Kennedy-Wilson Holdings, Inc.
Form 10-K
March 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

o 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<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | 26-0508760<br>(I.R.S. Employer<br>Identification No.) |
|---|---|
| 9701 Wilshire Blvd., Suite 700<br>Beverly Hills, CA<br>(Address of Principal Executive Offices) | 90212<br>(Zip Code) |

(310) 887-6400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|---|---|
| Common Stock, $.0001 par value | NYSE |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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:

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | o | | Accelerated filer | x |
| Non-accelerated filer | o | (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

Based on the last sale at the close of business on June 29, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $231,047,904.

The number of shares of common stock outstanding as of March 8, 2013 was 63,772,598.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates certain information by reference from the registrant's proxy statement for the annual meeting of stockholders to be held on or around June 20, 2013, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2012.

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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 21 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, a intended to identify forward-looking statements.

Forward-looking 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. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we do not guarantee that the transactions and events described will happen as described (or that they will happen at all). For a further discussion of these and other factors that could impact our future results, performance or transactions, please carefully read "Risk Factors" in Part I, Item 1A below in addition to the following factors:

- disruptions in general economic and business conditions, particularly in geographies where our business may be concentrated;
- volatility and disruption of the capital and credit markets, higher interest rates, higher loan costs, less desirable loan terms and a reduction in the availability of mortgage loans, all of which could increase costs and could limit our ability to acquire additional real estate assets;
- continued high levels of, or increases in, unemployment and general slowdowns in commercial activity;
- our leverage and ability to refinance existing indebtedness or incur additional indebtedness;
- an increase in our debt service obligations;
- our ability to generate a sufficient amount of cash to satisfy working capital requirements and to service our existing and future indebtedness;
- our ability to achieve improvements in operating efficiency;
- foreign currency fluctuations;
- adverse changes in the securities markets;
- our ability to retain our senior management and attract and retain qualified and experienced employees;
- our ability to attract new user and investor clients;
- our ability to retain major clients and renew related contracts;
- trends in use of large, full-service commercial real estate providers;
- changes in tax laws in the United States or Japan that reduce or eliminate deductions or other tax benefits we receive;
- future acquisitions may not be available at favorable prices or upon advantageous terms and conditions; and
- costs relating to the acquisition of assets we may acquire could be higher than anticipated.

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 this Annual Report. Except as required under the federal securities laws and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

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# PART I

## Item 1. Business

### Company Overview

Founded in 1977, we are an international real estate investment and services firm. We are a vertically-integrated real estate operating company with approximately 340 professionals in 24 offices throughout the United States, United Kingdom, Ireland, Spain and Japan. Based on management's estimate of fair value as of December 31, 2012, we have approximately $12.7 billion of real estate and real estate related assets under our management ("AUM"), totaling over 61 million square feet of properties throughout the United States, Europe and Japan. This includes ownership in 14,764 multifamily apartment units, of which 965 units are owned by our consolidated subsidiaries and 13,799 are held in joint ventures.

We are a holding company whose primary business operations are conducted through our wholly owned subsidiary, Kennedy-Wilson, Inc., or "Kennedy Wilson". Kennedy-Wilson Holdings, Inc. was incorporated in Delaware on July 9, 2007, under the name “Prospect Acquisition Corp.” On November 13, 2009, KW Merger Sub Corp., a wholly owned subsidiary of Prospect Acquisition Corp., merged with Kennedy Wilson, resulting in Kennedy Wilson becoming a wholly owned subsidiary of Prospect Acquisition Corp. Promptly after the merger, we changed the company name to “Kennedy-Wilson Holdings, Inc,” which is now listed on the New York Stock Exchange ("NYSE"). We refer to this transaction as the "Merger" throughout this document.

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 intended principally 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 assets either owned by third parties, wholly owned 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 this component of our AUM. The estimated value of development properties is included at estimated completion cost.

### Business Segments

Our operations are defined by two core business units: KW Investments and KW Services. KW Investments invests our capital in most cases alongside partners' capital in real estate-related assets including multifamily properties, loans secured by real estate and office and residential properties. KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution based clients.

### KW Investments

We invest our capital in real estate assets and loans secured by real estate through joint ventures, separate accounts, commingled funds, and wholly owned investments. We are typically the general partner in these investment vehicles with ownership interests ranging from approximately 5%-50%. Our equity partners include financial institutions, foundations, endowments, high net worth individuals and other institutional investors. In many cases we get a promoted interest in the profits of our investments beyond our ownership percentage.

Our investment philosophy is based on three core fundamentals:

- significant proprietary deal flow from an established network of industry relationships, particularly with financial institutions;
- focus on a systematic research process with a disciplined approach to investing; and
- superior in-house operating execution.

Our primary investment markets include California, Washington, Hawaii, the United Kingdom, Ireland and Japan, which we have identified as areas with dense populations, high barriers to entry, scarcity of land and supply constraints. We typically focus on the following opportunities:

- real estate owners or lenders seeking liquidity;
- under-managed or under-leased assets; and

- repositioning opportunities.

In 2012 and 2011, together with our equity partners, we acquired $6.0 billion of real estate and loans secured by real estate. These acquisitions were comprised of the following: 62% loans secured by real estate, 17% multifamily and 16% office and 5% other.

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The following table describes our investment account, which includes the following financial statement captions below, and is derived from our audited consolidated balance sheet as of December 31, 2012 and 2011:

| | As of December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Dollars in millions | | |
| Investment in joint ventures | $543.2 | 343.4 |
| Real estate | 289.4 | 115.9 |
| Mortgage debt | (236.5) | (30.7) |
| Notes receivable | 136.6 | 41.2 |
| Loan pool participations | 95.6 | 90.0 |
| Marketable securities | — | 23.0 |
| | $828.3 | $582.8 |

The following table breaks down our investment account information derived from our audited consolidated balance sheet by investment type and geographic location as of December 31, 2012:

| | Dollars in millions | | | | |
|---|---|---|---|---|---|
| | Multifamily | Loans Secured by Real Estate | Commercial | Residential, Hotel, and Other | Total |
| Western U.S. | $170.8 | $69.0 | $159.5 | $106.9 | $506.2 |
| Other U.S. | 0.4 | — | 3.3 | 10.5 | 14.2 |
| Japan | 102.7 | — | 8.6 | — | 111.3 |
| United Kingdom | — | 120.4 | — | — | 120.4 |
| Ireland | 22.4 | 44.3 | 9.5 | — | 76.2 |
| Total | $296.3 | $233.7 | $180.9 | $117.4 | $828.3 |

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

The following table breaks down our investment account information derived from our audited consolidated balance sheet by investment type and geographic location as of December 31, 2011:

| | Dollars in millions | | | | |
|---|---|---|---|---|---|
| | Multifamily | Loans Secured by Real Estate | Commercial | Residential, Hotel, and Other | Total |
| Western U.S. | $131.3 | $106.5 | $52.3 | $78.4 | $368.5 |
| Other U.S. | 0.2 | 4.8 | 0.7 | 4.2 | 9.9 |
| Japan | 112.1 | — | 9.3 | — | 121.4 |
| United Kingdom | — | 60.0 | — | — | 60.0 |
| Ireland | — | — | — | 23.0 | 23.0 |
| Total | $243.6 | $171.3 | $62.3 | $105.6 | $582.8 |

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

KW Services

KW Services offers a comprehensive line of real estate services for the full lifecycle of real estate ownership and investment to clients that include financial institutions, developers, builders and government agencies. KW Services has three business lines: investment management, property services and auction and conventional sales. These three business lines generate revenue for us through commissions and fees.

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Through our investment management business, we provide acquisition, asset management and disposition services to our equity partners as well as to third parties.
We manage over 61 million square feet of properties for institutional clients and individual investors in the United States, Europe and Japan. With 24 offices throughout the United States, the United Kingdom, Ireland, Spain 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.
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.

