, Kennedy-Wilson issued and advanced, through a promissory note, \$5.6 million (with a maximum amount of \$6.7 million) to an unrelated party, secured by a 16-unit condominium property in Los Angeles, California. The note bears interest at a rate of 12%, with principal repayments due upon the sale of each condominium unit, and is due on September 30, 2012. The interest recognized on the note is included in interest income in the accompanying consolidated statement of operations and comprehensive (loss) income.

In April 2010, Kennedy-Wilson purchased a pool of loans or notes receivable with deteriorated credit quality from a bank for \$25.3 million. As of September 30, 2011, the assets and debt related to the pool of loans are \$9.5 million and \$5.2 million, respectively. The amount contractually due under the terms of the notes as of September 30, 2011 is \$14.7 million. Contractual payments of principal and interest of \$0.2 million are due monthly as of September 30, 2011. Kennedy-Wilson expects to accrete \$3.5 million in interest on notes receivable over the total estimated collection period. During the three and nine month periods ended September 30, 2011 and 2010, Kennedy-Wilson accreted \$0.2 million and \$1.1 million, and \$1.0 million and \$1.6 million, respectively, as interest on notes receivable in the accompanying consolidated statements of operations and comprehensive (loss) income. From acquisition through September 30, 2011, Kennedy-Wilson has accreted \$3.5 million of interest on notes receivable in the accompanying consolidated balance sheet.

Additionally, during the nine months ended September 30, 2011, Kennedy-Wilson foreclosed on three assets in Las Vegas, Nevada and one asset in Palm Springs, California in the pool of loans discussed above that had been collateral for loans within the loan pool. As a resu