

Kennedy-Wilson Holdings, Inc.  
Form 10-Q  
August 08, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

Or

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

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

Commission file number 001-33824

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

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

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

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Non-Accelerated Filer

Smaller Reporting Company

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

The number of shares of common stock outstanding as of August 5, 2014 was 94,955,627.

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**FORWARD-LOOKING STATEMENTS**

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. These risks and uncertainties may include the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2013. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filings with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

**Kennedy-Wilson Holdings, Inc.**

Kennedy-Wilson Holdings, Inc. is referred to as “Kennedy Wilson” or “KWH” , and Kennedy-Wilson Holdings, Inc. and its subsidiaries are collectively referred to as “The Company,” “we,” “us” or “our”, unless the context requires otherwise. Assets Under Management or “AUM”

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is principally intended to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our AUM consist of the total estimated fair value of the real estate properties and other real estate related assets either owned by third parties, wholly owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our AUM. The estimated value of development properties is included at estimated completion cost.

**Operating Associates**

Operating associates generally refer to individuals that are employed by or affiliated with third-party consultants, contractors, property managers or other service providers that we manage and oversee on a day-to-day basis with respect to our investments and services businesses.

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FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

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

	June 30, 2014	December 31, 2013
(Dollars in millions, except share and per share amounts)		
Assets		
Cash and cash equivalents	\$349.5	\$170.2
Cash held by consolidated investments (including \$42.6 and \$0 of restricted cash)	292.8	8.0
Accounts receivable (including \$6.3 and \$11.4 of related party)	36.8	16.6
Loans (including \$4.0 and \$4.1 of related party)	402.3	56.8
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	3,553.4	688.1
Unconsolidated investments	532.2	786.1
Other assets	187.7	73.0
Total assets	\$5,354.7	\$1,798.8
Liabilities and equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	285.7	129.1
Investment debt	1,528.7	401.8
Senior notes payable	706.0	409.0
Junior subordinated debentures	40.0	40.0
Total liabilities	2,560.4	979.9
Equity		
Cumulative preferred stock, \$0.0001 par value per share: 1,000,000 shares authorized \$1,000 per share liquidation preference	—	—
Common stock, 91,683,127 and 82,592,607 shares issued and outstanding as of June 30, 2014 and December 31, 2013	—	—
Additional paid-in capital	986.3	801.3
Accumulated deficit	(11.8	) (42.2
Accumulated other comprehensive income	1.6	9.2
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	976.1	768.3
Noncontrolling interests	1,818.2	50.6
Total equity	2,794.3	818.9
Total liabilities and equity	\$5,354.7	\$1,798.8
See accompanying notes to consolidated financial statements.		

Table of ContentsKennedy-Wilson Holdings, Inc.  
Consolidated Statements of Operations  
(Unaudited)

(Dollars in millions, except share and per share amounts)	Three Months Ended		Six Months Ended June	
	June 30, 2014	2013	30, 2014	2013
Revenue				
Investment management, property services and research fees (includes \$33.3, \$13.8, \$40.6, and \$22.2 of related party fees)	\$39.0	\$19.5	\$52.1	\$33.1
Rental and hotel	42.6	10.3	67.8	16.8
Sale of real estate	6.1	6.1	17.4	8.5
Loans and other	4.3	0.5	6.0	0.9
Total revenue	92.0	36.4	143.3	59.3
Operating expenses				
Commission and marketing	0.9	1.3	1.8	1.8
Rental and hotel operating	17.9	4.6	32.1	7.7
Cost of real estate sold	3.9	5.1	13.5	7.0
Compensation and related	32.2	18.3	52.8	31.9
General and administrative	8.4	6.4	16.5	11.8
Depreciation and amortization	25.3	4.4	32.6	7.5
Total operating expenses	88.6	40.1	149.3	67.7
Income from unconsolidated investments	31.0	14.8	33.8	16.9
Operating income	34.4	11.1	27.8	8.5
Non-operating income (expense)				
Acquisition-related gains	86.0	—	170.3	9.5
Acquisition-related expenses	(7.6)	) (0.5)	) (11.6)	) (0.5)
Interest expense-investment	(11.1)	) (2.8)	) (16.4)	) (4.6)
Interest expense-corporate	(14.7)	) (9.7)	) (25.2)	) (19.4)
Other income	2.1	0.1	2.9	0.4
Income (loss) before (provision for) benefit from income taxes	89.1	(1.8)	) 147.8	(6.1)
(Provision for) benefit from income taxes	(25.4)	) 0.5	(34.2)	) 2.2
Net income (loss)	63.7	(1.3)	) 113.6	(3.9)
Net (income) loss attributable to the noncontrolling interests	(25.3)	) 0.9	(62.7)	) 1.9
Preferred dividends and accretion of preferred stock issuance costs	(2.1)	) (2.1)	) (4.1)	) (4.1)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$36.3	\$(2.5)	) \$46.8	\$(6.1)
Basic earnings per share				
Income (loss) per basic	\$0.39	\$(0.03)	) \$0.51	\$(0.09)
Weighted average shares outstanding for basic	89,140,498	70,976,247	88,645,002	66,432,823
Diluted earnings per share				
Income (loss) per diluted	\$0.38	\$(0.03)	) \$0.50	(0.09)
Weighted average shares outstanding for diluted	102,115,350	70,976,247	101,435,250	66,432,823
Dividends declared per common share	\$0.09	\$0.07	\$0.18	\$0.14
See accompanying notes to consolidated financial statements.				

Table of ContentsKennedy-Wilson Holdings, Inc.  
Consolidated Statements of Comprehensive Income (Loss)  
(Unaudited)

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$63.7	\$(1.3)	) \$113.6	\$(3.9)
Other comprehensive income (loss), net of tax:				
Unrealized foreign currency translation gain (loss)	23.1	(3.7)	) 21.9	(18.0)
Amounts reclassified out of AOCI during the period	(8.3)	) —	(7.1)	) —
Unrealized forward contract, foreign currency (loss) gain	(2.1)	) 2.2	(3.6)	) 5.8
Total other comprehensive gain (loss) for the period	12.7	(1.5)	) 11.2	(12.2)
Comprehensive income (loss)	76.4	(2.8)	) 124.8	(16.1)
Comprehensive (income) loss attributable to noncontrolling interests	(44.1)	) 0.9	(81.5)	) 1.9
Comprehensive income (loss) attributable to Kennedy-Wilson Holdings, Inc.	\$32.3	\$(1.9)	) \$43.3	\$(14.2)

See accompanying notes to consolidated financial statements.

Table of ContentsKennedy-Wilson Holdings, Inc.  
Consolidated Statement of Equity  
(Unaudited)

(Dollars in millions, except share amounts)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2013	132,550		82,592,607	\$—	\$ 801.3	\$ (42.2 )	\$ 9.2	\$ 50.6	\$818.9
Issuance of shares, net	—	—	9,201,250	—	190.7	—	—	—	190.7
Shares forfeited	—	—	(2,475 )	—	—	—	—	—	—
Repurchase and retirement of common stock	—	—	(108,255 )	—	(2.6 )	—	—	—	(2.6 )
Stock compensation expense	—	—	—	—	3.4	—	—	—	3.4
Other comprehensive income:									
Unrealized foreign currency translation gain, net of tax	—	—	—	—	—	—	2.8	18.8	21.6
Unrealized forward contract foreign currency loss, net of tax	—	—	—	—	—	—	(10.4 )	—	(10.4 )
Preferred stock dividends	—	—	—	—	—	(4.1 )	—	—	(4.1 )
Common stock dividends	—	—	—	—	—	(16.4 )	—	—	(16.4 )
Net income	—	—	—	—	—	50.9	—	62.7	113.6
Consolidation of noncontrolling interests (Note 4)	—	—	—	—	—	—	—	291.8	291.8
Acquisition of Kennedy Wilson Europe (KWE) shares from noncontrolling interest holders	—	—	—	—	—	—	—	(16.8 )	(16.8 )
Issuance of KWE shares, net (Note 12)	—	—	—	—	(6.5 )	—	—	1,416.0	1,409.5
Contributions from noncontrolling interests, excluding KWE	—	—	—	—	—	—	—	8.6	8.6
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(13.5 )	(13.5 )



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Balance at June 30, 2014	132,550	\$—	91,683,127	\$—	\$ 986.3	\$ (11.8 )	\$ 1.6	\$ 1,818.2	\$2,794.3
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See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$113.6	\$(3.9)
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Net gain from sale of real estate	(3.9)	(1.7)
Acquisition-related gain	(170.3)	(9.5)
Depreciation and amortization	32.6	7.5
Provision for (benefit from) deferred income taxes	34.2	(1.8)
Amortization of deferred loan costs	1.6	1.1
Amortization of discount and accretion of premium on issuance of the senior notes and investment debt	(1.2)	(0.5)
Income from unconsolidated investments	(34.1)	(17.1)
Operating distributions from unconsolidated investments	57.7	17.9
Stock-based compensation	3.4	3.4
Change in assets and liabilities:		
Accounts receivable	(15.8)	(3.5)
Other assets	(4.4)	(8.1)
Accrued expenses and other liabilities	51.7	(7.7)
Net cash from (used in) operating activities	65.1	(23.9)
Cash flows from investing activities:		
Additions to loans	(373.3)	(14.3)
Collections of loans	18.7	33.6
Net proceeds from sale of real estate	15.0	9.0
Purchases of and additions to real estate	(1,289.8)	(108.3)
Proceeds from sale of marketable securities	—	10.0
Investment in marketable securities	(6.9)	—
Distributions from unconsolidated investments	55.6	75.3
Contributions to unconsolidated investments	(106.0)	(200.5)
Net cash used in investing activities	(1,686.7)	(195.2)
Cash flows from financing activities:		
Borrowings under senior notes payable	297.2	—
Borrowings under line of credit	90.0	85.0
Repayment of line of credit	(90.0)	(55.0)
Borrowings under investment debt	295.2	68.3
Repayment of investment debt	(14.0)	(0.6)
Debt issue costs	(11.3)	(0.9)
Issuance of common stock	190.7	153.9
Repurchase and retirement of common stock	(2.6)	—
Repurchase of warrants	—	(1.4)
Proceeds from the issuance of KWE shares, net	1,351.1	—
Dividends paid	(18.1)	(9.1)
Change in restricted cash	(42.6)	—
Acquisition of KWE shares from noncontrolling interest holders	(16.8)	—
Contributions from noncontrolling interests, excluding KWE	8.6	0.6
Distributions to noncontrolling interests	(13.5)	(0.2)

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Net cash provided by financing activities	2,023.9	240.6	
Effect of currency exchange rate changes on cash and cash equivalents	19.2	(2.7	)
Net change in cash and cash equivalents	421.5	18.8	
Cash and cash equivalents, beginning of period	178.2	120.9	
Cash and cash equivalents, end of period	\$599.7	\$139.7	
See accompanying notes to consolidated financial statements.			