Industry Overview
Global

The current muted global economic recovery remains fragile. While the United States has shown signs of stabilization and recovery over the past couple of years despite continued political turmoil, other major world markets including Europe and Asia remain volatile and uncertain. Global liquidity has generally returned to the markets although not to the extent it existed pre-2008. The Euro crisis remains a hot topic as European banks continue the deleveraging process which started a few years after a similar process in the United States. Significant deleveraging, in particular from European financial institutions and government agencies, over the next several years has been forecast by many leading economists. In Europe alone, it has been reported that European banks hold approximately $1 trillion of delinquent real estate loans.
We believe that the recent economic, capital and credit markets events have and will continue to create tremendous buying opportunities as properties may be purchased at significant discounts to historical cost. Many asset dispositions will result from:
- highly leveraged property owners who will have loans maturing in 2013-2017 but will be unable to refinance;
- asset and loan sales directly from financial institutions; and
- companies reducing real estate portfolios to raise cash and improve their balance sheets

As many sellers particularly in Europe continue to be under pressure to move assets off of their balance sheets, we believe that our strong sourcing relationships will position us to acquire properties at steep discounts. We believe sellers will look to firms that they have relationships with and that can execute quickly and discreetly. Further sales of U.S. and European based property from both U.S. and international financial institutions are expected over the next several years.
Real estate values globally may benefit from historically low interest rates across the developed world. Investors in search of return, in a yield starved world, may seek to achieve higher rates of return through investing in income producing properties which have historically traded at wider yields than both government and corporate bonds.
United States
Although more moderate than in recent past cycles, the United States has been in a state of recovery since 2010. Signs of market stabilization have increased into 2013 as the Dow Jones and S&P 500 reached all-time highs and job growth continues. Liquidity has returned to the US market albeit not to the levels that existed pre-crisis.
Commercial real estate fundamentals began to stabilize in 2010 and have improved steadily since that time. Commercial vacancy rates in the United States declined modestly and rental rates rose slightly in 2012, however, landlords and tenants have remained cautious and both sales and leasing activity continued to be well below the levels experienced pre-crisis.
The housing market in the US has continued to show signs of improvement as US home re-sales edged higher in 2013 and left the supply of homes at its lowest level in 13 years.
United Kingdom
Although the United Kingdom has, to some degree, been able to avoid the turmoil associated with the Euro and the European Union, it has not been immune to the deleveraging necessary to relieve pressure on domestic financial institution's balance sheets. While the United States continued to shown signs of recovery in 2012 and into 2013, the

United Kingdom has been stuck in a no growth state for a couple of years and in fact contracted in the fourth quarter of 2012.

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Despite the rest of the United Kingdom, London continues to be one of the strongest real estate markets in the world due to foreign capital investment and a strong global presence. Opportunities to acquire real estate in the London market at discounted prices are relatively scarce and investments therein have been more stable than other European CBDs.

However, secondary markets outside of London have seen property prices decline in a similar fashion to other cities in Europe.

Ireland

Ireland financial institutions are ahead of the curve in deleveraging their portfolios as evidenced by the recent multibillion dollar loan pool sales (i.e. Anglo Irish and Bank of Ireland). This deleveraging activity was a direct result of the write-downs and transfer of assets initiated by the government agency, National Asset Management Agency (NAMA), which is extremely active in attempting to stabilize the country's financial fallout.

Japan

Japan, while still subject to the same market forces affecting economies across the globe, was able to experience a less drastic economic downturn in this last cycle because the Japanese banking system was strong relative to its peers. The recent rhetoric from Japanese officials about returning the economy to an inflationary state has boosted Japanese stocks (in particular real estate companies) but has also weakened the Yen against the US Dollar and nearly all other major currencies.

Japan's current demographic trends include an influx of migration to major cities, creating strong demand for housing. Our research suggests that real estate fundamentals have remained strong in greater Tokyo's residential market, and, in particular, in Tokyo's three major wards: Minato-ku, Shibuya-ku, and Setagaya-ku. With diminishing supply of new inventory due to stricter building regulations imposed in 2007, rents for quality assets are expected to remain strong while vacancy rates remain stable.

We expect that properties in the greater Tokyo area that are newer and of higher quality will remain target assets for acquisition by many institutional investors.

Competition

We compete with a range of global, national and local real estate firms, individual investors and other corporations. Because of our unique mix of investment and service businesses, we compete with brokerage and property management companies as well as companies that invest in real estate and loans secured by real estate. Our investment business competes with real estate investment partnerships, real estate investments trusts, private equity firms and other investment companies and regional investors and developers. We compete with them on the basis of our relationships with the sellers and our ability to close an investment transaction in a short time period at competitive pricing. The real estate services business is both highly fragmented and competitive. We compete with real estate brokerage and auction companies on the basis of our relationship with property owners, quality of service, and commissions charged. We compete with property management and leasing firms also on the basis of our relationship with clients, the range and quality of services provided, and fees and commissions charged.

Competitive Advantages

The company has a unique platform from which to execute our investment and services strategy. The combination of a service business and an investment platform provides several competitive advantages over other real estate buyers operating stand-alone or investment-focused firms and may allow us to generate superior risk-adjusted returns. Our investment strategy focuses on investments that offer significant appreciation potential through intensive property management, leasing, repositioning, redevelopment and the opportunistic use of capital. We differentiate ourselves from other firms in the industry with our full service, investment oriented structure. Whereas most other firms use an investment platform to obtain additional service business revenue, we use our service platform to enhance the investment process and ensure the alignment of interests with our investors.

Our competitive advantages include:

- Transaction experience: Our Executive Committee has more than 125 years of combined real estate experience and has been working and investing together on average for over 15 years. Members of the Executive Committee have collectively acquired, developed and managed in excess of $20 billion of real estate investments in the United States, the United Kingdom, Ireland and Japan throughout various economic cycles, both at our company and throughout

their careers.

- Extensive relationship and sourcing network: We leverage our services business in order to source off-market deals. In addition, the Executive Committee and our acquisition team have transacted deals in nearly every major metropolitan market on the West Coast of the United States, as well as in the United Kingdom, Ireland and Japan. Their local presence

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and reputation in these markets have enabled them to cultivate key relationships with major holders of property inventory, in particularly financial institutions, throughout the real estate community.

- Structuring expertise and speed of execution: Prior acquisitions completed by us have taken a variety of forms including direct property investments, joint ventures, exchanges involving stock or operating partnership units, participating loans and investments in performing and non-performing mortgages with the objective of long-term ownership. We believe we have developed a reputation of being able to quickly execute, as well as originate and creatively structure acquisitions, dispositions and financing transactions.
- Vertically integrated platform for operational enhancement: We have approximately 340 employees in both KW Investments and KW Services, with 24 regional offices throughout the United States, the United Kingdom, Ireland, Spain and Japan. We have a hands-on approach to real estate investing and possess the local expertise in property management, leasing, construction management, development and investment sales, which we believe enable us to invest successfully in selected submarkets.
- Risk protection and investment discipline: We underwrite our investments based upon a thorough examination of property economics and a critical understanding of market dynamics and risk management strategies. We conduct an in-depth sensitivity analysis on each of our acquisitions. This analysis applies various economic scenarios that include changes to rental rates, absorption periods, operating expenses, interest rates, exit values and holding periods. We use this analysis to develop our disciplined acquisition strategies.

Transaction-based results

A significant portion of our cash flow is tied to transaction activity and joint venture investments, both of which can affect an investor’s ability to compare our financial condition and results of operations on a quarter-by-quarter basis. Historically, this variability has caused our revenue, operating income, net income and cash flows to be tied to transaction activity, which is not necessarily concentrated in any one quarter.

Employees

As of December 31, 2012, we had approximately 340 professionals in 24 offices throughout the United Sates, the United Kingdom, Ireland, Spain and Japan. We believe that we have been able to attract and maintain high quality employees. There are no employees subject to collective bargaining agreements. In addition, we believe we have a good relationship with our employees.

Available Information

Information about us is available on our website (http://www.kennedywilson.com) (this website address is not intended to function as a hyperlink, and the information contained in, or accessible from, our website is not intended to be a part of this filing). We make available on our website, free of charge, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those reports and statements filed or furnished pursuant to Section 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after filing or submitting such material electronically or otherwise furnishing it to the SEC. In addition, we have previously filed registration statements and other documents with the SEC. Any document we file may be inspected, without charge, at the SEC's public reference room at 100 F Street NE, Washington, D.C. 20549 or at the SEC's internet address at http://www.sec.gov (this website address is not intended to function as a hyperlink, and the information contained in, or accessible from, the SEC's website is not intended to be a part of this filing). Information related to the operation of the SEC's public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

## Item 1A. Risk Factors

Our results of operations and financial condition can be adversely affected by numerous risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this report. If any of the following risks actually occur, our business, financial condition, operating results, cash flows and/or future prospects could be materially adversely affected.

Risks Related to Our Business

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The success of our business is significantly related to general economic conditions and the real estate industry and, accordingly, our business could be harmed by an economic slowdown and downturn in real estate asset values, property sales and leasing activities.

Our business is closely tied to general economic conditions in the real estate industry. As a result, our economic performance, the value of our real estate and real estate secured notes, and our ability to implement our business strategies may be affected by changes in national and local economic conditions. The condition of the real estate markets in which we operate tends to be cyclical and related to the condition of the economy in the United States, United Kingdom, Ireland and Japan as a whole and to the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively affect our performance. In addition, the economic condition of each local market where we operate may be dependent on one or more industries. Our ability to change our portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures, such as debt service costs, real estate taxes, and operating and maintenance costs are generally not reduced when market conditions are poor. These factors would impede us from responding quickly to changes in the performance of our investments and could adversely impact our business, financial condition and results of operations. We have experienced in past years, and expect in the future to be negatively impacted by, periods of economic slowdown or recession, and corresponding declines in the demand for real estate and related services, within the markets in which we operate. The previous recession and the downturn in the real estate market have resulted in and/or may result in:

- a general decline in rents due to defaulting tenants or less favorable terms for renewed or new leases;
- fewer purchases and sales of properties by clients, resulting in a decrease in property management fees and brokerage commissions;
- a decline in actual and projected sale prices of our properties resulting in lower returns on the properties in which we have invested;
- higher interest rates, higher loan costs, less desirable loan terms and a reduction in the availability of mortgage loans, all of which could increase costs and could limit our ability to acquire additional real estate assets; and
- a decrease in the availability of lines of credit and the public equity and debt markets and other sources of capital used to purchase real estate investments and distressed notes.

If the economic and market conditions that prevailed in 2008 and 2009 were to return, our business performance and profitability could deteriorate. If this were to occur, we could fail to comply with certain financial covenants in our unsecured revolving credit facilities which would force us to seek an amendment with our lenders. No assurance can be given that we would be able to obtain any necessary waivers or amendments on satisfactory terms, if at all. In addition, in an extreme deterioration of our business, we could have insufficient liquidity to meet our debt service obligations when they come due in future years.

Adverse developments in the credit markets may harm our business, results of operations and financial condition.

Disruptions in the credit markets may adversely affect our business of providing advisory services to owners, investors and occupiers of real estate in connection with the leasing, disposition and acquisition of property. If our clients are unable to procure credit on favorable terms, there may be fewer completed leasing transactions, dispositions and acquisitions of property. In addition, if purchasers of real estate are not able to procure favorable financing resulting in the lack of disposition opportunities for our funds and projects, our services businesses will generate lower incentive fees and we may also experience losses of co-invested equity capital if the disruption causes a permanent decline in the value of investments made.

In 2008 and 2009, the credit markets experienced a disruption of unprecedented magnitude. This disruption reduced the availability and significantly increased the cost of most sources of funding. In some cases, these sources were eliminated. While the credit market has shown signs of improving since the second half of 2009, liquidity remains constrained and it is impossible to predict when the market will return to normalcy. This uncertainty may lead market participants to continue to act more conservatively, which may amplify decreases in demand and pricing in the markets we serve.

We could lose part or all of our investment in the real estate assets we have interests in, which could have a material adverse effect on our financial condition and results of operations.

There is the inherent possibility in all of our real estate investments that we could lose all or part of our investment. Real estate investments are generally illiquid, which may affect our ability to change our portfolio in response to changes in economic and other conditions. Moreover, regarding our investment in real estate, we may not be able to unilaterally decide the timing of the disposition of an investment, and as a result, we may not control when and whether any gain will be realized or loss avoided. The value of our investments can also be diminished by:

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- civil unrest, acts of war and terrorism and acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured or underinsured losses);
- the impact of present or future legislation in the United States, United Kingdom, Ireland and Japan (including environmental regulation, changes in laws concerning foreign ownership of property, changes in real estate tax rates, changes in zoning laws and laws requiring upgrades for disabled persons) and the cost of compliance with these types of legislation; and
- liabilities relating to claims to the extent insurance is not available or is inadequate.

We may be unsuccessful in renovating the properties we acquire resulting in investment losses.

Part of our investment strategy is to locate and acquire real estate assets that we believe are undervalued and to improve them to increase their resale value. We face risks arising from the acquisition of properties not yet fully developed or in need of substantial renovation or redevelopment, particularly the risk that we overestimate the value of the property and the risk that the cost or time to complete the renovation or redevelopment will exceed the budgeted amount. Such delays or cost overruns may arise from:

- shortages of materials or skilled labor;
- a change in the scope of the original project;
- the difficulty in obtaining necessary zoning, land-use, environmental, building, occupancy and other governmental permits and authorizations;
- the discovery of structural or other latent defects in the property once construction has commenced; and
- delays in obtaining tenants.

Any failure to complete a redevelopment project in a timely manner and within budget or to sell or lease the project after completion could have a material adverse effect upon our business, results of operation and financial condition.

The expansion of our business into the United Kingdom and Ireland may expose us to risks related to conducting our business in a new international market.

We may have difficulty managing our expansion into the United Kingdom and Ireland where, in comparison with the United States and Japan, our knowledge and understanding of the local economies is not as robust, we have fewer business relationships and less familiarity with the local real estate, zoning and development regulations and other governmental procedures and regulations.

In addition, there are risks inherent in conducting business internationally, which include:

- restrictions and problems relating to the repatriation of profits;
- difficulties and costs of staffing and managing international operations;
- the burden of complying with multiple and potentially conflicting laws;
- laws restricting foreign companies from conducting business and unexpected changes in regulatory requirements;
- the impact of different business cycles and economic instability;
- political instability and civil unrest;
- greater difficulty in perfecting our security interests, collecting accounts receivable, foreclosing on security and protecting our interests as a creditor in bankruptcies in certain geographic regions;
- potentially adverse tax consequences;
- share ownership restrictions on foreign operations;
- the tax and tariff regimes of the countries in which we do business; and

- geographic, time zone, language and cultural differences between personnel in different areas of the world.

Our operations in Japan subject us to social, political and economic risks associated with conducting business in foreign countries, which may materially adversely affect our business and results of operations.

One of our strategies for the future is to continue our operations in Japan. The scope of our international operations may lead to more volatile financial results and difficulties in managing our businesses. This volatility and difficulty could be caused by many of the same risks described above in the risk factor titled “The expansion of our business into the United Kingdom and Ireland may expose us to risks related to conducting our business in a new international market.”

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Our joint venture activities subject us to unique third-party risks, including risks that other participants may become bankrupt or take action contrary to our best interests.

We have utilized joint ventures for large commercial real estate investments, real estate developments, and the purchase of loans secured by real estate. We plan to continue to acquire interests in additional limited and general partnerships, joint ventures and other enterprises, collectively referred to herein as “joint ventures,” formed to own or develop real property or interests in real property or note pools. It is our strategy in the United Kingdom, Ireland, and Japan to invest primarily through joint ventures. We have acquired and may acquire minority interests in joint ventures and we may also acquire interests as a passive investor without rights to actively participate in management of the joint ventures. Investments in joint ventures involve additional risks, including the possibility that the other participants may become bankrupt or have economic or other business interests or goals which are inconsistent with ours, that we will not have the right or power to direct the management and policies of the joint ventures and that other participants may take action contrary to our instructions or requests and against our policies and objectives. Should a participant in a material joint venture act contrary to our interest, it could have a material adverse effect upon our business, results of operations and financial condition. Moreover, we cannot be certain that we will continue these investments, or that we can identify suitable joint venture partners and form new joint ventures in the future.

We purchase distressed loans and loan portfolios that may have a higher risk of default and delinquencies than newly originated loans, and as a result, we may lose part or all of our investment in such loans and loan portfolios.

We may purchase loans and loan portfolios that are unsecured or secured by real or personal property. These loans and loan portfolios in some cases may be non-performing or sub-performing, and may be in default at the time of purchase. In general, the distressed loans and loan portfolios we acquire are speculative investments and have a greater than normal risk of future defaults and delinquencies as compared to newly originated loans. Returns on loan investments depend on the borrower's ability to make required payments or, in the event of default, our security interests, if any, and our ability to foreclose and liquidate whatever property that secures the loans and loan portfolios. We cannot be sure that we will be able to collect on a defaulted loan or foreclose on security successfully or in a timely fashion. There may also be instances when we are able to acquire title to an underlying property and sell it, but not make a profit on its investment.

We may not be successful in competing with companies in the real estate services and investment industry, some of which may have substantially greater resources than we do.

Real estate investment and services businesses are highly competitive. Our principal competitors include both large multinational companies and national and regional firms, such as Jones Lang LaSalle, Inc. and CBRE Group, Inc. Many of our competitors have greater financial resources and a broader global presence than we do. We compete with companies in the United States, and to a limited extent, in the United Kingdom, Ireland and Japan, with respect to:

- selling commercial and residential properties on behalf of customers through brokerage and auction services;
- leasing and property management, including construction and engineering services;
- purchasing commercial and residential properties, as well as undeveloped land for our own account; and
- acquiring secured and unsecured loans.

Our services operations must compete with a growing number of national firms seeking to expand market share. There can be no assurance that we will be able to continue to compete effectively, maintain current fee levels or arrangements, continue to purchase investment properties profitably or avoid increased competition.

If we are unable to maintain or develop new client relationships, our service business and financial condition could be substantially impaired.