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Consolidated Statements of Cash Flows  
(Unaudited)

## Supplemental cash flow information:

(Dollars in millions)	Six Months Ended June 30,	
	2014	2013
Cash paid for:		
Interest	\$34.7	\$23.3
Income taxes	0.1	2.3

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

(Dollars in millions)	Six Months Ended June 30,	
	2014	2013
Dividends declared on common stock	\$8.2	\$5.2

On February 28, 2014, the Company contributed its 50% interest in an unconsolidated investment which held 14 commercial, retail, and industrial properties portfolio to KWE as part of the Company's subscription in KWE's initial public offering as described in note 1.

On March 31, 2014 and June 30, 2014, the Company amended the existing operating agreements governing certain of its investments with its equity partners thereby allowing the Company to gain control of these operating properties. As a result of obtaining control, the Company was required to consolidate the assets and liabilities of these properties at fair value in accordance with FASB ASC Topic 805 Business Combinations as described in note 4.

During the six months ended June 30, 2014, the Company foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA. As a result of the foreclosure, the Company was required to consolidate the assets and liabilities of the retail center at fair value under ASC Topic 805 Business Combinations and recorded the vacant lot at fair market value as described in note 4.

On March 28, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities of these properties at fair value in accordance with FASB ASC 805 Business Combinations as described in note 4.

During the six months ended June 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a loan secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, \$96.0 million in loans and \$78.7 million in investment debt were deconsolidated.

See accompanying notes to consolidated financial statements.

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.Kennedy-Wilson Holdings, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

**NOTE 1—BASIS OF PRESENTATION**

Kennedy-Wilson Holdings, Inc.'s (together with its wholly owned and controlled subsidiaries, "we," "us," "our," "the Company" or "Kennedy Wilson") unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. In the opinion of Kennedy Wilson, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2014 and 2013 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, 2014. 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, 2013.

The consolidated financial statements include the accounts of Kennedy Wilson and its wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Kennedy Wilson Europe Real Estate Plc ("KWE," LSE: KWE), a Jersey investment company formed to invest in real estate and real estate-related assets in Europe, closed its initial public offering ("IPO") on the London Stock Exchange during the quarter ended March 31, 2014, raising approximately \$1.7 billion in gross proceeds. KWE is externally managed by a wholly-owned subsidiary of the Company incorporated in Jersey pursuant to an investment management agreement. Due to the terms provided in the investment management agreement, pursuant to the guidance set forth in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810 - Consolidation ("Subtopic 810"), the Company is required to consolidate KWE's results in its consolidated financial statements. Additionally, the Company invested \$145.2 million of cash and contributed \$58.3 million of assets acquired by the Company as part of the IPO. During the quarter ended June 30, 2014 the Company acquired an additional one million ordinary shares for £10.0 million and owned approximately 13.2% of KWE's total issued share capital as of June 30, 2014. The Company also consolidates the results of certain joint ventures in its consolidated financial statements that it controls as defined by Subtopic 810.

In addition, Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities ("VIEs") as defined in the FASB 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 preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

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

**REVENUE RECOGNITION**—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of Kennedy Wilson's real estate funds and loan pool participations based on the cumulative performance of the funds and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, Kennedy Wilson calculates the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset

manager or (b) negative performance that would cause the amount due to Kennedy Wilson to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. A majority of the performance fees are recognized in investment management revenue, and substantially all of the carried interest is recognized in income from unconsolidated investments in our consolidated statements of operations. Total performance fees recognized from inception through June 30, 2014 that may be reversed in future periods if there is negative fund or loan pool performance totaled \$4.6 million. Performance fees accrued as of June 30, 2014 and December 31, 2013 were \$4.6 million and \$6.1 million, respectively, and are included in accounts receivable in the accompanying consolidated balance sheet.

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Kennedy-Wilson Holdings, Inc.  
Notes to Consolidated Financial Statements  
(Unaudited)

**REAL ESTATE ACQUISITIONS**—The purchase price of acquired properties is recorded to land, buildings and building improvements and intangible lease value (value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values in accordance with ASC Subtopics 805-10 Business Combinations. Acquisition-related costs are expensed as incurred. The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests.

The valuations of real estate are based on management estimates of the real estate assets using income and market approaches. The indebtedness securing the real estate is valued, in part, based on third party valuations and management estimates also using an income approach.

**NONCONTROLLING INTERESTS**—Noncontrolling interests are reported within equity as a separate component of Kennedy Wilson's equity in accordance with ASC Subtopic 810-10, Noncontrolling Interests in Consolidated Financial Statements. Revenues, expenses, gains, losses, net income (loss), and other comprehensive income are reported in the consolidated statements of operations at the consolidated amounts and net income (loss) and comprehensive income attributable to noncontrolling interests are separately stated.

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

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

**INCOME TAXES**—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC Subtopic 740-10 Accounting for Uncertainty in Income Taxes, Kennedy Wilson recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

**RECENT ACCOUNTING PRONOUNCEMENTS**—On April 10, 2014, the FASB issued ASU 2014-08, which amends the definition of discontinued operations and requires additional disclosures for disposal transactions that do not meet the revised discontinued operations criteria. ASU 2014-08 is required to be adopted for fiscal years beginning after December 15, 2014, with early adoption permitted. The Company's early adoption of this pronouncement on January 1, 2014 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued an accounting standard update that will use a five step model to recognize revenue from customer contracts in an effort to increase consistency and comparability throughout global capital markets and across industries. The model will identify the contract, identify any separate performance obligations in the contract, determine the transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. The new standard will replace most existing revenue recognition in GAAP when it becomes effective for

the Company on January 1, 2017. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

The FASB did not issue any other ASCs during the first six months of 2014 that we expect to be applicable and have a material impact on our financial position or results of operations.

RECLASSIFICATIONS—Certain balances included in prior year's financial statements have been reclassified to conform with the current year's presentation.

#### NOTE 3—LOANS

The following table summarizes Kennedy Wilson's investment in loans at June 30, 2014 and December 31, 2013:

(Dollars in millions)	June 30, 2014	December 31, 2013
Loans	\$398.3	\$52.7
Loans — related parties	4.0	4.1
Total loans	\$402.3	\$56.8

During the first quarter of 2014, Kennedy Wilson acquired the loans secured by a five-star hotel located in Dublin, Ireland for \$152.4 million. As of June 30, 2014, due to foreign currency fluctuations, the loans had a balance of \$152.5 million and the investment debt balance for the hotel was \$81.9 million, which are consolidated on Kennedy Wilson's consolidated balance sheet.

During the second quarter of 2014, KWE acquired the loans secured by five real estate loans under receivership which are secured against five high tech properties located across England for \$156.3 million and the acquisition of subordinated notes secured by 20 commercial properties located throughout England and Scotland for \$62.2 million.

#### Loan income

Kennedy Wilson recognized interest income on loans of \$3.8 million and \$5.5 million during the three and six months ended June 30, 2014, respectively, and \$0.5 million and \$0.9 million during the three and six months ended June 30, 2013, respectively.

#### NOTE 4—REAL ESTATE AND IN-PLACE LEASE VALUE

The following table summarizes the Company's investment in consolidated real estate properties at June 30, 2014 and December 31, 2013:

(Dollars in millions)	June 30, 2014	December 31, 2013
Land	\$935.5	\$187.8
Buildings	2,256.7	484.1
Building improvements	34.3	12.7
In-place lease value	384.3	29.8
	3,610.8	714.4
Less accumulated depreciation and amortization	(57.4	) (26.3
Real estate, net	\$3,553.4	\$688.1

Real property, including land, buildings, and building improvement, are included in real estate and are generally stated at cost. Buildings and building improvements are depreciated on a straight-line method over their estimated lives not to exceed 40 years. Acquired in-place lease values are recorded at their estimated fair value and depreciated over their respective weighted-average lease term which was 5.3 years at June 30, 2014.

#### Consolidated Acquisitions

The purchase of property is recorded to land, buildings, building improvements, and intangible lease value (including the value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their



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respective estimated fair values. The purchase price generally approximates the fair value of the properties as acquisitions are generally transacted with third-party willing sellers. Acquisition-related costs are expensed as incurred.