We are highly dependent on long-term client relationships and on revenues received for services with third-party owners and related parties. A considerable amount of our revenues are derived from fees related to our service business. The majority of our property management agreements are cancelable prior to their expiration by the client for any reason on as little as 30 to 60 days' notice. These contracts also may not be renewed when their respective terms expire. If we fail to maintain existing relationships, fail to develop and maintain new client relationships or otherwise lose a substantial number of management agreements, we could experience a material adverse change in our business, financial condition and results of operations.

Decreases in the performance of the properties we manage are likely to result in a decline in the amount of property management fees and leasing commissions we generate.



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Our property management fees are generally structured as a percentage of the revenues generated by the properties that we manage. Similarly, our leasing commissions typically are based on the value of the lease commitments. As a result, our revenues are adversely affected by decreases in the performance of the properties we manage and declines in rental value. Property performance will depend upon, among other things, our ability to control operating expenses (some of which are beyond our control), financial conditions generally and in the specific areas where properties are located and the condition of the real estate market generally. If the performance or rental values of the properties we manage decline, the management fees and leasing commissions we derive from such properties could be materially adversely affected.

Our leasing activities are contingent upon various factors, including tenant occupancy and rental rates, which if adversely affected, could cause our operating results to suffer.

A significant portion of our property management business involves facilitating the leasing of commercial space. In certain areas of operation, there may be inadequate commercial space to meet demand and there is a potential for a decline in the number of overall lease and brokerage transactions. In areas where the supply of commercial space exceeds demand, we may not be able to renew leases or obtain new tenants for our owned and managed rental properties as leases expire. Moreover, the terms of new leases and renewals (including renovation costs or costs of concessions to tenants) may be less favorable than current leases. Our revenues may be adversely affected by the failure to promptly find tenants for substantial amounts of vacant space, if rental rates on new or renewal leases are significantly lower than expected, or if reserves for costs of re-leasing prove inadequate. We cannot be sure that we can continue to lease properties for our clients and for our own account in a profitable manner.

Our ability to lease properties also depends on:

- the attractiveness of the properties to tenants;
- competition from other available space;
- our ability to provide adequate maintenance and obtain insurance and to pay increased operating expenses which may not be passed through to tenants;
- the availability of capital to periodically renovate, repair and maintain the properties, as well as for other operating expenses; and
- the existence of potential tenants desiring to lease the properties.

If we are unable to identify, acquire and integrate suitable acquisition targets, our future growth will be impeded.

Acquisitions and expansion have been, and will continue to be, a significant component of our growth strategy for the future. While maintaining our existing business lines, we intend to continue to pursue a sustained growth strategy by increasing revenues from existing clients, expanding the breadth of our service offerings, seeking selective co-investment opportunities and pursuing strategic acquisitions. Our ability to manage our growth will require us to effectively integrate new acquisitions into our existing operations while managing development of principal properties. We expect that significant growth in several business lines occurring simultaneously will place substantial demands on our managerial, administrative, operational and financial resources. We cannot be sure that we will be able to successfully manage all factors necessary for a successful expansion of our business. Moreover, our strategy of growth depends on the existence of and our ability to identify attractive and synergistic acquisition targets. The unavailability of suitable acquisition targets, or our inability to find them, may result in a decline in business, financial condition and results of operations.

Our business is highly dependent upon the economy and real estate market in California, which have recently experienced a downturn.

We have a high concentration of our business activities in California. Consequently, our business, results of operations and financial condition are dependent upon general trends in California's economy and real estate market. California's economy experienced a downturn in the recent global recession. Recent real estate market declines in California were so severe that the market value of a number of properties securing loans has become significantly less than the outstanding balances of those loans. Real estate market declines may negatively affect our ability to sell property at a profit. In addition, California historically has been vulnerable to certain natural disaster risks, such as earthquakes, floods, wild fires and erosion-caused mudslides. The existence of adverse economic conditions or the occurrence of natural disasters in California could have a material adverse effect on our business, financial condition and results of operations.

We own real estate properties located in Hawaii, which subjects us to unique risks relating to, among other things, Hawaii's economic dependence on fluctuating tourism, the isolated location of Hawaii and the potential for natural disasters.

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We conduct operations and own properties in Hawaii. Consequently, our business, results of operations and financial condition are dependent upon and affected by general trends in Hawaii's economy and real estate market. Hawaii's economy, although it has significantly recovered, experienced a significant downturn in the most recent recession. Real estate market declines may negatively affect our ability to sell property at a profit. In addition, Hawaii's economy is largely dependent upon tourism, which is subject to fluctuation. Hawaii historically has also been vulnerable to certain natural disaster risks, such as tsunamis, hurricanes and earthquakes, which could cause damage to properties owned by us or property values to decline in general. Hawaii's remote and isolated location also may create additional operational costs and expenses, which could have a material adverse impact on our financial results.

Our auction services business has historically been countercyclical, and, as a result, our operating results may be adversely affected when general economic conditions are improving.

Our results of operations are partially driven by the performance of our auction services group, which historically has been countercyclical. Improvements in general economic conditions may cause auction service revenues to decrease, which could cause an adverse impact on our results of operations.

If we fail to comply with laws and regulations applicable to us in our role as a real estate broker, property/facility manager or developer, we may incur significant financial penalties.

We are subject to numerous federal, state, local and non-U.S. laws and regulations specific to the services we perform in our business, as well as laws of broader applicability, such as tax, securities and employment laws. Brokerage of real estate sales and leasing transactions and the provision of property management and valuation services require us to maintain applicable licenses in each U.S. state and certain non-U.S. jurisdictions in which we perform these services. If we fail to maintain our licenses or conduct these activities without a license, or violate any of the regulations covering our licenses, we may be required to pay fines (including treble damages in certain states), return commissions received or have our licenses suspended or revoked.

We have certain obligations in connection with our real estate brokerage services which could subject us to liability in the event litigation is initiated against us for an alleged breach of any such obligation.

As a licensed real estate broker, we and our licensed employees are subject to certain statutory due diligence, disclosure and standard-of-care obligations. Failure to fulfill these obligations could subject us or our employees to litigation from parties who purchased, sold or leased properties we brokered or managed. In addition, we may become subject to claims by participants in real estate sales claiming that we did not fulfill our statutory obligations as a broker.

We may become subject to claims for construction defects or other similar actions in connection with the performance of our property management services.

In our property management capacity, we hire and supervise third-party contractors to provide construction and engineering services for our properties. While our role is limited to that of a supervisor, we cannot be sure that we will not be subjected to claims for construction defects or other similar actions. Adverse outcomes of property management litigation could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to potential environmental liability.

Under various foreign, federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the cleanup of hazardous or toxic substances and may be liable to a

governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by governmental entities or third parties in connection with the contamination. Such laws typically impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances, even when the contaminants were associated with previous owners or operators. The costs of investigation, remediation or removal of hazardous or toxic substances may be substantial, and the presence of those substances, or the failure to properly remediate those substances, may adversely affect the owner's or operator's ability to sell or rent the affected property or to borrow using the property as collateral. The presence of contamination at a property can impair the value of the property even if the contamination is migrating onto the property from an adjoining property. Additionally, the owner of a site may be subject to claims by parties who have no relation to the property based on damages and costs resulting from environmental contamination emanating from the site.

In connection with the direct or indirect ownership, operation, management and development of real properties, we may be considered an owner or operator of those properties or as having arranged for the disposal or treatment of hazardous or toxic substances. Therefore, we may be potentially liable for removal or remediation costs.

Certain foreign, federal, state and local laws, regulations and ordinances also govern the removal, encapsulation or disturbance of asbestos-containing materials during construction, remodeling, renovation or demolition of a building. Such laws may impose liability for the release of asbestos-containing materials, and third parties may seek recovery from owners or operators of real properties for personal injuries associated with asbestos-containing materials. We may be potentially liable for those costs for properties that we own. In the past, we have been required to remove asbestos from certain buildings that we own or manage. There can be no assurance that in the future we will not be required to remove asbestos from our buildings or incur other substantial costs of environmental remediation.

Before consummating the acquisition of a particular piece of real property, it is our policy to retain independent environmental consultants to conduct an environmental review of the real property, including performing a Phase I environmental review. These assessments have included, among other things, a visual inspection of the real properties and the surrounding area and a review of relevant federal, state and historical documents. It is possible that the assessments we commissioned do not reveal all environmental liabilities or that there are material environmental liabilities of which we are currently unaware. There can be no assurance that future laws, ordinances or regulations will not impose any material environmental liability or that the current environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of those properties, or by unrelated third parties. There can be no assurance that federal, state and local agencies or private plaintiffs will not bring any actions in the future, or that those actions, if adversely resolved, would not have a material adverse effect on our business, financial condition and results of operations.

We may incur unanticipated expenses relating to laws benefiting disabled persons.

The Americans with Disabilities Act, or the ADA, generally requires that public accommodations such as hotels and office buildings be accessible to disabled people. If our properties are not in compliance with the ADA, the U.S. federal government could fine us or private litigants could sue us for monetary damages. In addition, if we are required to make substantial alterations to one or more of our properties in order to comply with the ADA, our results of operations could be materially adversely affected.

We may incur significant costs complying with laws, regulations and covenants that are applicable to our properties and operations.

The properties in our portfolio and our operations are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Such laws and regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. There can be no assurance that existing laws and regulations will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our failure to obtain required permits, licenses and zoning relief or to comply with applicable laws could have a material adverse effect on our business, financial condition and results of operations.

Our property insurance coverages are limited, and any uninsured losses could cause us to lose part or all of our investment in our insured properties.

We carry comprehensive general liability coverage and umbrella coverage on all of our properties with limits of liability which we deem adequate and appropriate under the circumstances (subject to deductibles) to insure against

liability claims and provide for the cost of legal defense. There are, however, certain types of extraordinary losses that either may be uninsurable or are not generally insured because it is not economically feasible to insure against those losses. Should any uninsured loss occur, we could lose our investment in, and anticipated revenues from, a property, which loss or losses could have a material adverse effect on our operations. Currently, we also insure some of our properties for loss caused by earthquake in levels we deem appropriate and, where we believe necessary, for loss caused by flood. We cannot be sure that the occurrence of an earthquake, flood or other natural disaster will not have a materially adverse effect on our business, financial condition and results of operations.

The ongoing debt crisis in Europe could harm our business, financial condition and results of operations.

Since the establishment of Kennedy Wilson Europe in June 2011, our European operations have become an increasingly important part of our business, and we expect to continue to grow our European investment portfolio over time. A number of European countries are continuing to experience high borrowing costs and recessionary conditions, and many European banks and investors have incurred substantial losses on real estate-related assets in recent years. Current macroeconomic conditions in

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Europe remain uncertain and make the valuation of real estate-related assets difficult. Continued weakness or a worsening of those conditions could negatively impact the value of our existing investments and harm our ability to sell those investments and identify attractive investment opportunities in the future. These developments could harm our business, financial condition and results of operations.

Risks Related to Our Company

If we are unable to raise additional debt and equity capital, our growth prospects may suffer.

We depend upon the capital markets to grow our balance sheet along third-party equity and debt financings to acquire properties through our investment business, which is a key driver of future growth. We estimate that in the next 12 to 18 months our acquisition plan will require between approximately $800 million and $1.5 billion in third-party equity and between approximately $1.0 billion and $2.5 billion in third-party debt. We depend on debt financing from a combination of seller financing, the assumption of existing loans, government agencies and financial institutions. We depend on equity financing from equity partners, which include pension funds, family offices, financial institutions, endowments and money managers. Our access to capital funding is uncertain. Our inability to raise additional capital on terms reasonably acceptable to us could jeopardize the future growth of our business.

The loss of one or more key personnel could have a material adverse effect on our operations.

Our continued success is dependent to a significant degree upon the efforts of our senior executives, who have each been essential to our business. The departure of all or any of our executives for whatever reason or the inability of all or any of them to continue to serve in their present capacities or our inability to attract and retain other qualified personnel could have a material adverse effect upon our business, financial condition and results of operations. Our executives have built highly regarded reputations in the real estate industry. Our executives attract business opportunities and assist both in negotiations with lenders and potential joint venture partners and in the representation of large and institutional clients. If we lost their services, our relationships with lenders, joint ventures and clients would diminish significantly.

In addition, certain of our officers have strong regional reputations and they aid in attracting and identifying opportunities and negotiating for us and on behalf of our clients. In particular, we view the establishment and maintenance of strong relationships through certain officers as critical to our success in the Japanese market. As we continue to grow, our success will be largely dependent upon our ability to attract and retain qualified personnel in all areas of business. We cannot be sure that we will be able to continue to hire and retain a sufficient number of qualified personnel to support or keep pace with our planned growth.

The loss of our chief executive officer, or CEO, could have a material adverse effect on our operations.

Our continued success is dependent to a significant degree upon the efforts of our CEO, who is essential to our business. The departure of our CEO for whatever reason or the inability of our CEO to continue to serve in his present capacity could have a material adverse effect upon our business, financial condition and results of operations. Our CEO has built a highly regarded reputation in the real estate industry. Our CEO attracts business opportunities and assists both in negotiations with lenders and potential joint venture partners and in the representation of large and institutional clients. If we lost his services, our relationships with lenders, joint ventures and clients would diminish significantly. Furthermore, the departure of our CEO for whatever reason or the inability of our CEO to continue to serve as our Chairman and CEO would be an event of default under our unsecured revolving loan agreement.

Our revenues and earnings may be materially and adversely affected by fluctuations in foreign currency exchange rates due to our international operations.

Our revenues from non-U.S. operations have been primarily denominated in the local currency where the associated revenues were earned. Thus, we may experience significant fluctuations in revenues and earnings because of corresponding fluctuations in foreign currency exchange rates. To date, our foreign currency exposure has been limited to the Japanese Yen, the Euro and the Pound Sterling. Certain questions have arisen about the viability of the Euro, and there has been speculation that some countries within the Eurozone may elect, or may be forced, to revert to the currency they issued prior to the establishment of the Euro, which could significantly reduce the value of the Euro. Due to the constantly changing currency exposures to which we will be subject and the volatility of currency exchange rates, there can be no assurance that we will not experience currency losses in the future, nor can we predict the effect of exchange rate fluctuations upon future operating results. Our management may decide to use currency hedging instruments from time to time including foreign currency forward contracts, purchased currency options (where applicable) and foreign currency borrowings. The economic risks associated with these hedging instruments include unexpected

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fluctuations in foreign currency rates which could lead to hedging losses or the requirement to post collateral along with, unexpected changes in our underlying net asset position. There can be no assurance that any hedging will be effective.

Our operating results are subject to significant volatility from quarter to quarter as a result of the varied timing and magnitude of our strategic acquisitions and dispositions.

We have experienced a fluctuation in our financial performance from quarter to quarter due in part to the significance of revenues from the sales of real estate on overall performance. The timing of purchases and sales of our real estate investments has varied, and will continue to vary, widely from quarter to quarter due to variability in market opportunities, changes in interest rates, and the overall demand for residential and commercial real estate, among other things. While these factors have contributed to our increased operating income and earnings in the fourth quarter in past years, there can be no assurance that we will continue to perform well in the fourth quarter. In addition, the timing and magnitude of brokerage commissions paid to us may vary widely from quarter to quarter depending upon overall activity in the general real estate market and the nature of our brokerage assignments, among other things.

We have in the past incurred and may continue in the future to incur significant amounts of debt to finance acquisitions, which could negatively affect our cash flows and subject our properties or other assets to the risk of foreclosure.

We have historically financed new acquisitions with cash derived from secured and unsecured loans and lines of credit. For instance, we typically purchase real property with loans secured by a mortgage on the property acquired. We anticipate the continuation of this trend. We do not have a policy limiting the amount of debt that we may incur. Accordingly, our management and board of directors have discretion to increase the amount of our outstanding debt at any time. We could become more highly leveraged, resulting in an increase in debt service costs that could adversely affect results of operations and increase the risk of default on debt. We may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase. If we are required to seek an amendment to our credit agreement, our debt service obligations may be substantially increased.

Some of our debt bears interest at variable rates. As a result, we are subject to fluctuating interest rates that may impact, adversely or otherwise, results of operations and cash flows. We may be subject to risks normally associated with debt financing, including that cash flow will be insufficient to make required payments of principal and interest; that existing indebtedness on our properties will not be able to be refinanced or our leverage could increase our vulnerability to general economic downturns and adverse competitive and industry conditions, placing us at a disadvantage compared to those of our competitors that are less leveraged; that our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry; that our failure to comply with the financial and other restrictive covenants in the documents governing our indebtedness could result in an event of default that, if not cured or waived, results in foreclosure on substantially all of our assets; and that the terms of available new financing will not be as favorable as the terms of existing indebtedness. If we are unable to satisfy the obligations owed to any lender with a lien on one of our properties, the lender could foreclose on the real property or other assets securing the loan and we would lose that property or asset. The loss of any property or asset to foreclosure could have a material adverse effect on our business, financial condition and results of operations. From time to time, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rate our significant outstanding debt. These ratings and any downgrades thereof may impact our ability to borrow under any new agreements in the future, as well as the interest rates and other terms of any future borrowings, and could also cause a decline in the market price of our common stock. We cannot be certain that our earnings will be sufficient to allow us to pay principal and interest on our debt

and meet our other obligations. If we do not have sufficient earnings, we may be required to seek to refinance all or part of our existing debt, sell assets, borrow more money or sell more securities, none of which we can guarantee that we will be able to do and which, if accomplished, may adversely impact our stock price.