During the six months ended June 30, 2014, Kennedy Wilson and its consolidated subsidiaries acquired the following properties:

(Dollars in millions)

Date acquired	Type	Description	Location	At Acquisition <sup>(5)</sup>				KWH Shareholders' Equity
				Land	Building	Intangible assets	Investment debt	
1/20/2014	Commercial <sup>(1)</sup>	Portfolio of 14 commercial, retail, and industrial properties	United Kingdom	\$28.9	\$47.1	\$41.4	\$—	\$ 58.7
2/20/2014	Hotel	193 room hotel	Western U.S.	1.3	8.3	—	—	6.9
2/28/2014	Multifamily	24 apartment units, 2 penthouse units, and 1,000 square feet of retail	Ireland	0.6	15.1	0.4	9.6	6.5
3/28/2014	Commercial <sup>(2)</sup>	26 commercial properties throughout England and Scotland	United Kingdom	54.0	132.0	54.0	—	29.3
3/31/2014	Multifamily <sup>(3)</sup>	281 completed apartments and a partially completed residential block, 725k square feet of commercial space, and 7.4 acres of commercial development land	Ireland	32.7	80.9	1.2	78.9	35.9
4/1/2014	Commercial	98k square foot retail center	Western U.S.	2.4	5.8	0.4	6.0	1.9
4/30/2014	Multifamily	203 unit apartment building	Western U.S.	2.7	24.0	0.3	13.3	13.3
6/25/2014	Multifamily <sup>(2)</sup>	81 unit apartment building	Ireland	4.8	15.0	0.4	—	2.7
6/26/2014	Commercial <sup>(2)</sup>	13 commercial properties	Ireland	104.9	344.3	52.3	273.1	30.1
6/27/2014	Commercial <sup>(2)(4)</sup>	20 commercial properties throughout England and Scotland	United Kingdom	106.8	300.7	127.0	—	70.6
6/30/2014	Multifamily	542 unit apartment building	Western U.S.	38.3	57.5	0.6	77.2	18.6
				\$377.4	\$1,030.7	\$278.0	\$458.1	\$ 274.5

(1) On February 28, 2014, the Company contributed its 50% interest in this portfolio to KWE as part of the Company's investment in KWE's initial public offering.

(2) These portfolios of properties were acquired by KWE.

(3) This asset was sold to KWE on June 24, 2014.

(4) KWE acquired subordinated notes on this property during the quarter and used its position as a debt holder to secure the transaction. The Company recognized an acquisition-related gain of \$15.2 million on the transaction due to its ability to acquire the underlying real estate at a discount to its fair value.

(5) Excludes acquisition expenses and net other assets

Consolidation of previously unconsolidated investments

On March 31, 2014, the Company and one of its equity partners amended and restated existing operating agreements governing six separate joint ventures that hold real estate-related investments located in the U.K. and Ireland. The Company has an approximate 50% ownership interest in these investments.

On June 30, 2014, the Company and one of its equity partners amended and restated the existing operating agreement of KW Residential ("KWR") which governs 50 multifamily properties in and around Tokyo, Japan comprising approximately 2,400 units. The Company has an approximate 41% ownership interest in these investments.

These joint ventures were previously accounted for by the Company on an equity method basis due to substantive participation of the equity partners in the operational control over the real estate assets. The operating agreements of the investments were amended and restated to give the Company full operational control over the real estate assets while the equity partners retained only certain protective rights. Given that the Company now controls the joint ventures and the ultimate real estate assets held by the joint ventures under the amended and restated operating agreements, we concluded that it was required to change the accounting treatment of these joint ventures from the equity method to consolidated treatment pursuant to ASC 810 Consolidation.

As a result of gaining control, the Company was required to consolidate the assets and liabilities of these properties at fair value in accordance with FASB ASC Topic 805 Business Combinations. As the fair value of our interests in these properties were in excess of their carrying value of their ownership interest, we recorded acquisition-related gains in the accompanying

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consolidated statement of operations for the three and six months ended June 30, 2014 as further detailed below. See Note 6 - Fair Value Measurements for further detail of the methodology used to determine the fair value of the assets and liabilities acquired in these transactions.

The following table summarizes the assets and liabilities assumed as a result of gaining control of these properties and the acquisition-related gains recognized:

(Dollars in millions)

Property	Type	Location	Cash	Real estate and acquired in-place lease values, net	Accounts receivable and other assets	Accounts payable, accrued expenses, and other liabilities	Investment debt	Noncontrolling interests	Acquisition related gain
Three multifamily properties	Multifamily	Ireland	\$3.6	\$248.5	\$0.9	\$5.4	\$114.3	\$66.6	\$39.3
Two office properties	Commercial	Ireland	4.3	223.9	7.6	4.9	75.2	77.9	33.5
Two commercial properties and loans secured by real estate	Commercial & Loans	U.K.	9.6	195.0	5.6	8.1	100.8	62.0	11.9
50 multifamily properties	Multifamily	Japan	21.0	501.2	14.3	4.6	283.7	146.8	66.7
			\$38.5	\$1,168.6	\$28.4	\$23.0	\$574.0	\$353.3	\$151.4

Loans converted to real estate

In addition, during the quarter ended March 31, 2014, the Company foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA. As a result of the foreclosure, the Company was required to consolidate the assets and liabilities of the retail center at fair value under FASB ASC Topic 805 - Business Combinations and recorded the vacant lot at fair market value. As the fair value of the assets was in excess of the basis in the previously held mortgage notes, the Company recognized a \$3.7 million acquisition-related gain.

Pro forma results of operations

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

The unaudited pro forma data presented below assumes that the acquisitions during the six months ended June 30, 2014 occurred as of January 1, 2013.

(Dollars in millions, except for per share data)	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2014	2013	2014	2013
Pro forma revenues	\$113.6	\$78.3	\$209.1	\$140.5
Pro forma income from unconsolidated investments	27.1	(0.7)	26.0	2.7

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Pro forma net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	36.9	0.7	46.9	0.1
Pro forma net income (loss) per share:				
Basic	\$0.41	\$0.01	\$0.53	\$—
Diluted	\$0.36	\$0.01	\$0.46	\$—

NOTE 5—UNCONSOLIDATED INVESTMENTS

The Company has unconsolidated investments through real estate related joint ventures and loan pool participations. The following table details its investments in joint ventures and loan pool participations as of June 30, 2014 and December 31, 2013:

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(Dollars in millions)	June 30, 2014	December 31, 2013
Investments in joint ventures	\$473.3	\$751.4
Investments in loan pool participations	58.9	34.7
Total	\$532.2	\$786.1

## Investments in Joint Ventures

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

## Joint Venture Holdings

As of June 30, 2014 and December 31, 2013, the Company's investment in joint ventures totaled \$473.3 million and \$751.4 million, respectively.

The following table details our investments in joint ventures by investment type and geographic location as of June 30, 2014:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	\$134.3	\$157.4	\$50.1	\$50.0	\$9.3	\$401.1
United Kingdom	—	44.3	—	—	—	44.3
Spain	—	—	—	—	27.9	27.9
Total	\$134.3	\$201.7	\$50.1	\$50.0	\$37.2	\$473.3

The following table details our investments in joint ventures by investment type and geographic location as of December 31, 2013:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	\$133.3	\$160.3	\$50.3	\$48.7	\$8.0	\$400.6
Japan	68.8	—	—	—	—	68.8
United Kingdom	—	104.5	6.3	—	—	110.8
Ireland	48.2	96.1	—	—	—	144.3
Spain	—	—	—	—	26.9	26.9
Total	\$250.3	\$360.9	\$56.6	\$48.7	\$34.9	\$751.4

## KW Residential LLC

On June 30, 2014, the Company and one of its equity partners amended existing operating agreements governing KW Residential, LLC ("KWR") which was accounted for using the equity method. KWR is a joint venture investment in a portfolio of 50 apartment buildings comprised of approximately 2,400 units, located primarily in Tokyo and surrounding areas. Kennedy Wilson owns approximately 41% of KWR, not including any promoted interests. As a result of obtaining control of this investment, KWR was consolidated as of June 30, 2014. The investment is presented as an unconsolidated investment for prior periods. See Note 4.

KWR was the Company's largest joint venture investment as of December 31, 2013 with a balance of \$68.8 million. As of June 30, 2014 and December 31, 2013, the Company did not have any other joint venture investments which individually exceeded 10% of the investments in the joint venture balance.

During the three months ended June 30, 2014 and 2013, the Company recognized \$0.6 million in gains and \$2.0 million in losses, from foreign currency translation adjustments, net of hedges, from its investment in KWR. During the six months ended June 30, 2014 and 2013, the Company recognized \$0.4 million and \$6.3 million, respectively, in losses from foreign currency translation adjustments, net of hedges, from its investment in KWR.

During the three and six months ended June 30, 2014 and 2013, the Company received the following cash distributions from its investment in KWR for the settlement of hedges, refinancing of property level debt, and operating distributions:



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(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating distributions	\$1.3	\$0.5	\$1.7	\$2.5
Refinancing of property level debt	—	4.4	—	5.3
Settlement of hedges	—	0.2	—	10.8
Total	\$1.3	\$5.1	\$1.7	\$18.6

**Joint Venture Consolidation**

In addition to KWR as discussed above, on March 31, 2014, the Company and one of its equity partners amended existing operating agreements governing investments for six investments in Europe which were accounted for using the equity method. As a result of obtaining control, the joint venture investments were consolidated as of March 31, 2014. The investments are presented as an unconsolidated investment for prior periods. See Note 4.

**Contributions to Joint Ventures**

During the six months ended June 30, 2014, Kennedy Wilson made \$80.9 million in contributions to new and existing joint venture investments.