Our debt obligations impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.

Our existing debt obligations impose, and future debt obligations may impose, significant operating and financial restrictions on us. These restrictions limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- repay indebtedness (including our 8.75% senior notes due 2019, our 2037 debentures and our senior notes due 2042) prior to stated maturities;
- pay dividends on, redeem or repurchase our stock or make other distributions;
- make acquisitions or investments;

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- create or incur liens;
- transfer or sell certain assets or merge or consolidate with or into other companies;
- enter into certain transactions with affiliates;
- sell stock in our subsidiaries;
- restrict dividends, distributions or other payments from our subsidiaries; and
- otherwise conduct necessary corporate activities.

In addition, our unsecured revolving credit facility and the indenture governing our 2037 debentures require us to maintain compliance with specified financial covenants, including maximum balance sheet leverage and fixed charge coverage ratios. As of December 31, 2012, we were in compliance with these covenants. These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness.

We have guaranteed a number of loans in connection with various equity method investments which may result in us being obligated to make substantial payments.

We have provided recourse guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) we could be required to make under these guarantees was approximately $55.5 million at December 31, 2012. The guarantees expire through 2017 and our 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 sales proceeds of the property. If we were to become obligated to perform on these guarantees, it could have an adverse effect on our financial condition.

We have a number of equity partnerships that subject us to obligations under certain “non-recourse carve out” guarantees that may be triggered in the future.

Most of our real estate properties within our equity partnerships are encumbered by traditional non-recourse debt obligations. In connection with most of these loans, however, we entered into certain “non-recourse carve out” guarantees, which provide for the loans to become partially or fully recourse against us if certain triggering events occur. Although these events are different for each guarantee, some of the common events include:

- the special purpose property-owning subsidiary's filing a voluntary petition for bankruptcy;
- the special purpose property-owning subsidiary's failure to maintain its status as a special purpose entity; and
- subject to certain conditions, the special purpose property-owning subsidiary's failure to obtain lender's written consent prior to any subordinate financing or other voluntary lien encumbering the associated property.

In the event that any of these triggering events occur and the loans become partially or fully recourse against us, our business, financial condition, results of operations and common stock price could be materially adversely affected.

The deteriorating financial condition and/or results of operations of certain of our clients could adversely affect our business.

We could be adversely affected by the actions and deteriorating financial condition and results of operations of certain of our clients. Losses or defaults by one or more of these clients could have a material adverse effect on our results of operations and financial condition. Any of our clients may experience a downturn in its business that may weaken its results of operations and financial condition. As a result, a client may fail to make payments when due, become insolvent or declare bankruptcy. Any client bankruptcy or insolvency, or the failure of any client to make payments

when due, could result in material losses to our company. A client bankruptcy would delay or preclude full collection of amounts owed to us. Additionally, certain corporate services and property management client agreements require that we advance payroll and other vendor costs on behalf of clients. If such a client were to file bankruptcy or otherwise fail, we may not be able to obtain reimbursement for those costs or for the severance obligations we would incur as a result of the loss of the client.

We may incur expenses associated with defending lawsuits filed by former holders of Kennedy-Wilson, Inc.'s stock.

On November 13, 2009, our wholly owned subsidiary, KW Merger Sub Corp., merged with and into Kennedy-Wilson, Inc., one of our subsidiaries. Prior to the merger, a small percentage of Kennedy-Wilson, Inc.'s outstanding common stock was owned by holders who were not known to our management. If one or more of these holders were to bring a claim alleging that members

of Kennedy-Wilson, Inc.'s board of directors breached their fiduciary duties in connection with approving the merger, we would incur costs defending and/or settling such claim.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2012, we had $71.1 million of federal and $32.8 million of California net operating loss carryforwards available to offset future taxable income. Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change” (generally defined as a greater than 50% change (by value) in its equity ownership over a three year period), the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not performed a detailed analysis to determine whether an ownership change under Section 382 of the Code has previously occurred. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

If we are unable to maintain and protect our intellectual property, or if third parties assert that we infringe their intellectual property rights, our business could suffer.
Our business depends, in part, on our ability to identify and protect proprietary information and other intellectual property such as our service marks, client lists and information and business methods. The laws of some countries in which we operate may offer only limited protection for our intellectual property rights. We rely on a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements and copyright and trademark laws to protect our intellectual property rights. However, we may not adequately protect these rights, and their disclosure to or use by third parties may harm our competitive position. Our inability to detect unauthorized use or take appropriate or timely steps to enforce our intellectual property rights may harm our business.

Also, third parties may claim that our business operations infringe on their intellectual property rights. These claims may harm our reputation, cost us money to defend, distract the attention of our management and prevent us from offering some services.

Confidential intellectual property is increasingly stored or carried on mobile devices, such as laptop computers, which increases the risk of inadvertent disclosure where the mobile devices are lost or stolen and the information has not been adequately safeguarded or encrypted. This also makes it easier for someone with access to our systems, or someone who gains unauthorized access, to steal information and use it to our disadvantage. Advances in technology, which permit increasingly large amounts of information to be stored on mobile devices or on third party “cloud” servers, may exacerbate these risks.

We may fail to comply with section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to section 404 of The Sarbanes-Oxley Act of 2002 and the related rules of the SEC, which generally require our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting. Although our management has concluded that our internal control over financial reporting was effective as of December 31, 2012 and our independent registered public accounting firm has issued an unqualified report as to the same, our management or our independent registered public accounting firm may not be able to come to the same conclusion in future periods. During the course of the review and testing of our internal controls, we may identify deficiencies and weaknesses and be unable to remediate them before we must provide the required reports. If our management or our independent registered public accounting firm is unable to conclude on an ongoing basis that we have effective internal control over financial reporting, our operating results may suffer, investors may lose confidence in our reported financial information and the trading price of our stock may fall.

Risks Related to Ownership of Our Common Stock

Our directors and officers and their affiliates are significant stockholders, which makes it possible for them to have significant influence over the outcome of all matters submitted to stockholders for approval and which influence may be in conflict with our interests and the interests of our other stockholders.

As of December 31, 2012 our directors and executive officers and their respective affiliates owned an aggregate of approximately 32% of the outstanding shares of our common stock. These stockholders will have significant influence over the outcome of all matters submitted for stockholder approval, including the election of our directors and other corporate actions. In addition, such influence by one or more of these affiliates could have the effect of discouraging others from attempting to purchase or take us over and/or reducing the market price offered for our common stock in such an event.

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We may issue additional equity securities which may dilute your interest in us.

In order to expand our business, we may consider offering and issuing additional equity or equity-based securities. Investors in our common stock may experience dilution to the extent of the difference between the price per share paid by investors to purchase our common stock and the net tangible book value per share. The number of shares that we may issue for cash in non-public offerings without stockholder approval will be limited by the rules of the NYSE or other exchange on which our securities are listed. However, we may issue and sell shares of our common stock in public offerings, and there generally are exceptions that allow companies to issue a limited number of equity securities in private offerings without stockholder approval, which could dilute your ownership.

The price of our common stock may be volatile.

The trading price of our common stock has historically been and may in the future continue to be volatile due to factors such as:

- changes in real estate prices;
- actual or anticipated fluctuations in our quarterly and annual results and those of our publicly held competitors;
- mergers and strategic alliances among any real estate companies;
- market conditions in the industry;
- changes in government regulation and taxes;
- shortfalls in our operating results from levels forecasted by securities analysts;
- investor sentiment toward the stock of real estate companies in general;
- announcements concerning us or our competitors; and
- the general state of the securities markets.

Our common stock may be delisted, which could limit your ability to trade our common stock and subject us to additional trading restrictions.

Our common stock is listed on the NYSE, a national securities exchange. We cannot assure you that our common stock will continue to be listed on the NYSE in the future. If the NYSE delists our common stock from trading on its exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our common stock;
- a limited amount of news and analyst coverage for our company;
- a decreased ability for us to issue additional securities or obtain additional financing in the future; and
- limited liquidity for our stockholders due to thin trading.

Our staggered board may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders and certain anti-takeover provisions in our organizational documents may discourage a change in control.

Our second amended and restated certificate of incorporation provides for our board of directors to be divided into three classes, each of which generally serves for a term of three years with only one class of directors being elected in each year. As a result, at any annual meeting only a minority of the board of directors will be considered for election. Since this “staggered board” would prevent our stockholders from replacing a majority of our board of directors at any annual meeting, it may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders. Additionally, certain provisions of our second amended and restated certificate of incorporation and our amended and restated bylaws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in the payment of a premium over the market price for the shares held by stockholders.

In addition, Section 203 of the Delaware General Corporation Law may, under certain circumstances, make it more difficult for a person who would be an “interested stockholder” to effect a “business combination” with us for a three-year period. An “interested stockholder” generally is defined as any entity or person that beneficially owns 15% or more of our outstanding voting stock or any entity or person that is an affiliate or associate of such entity or person. A “business combination” generally is defined to include, among other transactions, mergers, consolidations and certain other transactions, including sales, leases or other dispositions of assets with an aggregate market value equal to 10% or more of the aggregate market value of the corporation.

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These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many stockholders. As a result, stockholders may be limited in their ability to obtain a premium for their shares.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table sets forth certain information regarding our wholly owned properties at December 31, 2012:

Consolidated Properties by Region

| Commercial | Square Feet | Ending % Occupancy | | Annualized Rents [1] | # of Properties |
|---|---|---|---|---|---|
| Western U.S. | 557,762 | 68.2 | % | $6,871,000 | 6 |
| Japan | 9,633 | 100.0 | % | 483,000 | 1 |
| Total Commercial | 567,395 | 68.7 | % | 7,354,000 | 7 |

| Multifamily | Units | Ending % Leased | | Annualized Rents [1] | # of Properties |
|---|---|---|---|---|---|
| Western U.S. | 965 | 95.3 | % | 11,937,000 | 4 |
| Total Multifamily | 965 | 95.3 | % | $11,937,000 | 4 |

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[1] Represents annualized cash base rent (i.e. excludes tenant reimbursements and other revenue)

Consolidated Properties by Region

| | Units | Acres | # of Properties |
|---|---|---|---|
| Residential | | | |
| Western U.S. | 3 | 0.6 | 2 |
| Other | 44 | — | 1 |
| Land | | | |
| Western U.S. | — | 2,720.5 | 4 |
| Total Residential and Land | 47 | 2,721.1 | 7 |

Our corporate headquarters is located in Beverly Hills, California. We also have 23 other offices throughout the United States, including our disaster recovery office in Austin, Texas, one office in London, England, one office in Dublin, Ireland, One office in Madrid, Spain and one office in Tokyo, Japan. The Beverly Hills office operates as the main investment and asset management center for us in the United States, while the United Kingdom, Ireland, and Japan offices are the main investment and asset management center for the respective British, Irish, and Japanese operations. The remaining office locations primarily operate as property management satellites. In general, we lease all of our offices. In addition, we have on-site property management offices located within properties that we manage. The most significant terms of the leasing arrangements for our offices are the length of the lease and the rent. Our leases have terms varying in duration. The rent payable under our office leases vary significantly from location to location as a result of differences in prevailing commercial real estate rates in different geographic locations. Our management believes that except as provided below, no single office lease is material to our business, results of operations or financial condition. In addition, our management believes there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our profits in those markets when we enter into new leases.

The following table sets forth certain information regarding our corporate headquarters and regional office located in Austin, Texas.

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| Location | Use | Approximate Square Footage | Lease Expiration |
|---|---|---|---|
| Beverly Hills, CA | Corporate Headquarters | 20,236 | 12/31/16 |
| Austin, TX | Regional Office; Disaster Recovery Office | 6,864 | 7/31/17 |

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price Information

From December 3, 2007 to March 18, 2010, our common stock traded on the NYSE Amex. Since March 19, 2010, our common stock has traded on the NYSE under the symbol "KW." The following table sets forth, for the calendar quarter indicated, the high and low sales prices per share of common stock as reported on the NYSE. The quotations listed below reflect interdealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

| | Common Stock | |
|---|---|---|
| | High | Low |
| Fiscal year 2012 | | |
| Quarter ended March 31, 2012 | $14.42 | $10.68 |
| Quarter ended June 30, 2012 | $14.40 | $12.70 |
| Quarter ended September 30, 2012 | $14.60 | $13.16 |
| Quarter ended December 31, 2012 | $14.20 | $11.89 |
| Fiscal year 2011 | | |
| Quarter ended March 31, 2011 | $11.02 | $9.90 |
| Quarter ended June 30, 2011 | $12.30 | $10.70 |
| Quarter ended September 30, 2011 | $12.55 | $10.40 |
| Quarter ended December 31, 2011 | $12.79 | $10.25 |

Holders

As of March 5, 2013, we had 85 holders of record of our common stock and five holders of record of our warrants.

Dividend Policy

Beginning in the second quarter of 2011, we began paying quarterly dividends on our common stock. We declared and paid one quarterly dividend of $0.03 and two quarterly dividends $0.04 per share of common stock in 2011 and four quarterly dividends of $0.05 per share of common stock in 2012.

Cumulative dividends on our Series A and Series B Preferred Stock accrue at an annual rate of 6.00% and 6.452%, respectively, of the purchase price, subject to adjustment under certain circumstances. The dividends are payable quarterly in arrears when, as and if declared by our board of directors. The declaration and payment of any future dividends is at the sole discretion of our board of directors and will depend on, among other things, our operating results, overall financial condition, capital requirements and general business conditions.

Recent Sales of Unregistered Securities

None

Equity Compensation Plan Information

See Item 12—"Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Performance Graph

The graph below compares the cumulative total return of our common stock from December 31, 2007 through December 31, 2012, with the comparable cumulative return of companies comprising the S&P 500 Index and a peer issuer selected by us. The peer issuer is a company in the real estate services and investment industry. Because this peer issuer became a comparable on November 13, 2009, the performance of our common stock relative to the performance of the common stock of the peer issuer prior to November 13, 2009 may not be representative of future results. The graph plots the growth in value of an initial investment of $100 in each of our common stock, the S&P 500 Index and the peer issuer selected by us over the indicated time periods, and

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assumes reinvestment of all dividends, if any, paid on the securities. The stock price performance shown on the graph is not necessarily indicative of future price performance.
Note: The peer, CB Richard Ellis, is a comparable beginning November 13, 2009.

The information under this caption, "Performance Graph," is deemed not to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that such filing specifically states otherwise.

Purchases of Equity Securities by the Company and Affiliated Purchasers in the Fourth Quarter of 2012

| Period | Total Number of Warrants Purchased | | Average Price Paid per Warrant | Total Number of Warrants Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Warrants that May be Purchased under the Plans or Programs |
|---|---|---|---|---|---|
| Warrants | | | | | |
| October 1 to October 31 | — | | $— | — | 5,934,144 |
| November 1 to November 30 | — | | — | — | 5,934,144 |
| December 1 to December 31 | 111,400 | (1) | 1.93 | 111,400 | 5,822,744 |

(1) Warrants repurchased under a plan announced April 30, 2010, approving the repurchase of up to 7.5 million outstanding warrants. On September 21, 2010, the Board of Directors approved an increase to the number of warrants subject to the plan by 5 million.

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Item 6. Selected Financial Data

The following tables summarize our selected historical consolidated financial information. This information was derived from our audited financial statements for each of the years ended December 31, 2012, 2011, 2010, 2009 and 2008. This information is only a summary. You should read this information together in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this document.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Statements of operations data and dividends: | | | | | |
| Revenue | $64,056,000 | $62,633,000 | $50,536,000 | $86,235,000 | $32,225,000 |
| Merger-related expenses | — | — | 2,225,000 | 16,120,000 | — |
| Other operating expenses | 91,495,000 | 66,052,000 | 67,712,000 | 78,752,000 | 32,571,000 |
| Equity in joint venture income | 21,527,000 | 12,507,000 | 10,548,000 | 8,019,000 | 10,097,000 |
| Interest income from loan pool participations and notes receivable | 9,256,000 | 7,886,000 | 11,855,000 | — | — |
| Net income (loss) | 6,839,000 | 7,478,000 | 6,485,000 | (9,657,000) | 667,000 |
| Basic earnings (loss) per share | (0.07) | (0.05) | (0.03) | (0.57) | 0.03 |
| Dividends declared per share of common stock | 0.20 | 0.11 | — | — | — |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Balance sheet data: | | | | | |
| Cash and cash equivalents | $120,855,000 | $115,926,000 | $46,968,000 | $57,784,000 | $25,831,000 |
| Real estate, net of accumulated depreciation | 289,449,000 | 115,880,000 | 82,701,000 | 40,581,000 | 48,727,000 |
| Investments in joint ventures (separate JVs) | 832,642,000 | 459,247,000 | 349,587,000 | 228,305,000 | 190,915,000 |
| Investments in loan pool participations | 95,601,000 | 89,951,000 | 25,218,000 | — | — |
| Total assets | 1,283,789,000 | 792,776,000 | 487,848,000 | 336,257,000 | 256,837,000 |
| Mortgage loans and notes payable | 236,538,000 | 30,748,000 | 60,032,000 | 50,101,000 | 50,736,000 |
| Unsecured corporate debt | 449,640,000 | 289,385,000 | 67,750,000 | 77,472,000 | 80,687,000 |
| Total debt | 686,178,000 | 320,133,000 | 127,782,000 | 127,573,000 | 131,423,000 |
| Kennedy Wilson equity | 509,644,000 | 410,235,000 | 300,192,000 | 177,314,000 | 105,551,000 |
| Total equity | $518,780,000 | $413,568,000 | $312,906,000 | $179,336,000 | $105,802,000 |

Business Combinations

See Note 4 in our Notes to the Consolidated Financial Statements for discussion of the business combinations that occurred during the years ended December 31, 2012 and 2011.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See the section title "Forward-Looking Statements" for more information. Actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in “Risk Factors” on page 5 and elsewhere in this report.