See the table below for a breakdown of contributions to new joint venture investments for the six months ended June 30, 2014:

(Dollars in millions)	Multifamily		Commercial		Total	No. of Properties
	Amount	No. of Properties	Amount	No. of Properties		
Western U.S.	\$4.0	1	\$—	—	\$4.0	1
United Kingdom <sup>(1)</sup>	—	—	57.2	14	57.2	14
Total contributions - new joint venture investments	\$4.0	1	\$57.2	14	\$61.2	15

<sup>(1)</sup>Kennedy Wilson's contribution in a joint venture investment that was subsequently contributed into KWE as part of its initial investment. See note 1.

In addition to the capital contributions above, Kennedy Wilson contributed \$19.7 million to existing joint ventures to fund our share of a development project, capital expenditures and for working capital needs.

**Distributions from Joint Ventures**

During the six months ended June 30, 2014, Kennedy Wilson received \$100.3 million in operating and investing distributions from its joint ventures. Investing distributions resulted from the refinancing of property level debt and asset sales. Operating distributions resulted from operating cash flow generated by the joint venture investments. The following table details cash distributions by investment type and geographic location for the six months ended June 30, 2014:

(Dollars in millions)	Multifamily		Commercial		Residential and Other		Total	
	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	\$4.8	\$1.5	\$3.0	4.4	3.6	\$3.3	\$11.4	\$9.2
Japan	1.7	—	—	—	—	—	1.7	—
United Kingdom	—	—	5.3	9.8	—	—	5.3	9.8
Ireland	—	—	31.6	30.3	—	—	31.6	30.3
Spain	—	—	—	—	—	1.0	—	1.0
Total	\$6.5	\$1.5	\$39.9	\$44.5	\$3.6	\$4.3	\$50.0	\$50.3

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## Variable Interest Entities

Kennedy Wilson has determined that it has investments in five variable interest entities ("VIEs") as of June 30, 2014 and has concluded that Kennedy Wilson is not the primary beneficiary of any of the investments. As of June 30, 2014, the five VIEs had assets totaling \$170.5 million with Kennedy Wilson's exposure to loss as a result of its interests in these VIEs totaling \$72.9 million related to its equity contributions.

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

## Capital Commitments

As of June 30, 2014, Kennedy Wilson has unfulfilled capital commitments totaling \$11.3 million to four of its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of Kennedy Wilson capital commitment obligations.

## Guarantees

Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets or assets held directly or in various joint ventures. As of June 30, 2014, the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately \$63.8 million which is approximately 2% of investment level debt of the Company. The guarantees expire through 2019, and Kennedy Wilson's performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds from the property. Based upon Kennedy Wilson's evaluation of guarantees under FASB ASC Subtopic 460-10 Estimated Fair Value of Guarantees, the estimated fair value of guarantees made as of June 30, 2014 and December 31, 2013 was immaterial.

## Investments in loan pool participation

As of June 30, 2014 and December 31, 2013, the Company's investment in loan pool participations totaled \$58.9 million and \$34.7 million, respectively.

The following table represents the demographics of the Company's investment in the loan pools including the initial unpaid principal balance ("UPB") and the UPB as of June 30, 2014.

Acquisition Date	Location	Kennedy Wilson Ownership	Unpaid Principal Balance		Kennedy Wilson Initial Equity Invested	Investment Balance at June 30, 2014	Expected Accretion Over Total Estimated Collection Period	Accreted to Date
			Initial <sup>(1)</sup>	June 30, 2014 <sup>(1)</sup>				
February 2010 <sup>(2)</sup>	Western U.S.	15.0%	\$342.4	\$—	\$11.2	\$0.6	\$4.6	\$4.6
April 2012	Western U.S.	75.0%	43.4	2.8	30.9	2.4	4.3	4.0
August 2012	Ireland	10.0%	492.7	345.9	7.0	8.5	1.9	0.8
December 2012	United Kingdom	5.0%	661.9	110.2	19.3	2.7	2.0	1.6
April 2013		10.0%	198.4	111.0	13.0	5.6	5.6	1.2



	United Kingdom							
August 2013	United Kingdom	20.0%	145.5	145.5	7.5	8.7	4.9	1.2
May 2014	United Kingdom	33.3%	111.0	111.0	30.3	30.4	2.3	0.1
Total			\$1,995.3	\$826.4	\$119.2	\$58.9	\$25.6	\$13.5

(1) Estimated foreign exchange rate is £0.59 = \$1 USD and €0.73 = \$1 USD as of June 30, 2014.

(2) Equity invested represents guarantee claims against note holders in loan pool.

The following table presents the income from unconsolidated investments for loan pools and foreign currency gain and (loss) recognized by Kennedy Wilson during the three and six months ended June 30, 2014 and 2013 for the loan pools that were outstanding:

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(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income from unconsolidated investments	\$2.5	\$2.9	\$4.6	\$5.4
Foreign currency translation gain (loss)	0.2	(1.1 )	0.4	(5.0 )
Total	\$2.7	\$1.8	\$5.0	\$0.4

**NOTE 6—FAIR VALUE MEASUREMENTS**

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of June 30, 2014:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Marketable securities	\$11.0	\$—	\$—	\$11.0
Unconsolidated investments	—	—	78.5	78.5
Currency forward contract	—	(1.1 )	—	(1.1 )
Total	\$11.0	\$(1.1 )	\$78.5	\$88.4

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, 2013:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Marketable securities	\$4.0	\$—	\$—	\$4.0
Unconsolidated investments	—	—	81.1	81.1
Currency forward contract	—	(9.6 )	—	(9.6 )
Total	\$4.0	\$(9.6 )	\$81.1	\$75.5

**Marketable Securities**

Marketable securities include the Company's investment in publicly traded equity securities. The amount above excludes the Company's 13.2 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results. Based on the June 30, 2014 share price the Company's investment in KWE is \$248.5 million.

**Unconsolidated Investments**

Kennedy Wilson records its investments in KW Property Fund III, L.P. and Kennedy Wilson Real Estate Fund IV, L.P. (the "Funds") based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. Kennedy Wilson's investment balance in the Funds was \$31.0 million and \$33.5 million at June 30, 2014 and December 31, 2013, respectively, which is included in unconsolidated investments in the accompanying consolidated balance sheets. As of June 30, 2014, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of \$4.5 million.

Kennedy Wilson elected to use the fair value option ("FV Option") for two unconsolidated investment entities to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. Kennedy Wilson's investment balance in the FV Option investments was \$47.5 million and \$47.6 million at June 30, 2014 and December 31, 2013, respectively, which is included in unconsolidated investments in the accompanying balance sheets.

In estimating fair value of real estate held by the Funds and the two FV Option investments, Kennedy Wilson considers significant unobservable inputs such as capitalization and discount rates.

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



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(Dollars in millions)	June 30, 2014	December 31, 2013
Funds	\$31.0	\$33.5
FV Option	47.5	47.6
Total	\$78.5	\$81.1

The following table presents changes in Level 3 investments for the three and six months ended June 30, 2014 and 2013:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance	\$82.0	\$68.4	\$81.1	\$68.4
Contributions	1.0	5.6	2.4	5.8
Distributions	(4.5	) —	(5.0	) (0.2
Ending balance	\$78.5	\$74.0	\$78.5	\$74.0

There was no material change in unrealized gains and losses on Level 3 investments during the three and six months ended June 30, 2014 and 2013 for investments still held as of June 30, 2014.

Unobservable inputs for real estate

The table below describes the range of unobservable inputs for real estate assets:

	Estimated Rates Used for	
	Capitalization Rates	Discount Rates
Office	6.00% - 7.50%	7.00% - 9.75%
Retail	6.00% - 10.00%	9.00% - 12.00%
Hotel	6.50%	8.00%
Multifamily	4.40% - 6.75%	4.90% - 9.00%
Loan	n/a	1.75% - 12.00%
Land and condominium units	n/a	8.00% - 12.00%

In valuing real estate, related assets and indebtedness, Kennedy Wilson considers significant inputs such as the term of the debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used by Kennedy Wilson for these types of investments range from 0.76% to 12.00%.

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

Currency forward contracts

Kennedy Wilson has currency forward contracts to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros, GBP, and JPY) of certain of its wholly-owned and consolidated subsidiaries. To accomplish this objective, Kennedy Wilson hedged these exposures by entering into currency forward contracts to partially hedge Kennedy Wilson's exposure to its net investment in certain foreign operations caused by currency fluctuations. The currency forward contracts are valued based on the difference between the contract rate and the forward rate at maturity of the foreign currency applied to the notional value in that foreign currency discounted at a market rate for similar risks. Although Kennedy Wilson has determined that the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy, the counterparty risk

adjustments associated with the derivative utilize Level 3 inputs. However, as of June 30, 2014, Kennedy Wilson assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its

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derivative positions and determined that the counterparty valuation adjustments are not significant to the overall valuation of its derivative. As a result, Kennedy Wilson has determined that its derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.

Changes in fair value are recorded in other comprehensive income in the accompanying consolidated statements of comprehensive income (loss) as the portion of the currency forward contract used to hedge currency exposure of its certain wholly owned subsidiaries qualifies as a net investment hedge under FASB ASC Topic 815. The fair value of the derivative instruments held as of June 30, 2014 are reported in other assets for hedge assets and included in accrued expenses and other liabilities for hedge liabilities on the balance sheet. See note 12 for a complete discussion on other comprehensive income including currency forward contracts and foreign currency translations.

The table below details the currency forward contracts the Company had as of June 30, 2014:

Currency Hedged	Underlying Currency	Notional Amount	Trade Date	Settlement Date	Exchange Rate	Fair Value	Change in Unrealized Gains (Losses)	
							Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
EUR	USD	€93.5	5/31/2012 -	6/4/2015 6/27/2019	1.2400 1.4471	\$(5.3)	\$(0.1)	\$0.1
GBP	USD	£95.5	8/23/2013 -	8/28/2014 2/27/2019	1.5522 1.6491	(6.1)	(2.3)	(4.1)
EUR <sup>(1)</sup>	GBP	€130.0	6/18/2014 -	6/4/2017 7/2/2018	0.8322 0.8621	(1.2)	(1.2)	(1.2)
Yen <sup>(2)</sup>	USD	¥12,200.0	2/6/2013	2/8/2016	91.645 91.69	11.5	—	—
Total <sup>(3)</sup>						\$(1.1)	\$(3.6)	\$(5.2)

<sup>(1)</sup> Hedge is held by KWE on its wholly-owned subsidiaries

<sup>(2)</sup> Hedge is held by KWR on its wholly-owned subsidiaries

<sup>(3)</sup> Hedges are presented gross in the consolidated balance sheet. Hedge assets are included in other assets and hedge liabilities are included in other liabilities.

In order to manage currency fluctuations between KWR's functional currency (U.S. dollar) and the functional currency of KWR's wholly owned subsidiaries (Japanese yen), KWR entered into forward foreign currency contracts to hedge a portion of its currency risk. During the three and six months ended June 30, 2014, the Company recognized \$0.8 million and \$1.6 million, respectively, of gross unrealized losses related to these hedges. Due to the consolidation of KWR as of June 30, 2014, the hedge asset relating to the forward foreign currency contracts was consolidated at fair value.

In order to manage currency fluctuations between KWE's functional currency (GBP) and the functional currency of certain wholly owned subsidiaries (Euro), KWE entered into forward foreign currency contracts to hedge a portion of its currency risk. Due to the consolidation of KWE, the hedge liability relating to the forward foreign currency contracts was consolidated at fair value.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable including related party receivables, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, and deferred and accrued income taxes approximate fair value due to their short-term maturities. The carrying value of loans (excluding related party loans as they are presumed not to be an arm's length transaction) approximates fair value as the terms are similar to loans with similar characteristics available in the market.

The Company accounts for its debt liabilities at face value plus net unamortized debt premiums and any fair value adjustments as part of business combinations. The fair value as of June 30, 2014 and December 31, 2013 for the senior notes payable, investment debt and junior subordinated debentures were estimated to be approximately \$2,319.7 million and \$878.2 million, respectively, based on a comparison of the yield that would be required in a current transaction, taking into consideration

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the risk of the underlying collateral and our credit risk to the current yield of a similar security, compared to their carrying value of \$2,274.7 million and \$850.8 million at June 30, 2014 and December 31, 2013, respectively.

**NOTE 7—OTHER ASSETS**

Other assets consist of the following:

(Dollars in millions)	June 30, 2014	December 31, 2013
Above-market leases, net of accumulated amortization of \$1.2 million at June 30, 2014	79.5	—
Goodwill	23.9	23.9
Loan fees, net of accumulated amortization of \$6.2 million and \$4.5 million at June 30, 2014 and December 31, 2013, respectively	23.7	14.1
Deposits and other, net of accumulated amortization of \$1.9 million and \$1.2 million at June 30, 2014 and December 31, 2013, respectively	29.3	13.0
Marketable securities <sup>(1)</sup>	11.0	4.0
Office furniture and equipment net of accumulated depreciation of \$2.8 million and \$2.2 million at June 30, 2014 and December 31, 2013, respectively	9.7	10.4
Prepaid expenses	10.6	7.6
Other Assets	\$187.7	\$73.0

<sup>(1)</sup> The amount above excludes the Company's 13.2 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results. Based on the June 30, 2014 share price the Company's investment in KWE is \$248.5 million.

**NOTE 8—INVESTMENT DEBT**

Investment debt at June 30, 2014 and December 31, 2013 consists of the following:

(Dollars in millions)	Region	Carrying Amount of Investment Debt as of <sup>(1)</sup>	
		June 30, 2014	December 31, 2013
Types of Property Pledged as Collateral			
Multifamily <sup>(1)</sup>	Western U.S.	\$349.8	\$261.0
Commercial	Western U.S.	136.9	110.4
Residential	Western U.S.	30.0	28.0
Multifamily <sup>(1)</sup>	Japan	283.7	—
Commercial	Japan	2.4	2.4
Commercial <sup>(1)</sup>	Ireland	347.0	—
Multifamily <sup>(1)</sup>	Ireland	200.6	—
Loans <sup>(1)</sup>	Ireland	81.9	—
Commercial <sup>(1)</sup>	United Kingdom	96.4	—
Investment debt <sup>(2)</sup>		\$1,528.7	\$401.8

<sup>(1)</sup> The investment debt balances include the unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan premium as of June 30, 2014 and December 31, 2013 was \$21.5 million and \$5.3 million, respectively.

<sup>(2)</sup> The investment debt had a weighted average interest rate of 3.68% and 4.13% per annum at June 30, 2014 and December 31, 2013.



During the six months ended June 30, 2014, 19 mortgage loans were consolidated, and eight acquisitions were partially financed with mortgages. See note 4 for more detail on the acquisitions and the investment debt associated with them.

The aggregate maturities of investment debt subsequent to June 30, 2014 are as follows:

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(Dollars in millions)

2014	\$30.5
2015	124.4
2016	60.0
2017	211.9
2018	351.7
Thereafter	728.7
	1,507.2
Debt premium	21.5
	\$1,528.7

## NOTE 9—SENIOR NOTES

(Dollars in millions)	June 30, 2014			December 31, 2013				
	Interest Rate	Maturity Date	Face Value	Unamortized Net Premium/(Discount)	Carrying Value	Face Value	Unamortized Net Premium/(Discount)	Carrying Value
2042 Notes	7.75%	12/1/2042	\$55.0	\$ —	\$55.0	\$55.0	\$ —	\$55.0
2024 Notes	5.88%	4/1/2024	300.0	(2.7 )	297.3	—	—	—
2019 Notes	8.75%	4/1/2019	350.0	3.7	353.7	350.0	4.0	354.0
Senior Notes			\$705.0	\$ 1.0	\$706.0	\$405.0	\$ 4.0	\$409.0

In March 2014, Kennedy Wilson completed a public offering of \$300.0 million aggregate principal amount of 5.875% Senior Notes, due 2024. The 2024 notes were issued and sold at a public offering price of 99.068% of their principal amount by Kennedy-Wilson, Inc. (the “Issuer”), a wholly owned subsidiary of Kennedy Wilson.

The indentures governing the 2019 Notes, 2024 Notes, and 2042 Notes contain various restrictive covenants, including, among others, limitations on our ability and the ability of certain of our subsidiaries to incur or guarantee additional indebtedness, to make restricted payments, pay dividends or make any other distributions from restricted subsidiaries, redeem or repurchase capital stock, sell assets or subsidiary stock, engage in transactions with affiliates, create or permit liens on assets, enter into sale/leaseback transactions, and enter into consolidations or mergers. The indentures limit Kennedy-Wilson, Inc.'s ability and the ability of its restricted subsidiaries to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, the maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of June 30, 2014, the balance sheet leverage ratio was 0.76 to 1.00. See Note 16 for the guarantor and non-guarantor financial statements.

## NOTE 10—LINE OF CREDIT

In September 2013, Kennedy-Wilson, Inc. amended its existing unsecured revolving credit facility with U.S. Bank and East-West Bank and added Bank of Ireland which increased the total principal amount available to be borrowed by an additional \$40.0 million, for an aggregate availability of \$140.0 million. The loan bears interest at a rate equal to LIBOR plus 2.75% and the maturity date was extended to October 1, 2016. The revolving loan agreement that governs the unsecured credit facility requires Kennedy-Wilson, Inc. to maintain (i) a minimum rent, adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four quarter rolling average basis; (ii) a maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter; (iii) an effective tangible net worth (as defined in the revolving loan agreement) equal to or greater than \$250.0 million, measured at the end of each calendar

quarter; and (iv) unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least \$40.0 million.

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As of June 30, 2014, Kennedy-Wilson, Inc.'s adjusted fixed charge coverage ratio was 3.73 to 1.00, its balance sheet leverage ratio was 0.80 to 1.00, and its effective tangible net worth and its unrestricted cash, cash equivalents and publicly traded marketable securities were \$928.5 million and \$610.7 million, respectively, and Kennedy-Wilson, Inc. was in compliance with these covenants. The revolving loan agreement also provides that any subsidiary guarantors under our 2019 Notes and 2042 Notes must provide guarantees of the loans drawn on our unsecured revolving credit facility. See Note 9 for a discussion of our senior notes.

During the six months ended June 30, 2014, the Company drew and repaid \$90.0 million on its unsecured credit facility to fund acquisitions. The maximum amount drawn on the unsecured credit facility at any one point during the six months ended June 30, 2014 was \$90.0 million. As of June 30, 2014, the unsecured credit facility was undrawn and \$140.0 million was still available.

In July 2014 Kennedy-Wilson, Inc. increased its unsecured corporate line of credit facility from \$140.0 million to \$300.0 million. The increase was driven by the admission of Bank of America, N.A., Deutsche Bank AG New York Branch and J.P. Morgan Chase Bank, N.A. to the existing lender syndicate and an increased commitment from The Governor and Company of the Bank of Ireland.

The revolving loan agreement that governs the unsecured credit facility was updated due to the increase in the facility. The updated facility requires Kennedy-Wilson, Inc. to maintain (i) a minimum rent, adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four quarter rolling average basis and (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter; (iii) an effective tangible net worth (as defined in the revolving loan agreement) equal to or greater than \$500.0 million plus 50% of any new equity offerings, measured at the end of each calendar quarter; and (iv) unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least \$40.0 million.

**NOTE 11—JUNIOR SUBORDINATED DEBENTURES**

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of \$40.0 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued \$40.0 million of trust-preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06%, and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly, with the principal due in 2037. Kennedy Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

The junior subordinated debentures require Kennedy-Wilson, Inc. to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing the junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four-quarter rolling basis; (ii) a ratio of total debt to net worth (as defined in the indenture) of not greater than 3.00 to 1.00 at any time; (iii) a tangible net worth (as defined in the indenture) not less than the sum of (x) \$15.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds \$75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued; and (iv) a net worth (as defined in the indenture) not less than the sum of (x) \$40.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds \$75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued. As of June 30, 2014, Kennedy Wilson's fixed charge coverage ratio was 4.39 to 1.00, its ratio of total debt to net worth was 2.33 to 1.00 and its tangible net worth and net worth were \$924.8 million and \$976.1 million, respectively, and Kennedy

Wilson was in compliance with these covenants.

**NOTE 12—STOCKHOLDERS' EQUITY**

**Common Stock**

In January 2014, Kennedy Wilson completed an offering of 9.2 million shares of its common stock, which raised \$190.7 million of net proceeds.

**Dividend Distributions**

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

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(Dollars in millions)	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series A <sup>(1)</sup>	\$3.0	\$3.0	\$3.0	\$3.0
Series B <sup>(2)</sup>	1.1	1.1	1.1	1.1
Total Preferred Stock	4.1	4.1	4.1	4.1
Common Stock <sup>(3)</sup>	16.4	14.0	10.3	5.0
Total <sup>(4)</sup>	\$20.5	\$18.1	\$14.4	\$9.1

<sup>(1)</sup> 6.00% Series A, 100,000 shares issued and outstanding as of June 30, 2014 and 2013, mandatorily convertible on May 19, 2015, or earlier at the option of the holders thereof.

<sup>(2)</sup> 6.45% Series B, 32,550 shares issued and outstanding as of June 30, 2014 and 2013, mandatorily convertible on November 3, 2018, or earlier at the option of the holders thereof, or, in certain circumstances, at our election on or after May 3, 2017.

<sup>(3)</sup> \$0.0001 par value per share, 200,000,000 and 125,000,000 shares authorized as of June 30, 2014 and 2013, respectively.

<sup>(4)</sup> Common stock dividends were declared at the end of each quarter and paid in the following quarter. The amount declared and not paid is accrued on the consolidated balance sheet.

Stock-based Compensation

During each of three months ended June 30, 2014 and 2013, Kennedy Wilson recognized \$1.7 million of compensation expense related to the vesting of previously issued restricted stock grants. During each of the six months ended June 30, 2014 and 2013, Kennedy Wilson recognized \$3.4 million of compensation expense related to the vesting of previously issued restricted stock grants.

Accumulated Other Comprehensive Income

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

(Dollars in millions)	Foreign Currency Translation	Forward Contract Foreign Currency	Total Accumulated Other Comprehensive Income
Balance at December 31, 2013	\$4.3	\$4.9	\$9.2
Unrealized gains (losses), arising during the period	35.8	(5.2)	) 30.6
Amounts reclassified out of AOCI during the period <sup>(1)</sup>	(0.3)	) (6.8)	) (7.1)
Taxes on unrealized losses, arising during the period	(13.9)	) 1.6	(12.3)
Noncontrolling interest	(18.8)	) —	(18.8)
Balance at June 30, 2014	\$7.1	\$(5.5)	) \$1.6

<sup>(1)</sup> Amounts reclassified out of accumulated other comprehensive income relate to the consolidation of investments previously accounted for under the equity method. Pursuant to FASB ASC 805-10, Business Combinations, these amounts are included in the calculation of gain or loss as of the acquisition date. Please refer to Note 4 - Real Estate for further discussion on consolidated acquisitions.

The functional currencies for our interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on our balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on our statements of operations are translated at the average

exchange rates during the respective period. The increase in the unrealized gains on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the six months ended June 30, 2014.

In order to manage currency fluctuations, the Company entered into forward foreign currency contracts to hedge a portion of its Japanese yen-based investments. During the six months ended June 30, 2014, the Company recognized a gross unrealized loss of \$1.6 million related to these hedges. Kennedy Wilson also has a currency forward contract to manage its exposure to

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currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros and GBP) of certain of its wholly-owned and consolidated subsidiaries (see note 6 for more detail). During the six months ended June 30, 2014, the Company recognized a gross unrealized gain of \$0.1 million related to its hedges on the euro and a gross unrealized loss of \$4.1 million related to its hedges on the GBP.

**Noncontrolling Interests**

Noncontrolling interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. As of June 30, 2014 and December 31, 2013 the Company had noncontrolling interest of \$1.8 billion and \$50.6 million, respectively.

The Company currently owns approximately 13.2% of KWE's total issued share capital as of June 30, 2014. Due to the terms provided in the investment management agreement between KWE and a wholly-owned subsidiary of the Company, the Company consolidates KWE's results in its consolidated financial statements. See Note 1 for additional details. During the six months ended June 30, 2014, the Company recorded a \$1.4 billion increase to non-controlling interest, net of issuance costs, relating to the equity of the noncontrolling shareholders of KWE. The Company's share of the issuance costs was \$6.5 million.

As further discussed in Note 4, the Company was required to consolidate the assets and liabilities of seven operating properties and recorded an increase of \$291.8 million to noncontrolling interest relating to the equity of the noncontrolling shareholders of these properties. See note 4.

**NOTE 13—EARNINGS PER SHARE**

Under FASB ASC Topic 260-10-45 Earnings Per Share, the Company uses the two-class method to calculate earnings per share. Basic earnings per share is calculated based on dividends declared ("distributed earnings") and the rights of common shares and participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends declared during the period. Participating securities, which include unvested restricted stock, are included in the computation of earnings per share pursuant to the two-class method. The undistributed earnings are allocated to all outstanding common shares and participating securities based on the relative percentage of each security to the total number of outstanding securities. Basic earnings per common share and participating securities represent the summation of the distributed and undistributed earnings per common share and participating security divided by the total weighted average number of common shares outstanding and the total weighted average number of participating securities outstanding during the respective periods. Kennedy Wilson only presents the earnings per share attributable to the common shareholders.

Net losses, after deducting the dividends to participating securities, are allocated in full to the common shares since the participating security holders do not have an obligation to share in the losses, based on the contractual rights and obligations of the participating securities. Because Kennedy Wilson incurred losses for the three and six months ended June 30, 2013, all potentially dilutive instruments are anti-dilutive and have been excluded from our computation of weighted average dilutive shares outstanding for that period. The following is a summary of the elements used in calculating basic and diluted income (loss) per share for the three and six months ended June 30, 2014 and 2013:



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(Dollars in millions, except share and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$36.3	\$(2.5 )	\$46.8	\$(6.1 )
Net income allocated to participating securities	(1.2 )	(0.2 )	(1.8 )	(0.5 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	35.1	(2.7 )	45.0	(6.6 )
Dividends declared on common shares	(8.0 )	(5.0 )	(16.0 )	(9.8 )
Undistributed earnings attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	\$27.1	\$(7.7 )	\$29.0	\$(16.4 )
Distributed earnings per share	\$0.09	\$0.07	\$0.18	\$0.14
Undistributed earnings (losses) per share	0.30	(0.10 )	0.33	(0.23 )
Income (loss) per basic	0.39	(0.03 )	0.51	(0.09 )
Income (loss) per diluted	\$0.38	\$(0.03 )	\$0.50	\$(0.09 )
Weighted average shares outstanding for basic	89,140,498	70,976,247	88,645,002	66,432,823
Weighted average shares outstanding for diluted <sup>(1)</sup>	102,115,350	70,976,247	101,435,250	66,432,823
Dividends declared per common share	\$0.09	\$0.07	\$0.18	\$0.14

<sup>(1)</sup> For the three and six months ended June 30, 2013, a total of 19,507,357 and 19,775,968 potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive. Potentially anti-dilutive securities include preferred stock, warrants, and unvested restricted stock grants.

**NOTE 14—SEGMENT INFORMATION**

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

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, 2013 financial statements.

**KW INVESTMENTS**—Kennedy Wilson invests its capital in real estate assets and loans secured by real estate either on its own or with strategic partners through joint ventures, separate accounts, and commingled funds. We are typically the general partner in these joint ventures with a promoted interest in the profits of our investments beyond our ownership percentage. The Company has an average ownership interest across all investments of approximately 34%. Our equity partners include financial institutions, foundations, endowments, high net worth individuals and other institutional investors.

**KW SERVICES**—KW Services offers a comprehensive line of real estate services for the full lifecycle of real estate ownership to clients that include financial institutions, institutional investors, insurance companies, developers, builders and government agencies. KW Services has four main lines of business: investment management, property services, research and auction and conventional sales. These four business lines generate revenue for us through fees and commissions. Related party fee revenue primarily consists of fees earned on investments in which Kennedy

Wilson also has an ownership interest.

We manage over 69 million square feet of properties for institutional clients and individual investors in the United States, Europe, and Japan, which includes assets we have ownership in and third party assets. With 25 offices throughout the United States, the United Kingdom, Ireland, Spain, Jersey and Japan, we have the capabilities and resources to provide property services to real estate owners as well as the experience, as a real estate investor, to understand client concerns. The managers of KW

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Services have an extensive track record in their respective lines of business and the real estate community as a whole. Their knowledge and relationships is an excellent driver of business through the services business as well as on the investment front.

Additionally, KW Services plays a critical role in supporting the company's investment strategy by providing local market intelligence and real-time data for evaluating investments, generating proprietary transaction flow and creating value through efficient implementation of asset management or repositioning strategies.

The following tables summarize Kennedy Wilson's income activity by segment and corporate for the three and six months ended June 30, 2014 and 2013 and balance sheet data as of June 30, 2014 and December 31, 2013:

(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Investments				
Rental and hotel	\$42.6	\$10.3	\$67.8	16.8
Sale of real estate	6.1	6.1	17.4	8.5
Loan and other	4.3	0.5	6.0	0.9
Total revenue	53.0	16.9	91.2	26.2
Operating expenses	(39.0 )	(18.7 )	(75.1 )	(31.3 )
Depreciation and amortization	(25.3 )	(4.4 )	(32.6 )	(7.5 )
Income from unconsolidated investments	29.9	14.8	31.7	16.9
Operating income	18.6	8.6	15.2	4.3
Acquisition-related gains	86.0	—	170.3	9.5
Acquisition-related expenses	(7.6 )	(0.5 )	(11.6 )	(0.5 )
Interest expense - investment	(11.1 )	(2.8 )	(16.4 )	(4.6 )
Other	2.1	0.1	2.9	0.4
Net income	88.0	5.4	160.4	9.1
Net (income) loss attributable to the noncontrolling interests	(25.3 )	0.9	(62.7 )	1.9
Net income attributable to Kennedy-Wilson Holdings, Inc common shareholders	\$62.7	\$6.3	\$97.7	\$11.0
(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Services				
Investment management, property services and research fees (includes \$33.3, \$13.8, \$40.6, and \$22.2 of related party fees)	\$39.0	\$19.5	\$52.1	\$33.1
Total revenue	39.0	19.5	52.1	33.1
Operating expenses	(14.7 )	(9.9 )	(25.9 )	(18.2 )
Income from unconsolidated investments	1.1	—	2.1	—
Operating income	25.4	9.6	28.3	14.9
Net income attributable to Kennedy-Wilson Holdings, Inc common shareholders	\$25.4	\$9.6	\$28.3	\$14.9

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(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Corporate				
Operating expenses	\$(9.6 )	\$(7.2 )	\$(15.9 )	\$(10.9 )
Operating loss	(9.6 )	(7.2 )	(15.9 )	(10.9 )
Interest expense-corporate	(14.7 )	(9.7 )	(25.2 )	(19.4 )
Other	—	0.1	—	0.2
Loss before (provision for) benefit from income taxes	(24.3 )	(16.8 )	(41.1 )	(30.1 )
(Provision for) benefit from income taxes	(25.4 )	0.5	(34.2 )	2.2
Net loss	(49.7 )	(16.3 )	(75.3 )	(27.9 )
Preferred dividends and accretion of preferred stock issuance costs	(2.1 )	(2.1 )	(4.1 )	(4.1 )
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$(51.8 )	\$(18.4 )	\$(79.4 )	\$(32.0 )
(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Consolidated				
Investment management, property services and research fees (includes \$33.3, \$13.8, \$40.6, and \$22.2 of related party fees)	\$39.0	\$19.5	\$52.1	33.1
Rental and hotel	42.6	10.3	67.8	16.8
Sale of real estate	6.1	6.1	17.4	8.5
Loans and other	4.3	0.5	6.0	0.9
Total revenue	92.0	36.4	143.3	59.3
Operating expenses	(63.3 )	(35.7 )	(116.7 )	(60.2 )
Depreciation and amortization	(25.3 )	(4.4 )	(32.6 )	(7.5 )
Total operating expenses	(88.6 )	(40.1 )	(149.3 )	(67.7 )
Income from unconsolidated investments	31.0	14.8	33.8	16.9
Operating income	34.4	11.1	27.8	8.5
Acquisition-related gain	86.0	—	170.3	9.5
Acquisition-related expenses	(7.6 )	(0.5 )	(11.6 )	(0.5 )
Interest expense - investment	(11.1 )	(2.8 )	(16.4 )	(4.6 )
Interest expense - corporate	(14.7 )	(9.7 )	(25.2 )	(19.4 )
Other	2.1	0.1	2.9	0.4
Income (loss) before benefit from income taxes	89.1	(1.8 )	147.8	(6.1 )
(Provision for) benefit from income taxes	(25.4 )	0.5	(34.2 )	2.2
Net income (loss)	63.7	(1.3 )	113.6	(3.9 )
Net (income) loss attributable to the noncontrolling interests	(25.3 )	0.9	(62.7 )	1.9
Preferred dividends and accretion of preferred stock issuance costs	(2.1 )	(2.1 )	(4.1 )	(4.1 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$36.3	\$(2.5 )	\$46.8	\$(6.1 )

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(Unaudited)

(Dollars in millions)	June 30, 2014	December 31, 2013
Total Assets		
Investments	\$4,893.0	\$1,607.5
Services	104.8	49.3
Corporate	356.9	142.0
Total assets	\$5,354.7	\$1,798.8

**NOTE 15—INCOME TAXES**

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

The fluctuations between periods in the Company's effective tax rate are mainly due to varying levels of income and amounts attributable to foreign sourced income and noncontrolling interests. Permanent differences that impact the Company's effective rate as compared to the U.S. federal statutory rate of 34% were not materially different in amount for all periods. The difference between the U.S. federal rate of 34% and the Company's effective rate is attributable to the taxation of foreign sourced income being taxed at rates lower than the U.S. domestic rate and income attributable to noncontrolling interests. The Company's subsidiaries in Ireland, United Kingdom, Spain and Jersey are subject to corporate tax rates of 12.5%, 21.0%, 30.0%, and 0% respectively.

During the six months ended June 30, 2014, the Company generated a book loss of \$3.9 million related to operations in the United Kingdom, Ireland and Spain. A foreign tax benefit of \$0.7 million attributable to Kennedy-Wilson Holdings, Inc is included in the consolidated tax provision for income taxes related to the portion of income earned directly by subsidiaries in the United Kingdom and Ireland for the six months ended ended June 30, 2014. U.S. domestic taxes have not been provided for in the consolidated tax provision on amounts earned directly by these subsidiaries since it is the Company's plan to indefinitely invest amounts earned by these subsidiaries in the United Kingdom and Ireland operations. If these subsidiaries' cumulative earnings were repatriated to the United States additional U.S. domestic taxes of \$1.4 million attributable to Kennedy-Wilson Holdings, Inc would be incurred.

**NOTE 16—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS**

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

(1) Condensed consolidating balance sheets as of June 30, 2014 and December 31, 2013; consolidating statements of operations for the three and six months ended June 30, 2014 and 2013; consolidating statements of comprehensive income for the three and six months ended June 30, 2014 and 2013; and condensed consolidating statements of cash flows for the three and six months ended June 30, 2014 and 2013, of (a) Kennedy-Wilson Holdings, Inc., as the parent, (b) Kennedy-Wilson, Inc., as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the non-guarantor subsidiaries and (e) Kennedy-Wilson Holdings, Inc. on a consolidated basis; and

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

Kennedy Wilson owns 100% of all of the guarantor subsidiaries, and, as a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for these subsidiaries as of and for the three and six months ended June 30, 2014 or 2013.

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Kennedy-Wilson Holdings, Inc.  
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CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF JUNE 30, 2014

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
Cash and cash equivalents	\$—	\$ 328.4	\$ 20.4	\$ 0.7	\$—	\$ 349.5
Cash held by consolidated investments	—	—	—	292.8	—	292.8
Accounts receivable	—	—	16.0	20.8	—	36.8
Loans	—	57.1	180.9	221.0	(56.7 )	402.3
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	—	—	194.2	3,359.2	—	3,553.4
Unconsolidated investments	—	9.3	290.7	232.2	—	532.2
Other assets	—	23.5	41.9	122.3	—	187.7
Investments in and advances to consolidated subsidiaries	988.6	1,401.3	859.8	1.4	(3,251.1 )	—
<b>Total assets</b>	<b>\$988.6</b>	<b>\$ 1,819.6</b>	<b>\$ 1,603.9</b>	<b>\$ 4,250.4</b>	<b>\$ (3,307.8)</b>	<b>\$ 5,354.7</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Accounts payable, accrued expenses and other liabilities	\$11.1	\$ 85.0	\$ 25.6	\$ 164.0	\$—	\$ 285.7
Senior notes payable	—	706.0	—	—	—	706.0
Investment debt	—	—	176.7	1,408.7	(56.7 )	1,528.7
Junior subordinated debentures	—	40.0	—	—	—	40.0
<b>Total liabilities</b>	<b>11.1</b>	<b>831.0</b>	<b>202.3</b>	<b>1,572.7</b>	<b>(56.7 )</b>	<b>2,560.4</b>
<b>Equity</b>						
Kennedy-Wilson Holdings, Inc. shareholders' equity	977.5	988.6	1,401.3	859.8	(3,251.1 )	976.1
Noncontrolling interests	—	—	0.3	1,817.9	—	1,818.2
<b>Total equity</b>	<b>977.5</b>	<b>988.6</b>	<b>1,401.6</b>	<b>2,677.7</b>	<b>(3,251.1 )</b>	<b>2,794.3</b>
<b>Total liabilities and equity</b>	<b>\$988.6</b>	<b>\$ 1,819.6</b>	<b>\$ 1,603.9</b>	<b>\$ 4,250.4</b>	<b>\$ (3,307.8)</b>	<b>\$ 5,354.7</b>

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Kennedy-Wilson Holdings, Inc.  
Notes to Consolidated Financial Statements  
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CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2013

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Assets</b>						
Cash and cash equivalents	\$—	\$ 48.2	\$ 77.2	\$ 44.8	\$—	\$ 170.2
Cash held by consolidated investments	—	—	—	8.0	—	8.0
Accounts receivable	—	1.1	7.0	8.5	—	16.6
Intercompany receivables	—	9.0	—	—	(9.0 )	—
Loans receivable	—	59.7	53.7	0.8	(57.4 )	56.8
Real estate and acquired in place lease values, net of accumulated depreciation	—	—	145.3	542.8	—	688.1
Unconsolidated investments	—	7.5	598.0	180.6	—	786.1
Investments in and advances to consolidated subsidiaries	775.1	1,141.9	326.6	—	(2,243.6 )	—
Other assets	—	20.9	31.4	20.7	—	73.0
<b>Total assets</b>	<b>\$775.1</b>	<b>\$ 1,288.3</b>	<b>\$ 1,239.2</b>	<b>\$ 806.2</b>	<b>\$(2,310.0)</b>	<b>\$ 1,798.8</b>
<b>Liabilities</b>						
Accounts payable, accrued expense and other liabilities	\$6.8	\$ 64.2	\$ 22.9	\$ 35.2	\$—	129.1
Intercompany payables	—	—	—	9.0	(9.0 )	—
Senior notes payable	—	409.0	—	—	—	409.0
Intercompany loans payable	—	—	—	57.4	(57.4 )	—
Investment debt	—	—	74.4	327.4	—	401.8
Junior subordinated debentures	—	40.0	—	—	—	40.0
<b>Total liabilities</b>	<b>6.8</b>	<b>513.2</b>	<b>97.3</b>	<b>429.0</b>	<b>(66.4 )</b>	<b>979.9</b>
<b>Equity</b>						
Kennedy-Wilson Holdings, Inc. shareholders' equity	768.3	775.1	1,141.9	326.6	(2,243.6 )	768.3
Noncontrolling interests	—	—	—	50.6	—	50.6
<b>Total equity</b>	<b>768.3</b>	<b>775.1</b>	<b>1,141.9</b>	<b>377.2</b>	<b>(2,243.6 )</b>	<b>818.9</b>
<b>Total liabilities and equity</b>	<b>\$775.1</b>	<b>\$ 1,288.3</b>	<b>\$ 1,239.2</b>	<b>\$ 806.2</b>	<b>\$(2,310.0)</b>	<b>\$ 1,798.8</b>

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Kennedy-Wilson Holdings, Inc.  
Notes to Consolidated Financial Statements  
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CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED JUNE 30, 2014

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services and research fees	\$—	\$ 0.4	\$ 35.4	\$ 3.2	\$—	\$ 39.0
Rental and hotel	—	—	3.0	39.6	—	42.6
Sale of real estate	—	—	—	6.1	—	6.1
Loans and other	—	—	3.8	0.5	—	4.3
Total revenue	—	0.4	42.2	49.4	—	92.0
Operating expenses						
Commission and marketing	—	—	0.6	0.3	—	0.9
Rental and hotel operating	—	—	0.9	17.0	—	17.9
Cost of real estate sold	—	—	—	3.9	—	3.9
Compensation and related	1.7	20.2	8.8	1.5	—	32.2
General and administrative	—	2.7	—	5.7	—	8.4
Depreciation and amortization	—	0.2	2.6	22.5	—	25.3
Total operating expenses	1.7	23.1	12.9	50.9	—	88.6
Income from unconsolidated subsidiaries	—	1.2	29.2	0.6	—	31.0
Income from consolidated subsidiaries	65.3	127.6	75.8	—	(268.7 )	—
Operating income (loss)	63.6	106.1	134.3	(0.9 )	(268.7 )	34.4
Non-operating income (expense)						
Acquisition-related gains	—	(7.0 )	—	93.0	—	86.0
Acquisition-related expenses	—	—	(1.2 )	(6.4 )	—	(7.6 )
Interest expense-investment	—	—	—	(11.1 )	—	(11.1 )
Interest expense-corporate	—	(14.7 )	—	—	—	(14.7 )
Other income / (expense)	—	(1.8 )	2.7	1.2	—	2.1
Income (loss) before benefit from income taxes	63.6	82.6	135.8	75.8	(268.7 )	89.1
(Provision for) benefit from income taxes	—	(17.3 )	(8.1 )	—	—	(25.4 )
Net income (loss)	63.6	65.3	127.7	75.8	(268.7 )	63.7
Net (income) loss attributable to the noncontrolling interests	—	—	—	(25.3 )	—	(25.3 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	63.6	65.3	127.7	50.5	(268.7 )	38.4
Preferred dividends and accretion of preferred stock issuance costs	(2.1 )	—	—	—	—	(2.1 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$61.5	\$ 65.3	\$ 127.7	\$ 50.5	\$ (268.7 )	\$ 36.3



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Kennedy-Wilson Holdings, Inc.  
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CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services and research fees	\$—	\$ 0.5	\$ 48.5	\$ 3.1	\$—	\$ 52.1
Rental and hotel	—	—	6.4	61.4	—	67.8
Sale of real estate	—	—	0.6	16.8	—	17.4
Loans and other	—	0.1	4.3	1.6	—	6.0
Total revenue	—	0.6	59.8	82.9	—	143.3
Operating expenses						
Commission and marketing	—	—	1.4	0.4	—	1.8
Rental and hotel operating	—	—	2.4	29.7	—	32.1
Cost of real estate sold	—	—	0.7	12.8	—	13.5
Compensation and related	3.4	30.2	16.3	2.9	—	52.8
General and administrative	—	5.6	4.0	6.9	—	16.5
Depreciation and amortization	—	0.5	4.8	27.3	—	32.6
Total operating expenses	3.4	36.3	29.6	80.0	—	149.3
Income from unconsolidated subsidiaries	—	1.2	30.9	1.7	—	33.8
Income from consolidated subsidiaries	117.0	209.5	153.0	—	(479.5 )	—
Operating income (loss)	113.6	175.0	214.1	4.6	(479.5 )	27.8
Non-operating income (expense)						
Acquisition-related gains	—	(7.0 )	3.7	173.6	—	170.3
Acquisition-related expenses	—	—	(1.6 )	(10.0 )	—	(11.6 )
Interest expense-investment	—	—	—	(16.4 )	—	(16.4 )
Interest expense-corporate	—	(25.2 )	—	—	—	(25.2 )
Other income / (expense)	—	0.2	1.5	1.2	—	2.9
Income (loss) before benefit from income taxes	113.6	143.0	217.7	153.0	(479.5 )	147.8
(Provision for) benefit from income taxes	—	(26.1 )	(8.1 )	—	—	(34.2 )
Net income (loss)	113.6	116.9	209.6	153.0	(479.5 )	113.6
Net (income) loss attributable to the noncontrolling interests	—	—	—	(62.7 )	—	(62.7 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	113.6	116.9	209.6	90.3	(479.5 )	50.9
Preferred dividends and accretion of preferred stock issuance costs	(4.1 )	—	—	—	—	(4.1 )
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$ 109.5	\$ 116.9	\$ 209.6	\$ 90.3	\$ (479.5 )	\$ 46.8



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

(Dollars in millions)	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
<b>Revenue</b>						
Investment management, property services, and research fees	\$—	\$ 0.4	\$ 7.3	\$ 11.8	\$—	\$ 19.5
Rental and hotel	—	—	1.5	8.8	—	10.3
Sale of real estate	—	—	6.1	—	—	6.1
Loans and other	—	—	0.5	—	—	0.5
Total revenue	—	0.4	15.4	20.6	—	36.4
<b>Operating expenses</b>						
Commission and marketing	—	0.3	1.0	—	—	1.3
Rental and hotel operating	—	—	0.8	3.8	—	4.6
Cost of real estate sold	—	—	5.1	—	—	5.1
Compensation and related	1.7	8.6	3.4	4.6	—	18.3
General and administrative	0.3	2.3	0.7	3.1	—	6.4
Depreciation and amortization	—	0.1	1.2	3.1	—	4.4
Total operating expenses	2.0	11.3	12.2	14.6	—	40.1
Income from unconsolidated investments, net of depreciation and amortization	—	—	16.7	(2.0 )	0.1	14.8
Income from consolidated subsidiaries	0.6	20.3	0.7	—	(21.6 )	—
Operating income (expense)	(1.4 )	9.4	20.6	4.0	(21.5 )	11.1
<b>Non-operating income (expense)</b>						
Acquisition-related expense	—	—	(0.2 )	(0.3 )	—	(0.5 )
Interest expense-investment	—	—	(0.2 )	(2.6 )	—	(2.8 )
Interest expense-corporate	—	(9.7 )	—	—	—	(9.7 )
Other income	—	0.2	—	—	(0.1 )	0.1
(Loss) income before benefit from income taxes	(1.4 )	(0.1 )	20.2	1.1	(21.6 )	(1.8 )
Benefit from (provision for) income taxes	—	0.8	—	(0.3 )	—	0.5
Net (loss) income	(1.4 )	0.7	20.2	0.8	(21.6 )	(1.3 )
Net income attributable to the noncontrolling interests	—	—	—	0.9	—	0.9
Preferred dividends and accretion of preferred stock issuance costs						