Overview

Founded in 1977, we are an international real estate investment and services firm. We are a vertically integrated real estate operating company with approximately 340 professionals in 24 offices throughout the United States, the United Kingdom, Ireland, Spain and Japan.

Unless specifically noted otherwise, as used throughout this Management’s Discussion and Analysis section, “we,” “our,” 'Company" or “us” refers to the business, operations and financial results of Kennedy-Wilson Holdings, Inc., unless the context requires otherwise.

Kennedy Wilson's 2012 Highlights

Operating metrics

- During the three months ended December 31, 2012, the Company achieved an adjusted EBITDA of $44.9 million, a 51% increase from $29.7 million for the same period in 2011.
- During the year ended December 31, 2012, the Company achieved an adjusted EBITDA of $100.3 million, a 41% increase from $71.2 million for the same period in 2011.

Investments business

Investment Account

- As of December 31, 2012, our investment account (Kennedy Wilson's equity in real estate, joint ventures, loan investments and marketable securities, less mortgage debt) increased by 42% to $828.3 million from $582.8 million at December 31, 2011. This change was comprised of approximately $469.6 million (including $230.3 million during the fourth quarter) of cash contributed to, offset by income earned on investments and approximately $224.0 million (including $60.0 million during the fourth quarter) of cash distributed from investments.
- As of December 31, 2012, the Company and its equity partners owned 16.1 million rentable square feet of real estate including 14,764 apartment units and 30 commercial properties. Additionally, as of December 31, 2012, the Company and its equity partners owned $2.2 billion in loans secured by real estate and over 3,300 acres of land.

Operating metrics

- During the three months ended December 31, 2012, our investments business achieved an Adjusted EBITDA of $42.0 million, a 159% increase from $16.1 million for the same period in 2011.
- During the year ended December 31, 2012, our investments business achieved an Adjusted EBITDA of $88.5 million, a 68% increase from $52.7 million for the same period in 2011.
- During the year ended December 31, 2012, based on 9,015 same property multifamily units, rental revenues and net operating income increased by 3.6% and 5.9%, respectively, while percentage leased decreased by 0.2% from 2011. In addition, based on 2.2 million square feet of same property commercial real estate, rental revenues, net operating income and occupancy increased by 9.9%, 13.2% and 5.1%, respectively.

Acquisition/disposition program

- From January 1, 2010 through December 31, 2012, the Company and its equity partners, acquired approximately $8.0 billion of real estate related investments (includes unpaid principal balance of loan purchases). During 2012, the Company and its equity partners acquired $2.9 billion of real estate related investments. This includes $1.4 billion of real estate and $1.5 billion of loans secured by real estate in which we invested $206.1 million and $196.2 million, respectively.
- During the year ended December 31, 2012, the Company and its equity partners sold six multifamily properties (through property sales and sale of equity interest) located in the Western U.S. for a total of $251.7 million, which

resulted in a total gain of $33.7 million, of which our share was $10.1 million ($20.7 million of our equity invested).

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Property level debt financing

- During the year ended December 31, 2012, the Company and its equity partners completed approximately $928.7 million of property financings and re-financings at an average interest rate of 3.8% and a weighted average maturity of 6.0 years.
- During the year ended December 31, 2011, the Company and its equity partners completed approximately $1.6 billion of property financings and re-financings at an average interest rate of 4.2% and a weighted average maturity of 3.3 years.

Key Investment Updates

UK Loan Pool

- Our current equity in this investment is $60.4 million; we own 12.5% before carried interest.
- In December 2011, we and our equity partners acquired a loan pool secured by real estate located in the United Kingdom with an unpaid principal balance of $2.1 billion. As of December 31, 2012, the unpaid principal balance was $765.8 million due to loan resolutions of approximately $1.3 billion, representing 64% of the pool. The total debt incurred at the venture level at the time of purchase of these loans was $323.4 million with a maturity date of October 2014. As a result of the loan resolutions, the venture level debt has been paid down by $297.6 million to $25.8 million as of December 31, 2012.

KW Residential, LLC

- Our current equity in this investment is $102.7 million; we own 40.9% before carried interest.
- Maintained 96.4% occupancy in 50 apartment buildings with over 2,400 units.
- Since Fairfax Financial became our partner in the Japanese apartment portfolio in September 2010, we have distributed a total of $56.5 million, of which our share was $26.4 million.

Services business

- Management and leasing fees and commissions decreased by 42% to $17.8 million for the three months ended December 31, 2012 from $30.8 million for the same period in 2011.
- During the three months ended December 31, 2012, our services business achieved an EBITDA of $9.0 million, a 53% decrease from $19.2 million for the same period in 2011.
- Management and leasing fees and commissions decreased by 7% to $53.3 million for the year ended December 31, 2012 from $57.1 million for the same period in 2011. Included in management and leasing fees and commissions for the year ended December 31, 2012 and 2011 are $4.4 million and $21.6 million, respectively, of acquisition fees related to the acquisition of the Bank of Ireland stock and the UK loan pool in 2011. Excluding the acquisition fees, the Company achieved a 38% increase in management and leasing fees and commissions for the year ended December 31, 2012 as compared to the same period in 2011.
- During the year ended December 31, 2012, our services business achieved an EBITDA of $20.2 million, a 22% decrease from $25.7 million for the same period in 2011. Excluding the acquisition fees related to the acquisition of the Bank of Ireland stock and the UK loan pool in 2011 of $4.4 million and $21.6 million for the year ended December 31, 2012 and 2011, respectively, the Company achieved a 282% increase in its services EBITDA for the year ended December 31, 2012 as compared to the same period in 2011.

Corporate financing

- In July 2012, the Company issued 8.6 million shares of common stock primarily to institutional investors, resulting in gross proceeds of $112.1 million, of which $40.0 million was used to pay off the outstanding balance on our line of credit.
- During the three months ended December 31, 2012, the Company issued $155.0 million of senior notes.

Subsequent events

- Subsequent to December 31, 2012, we have acquired or have entered into contracts to acquire approximately $1.2 billion of real estate related investments which include 1.6 million rentable square feet of real estate, comprised of 725 apartment units and one commercial property along with $727.6 million of loans secured by real estate and 301 residential lots. We expect the acquisitions to be joint venture investments.
-

Subsequent to December 31, 2012, KW Residential, LLC settled several Japanese yen related hedges resulting in cash proceeds of $23.7 million to the joint venture, of which our share was $10.6 million.

- In December 2012, we invested $43.6 million of our equity and borrowed $79.3 million to acquire a loan secured by a shopping center in the United Kingdom. Additionally, in partnership with an institutional investor, we acquired a loan pool with an

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unpaid principal balance of $232.3 million, comprised of seven loans secured by 23 underlying properties in the United Kingdom. Our investment in the pool totaled $16.0 million. Subsequent to December 31, 2012, we sold 50% of our interest in both investments to an institutional investor. As a result of the sale, the loan secured by a shopping center will no longer be consolidated.

- During March 2013, we drew $35 million on our unsecured credit facility.

Critical Accounting Policies

Basis of Presentation—The consolidated financial statements include the accounts of ourselves and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, we evaluate our relationships with other entities to identify whether they are variable interest entities (VIE) as defined by FASB Accounting Standards Codification (ASC) Subtopic 810 – Consolidation and to assess whether we are the primary beneficiary of such entities. In determining whether we are the primary beneficiary of a VIE, qualitative and quantitative factors are considered, including, but not limited to: the amount and characteristics of our investments; the obligation or likelihood for us to provide financial support; and our ability to control or significantly influence key decisions for the VIE. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions. As of December 31, 2012, we have determined that we do not have any consolidated investments which are VIEs.

Our investments in unconsolidated subsidiaries in which we have the ability to exercise significant influence over operating and financial policies, but do not control, or entities which are variable interest entities in which we are not the primary beneficiary are accounted for under the equity method. Accordingly, our share of the earnings from these equity-method basis companies are included in our consolidated statements of operations. As of December 31, 2012, we had investments in five unconsolidated subsidiaries which are VIEs in which we are not the primary beneficiary and therefore account for them under the equity method.

Revenue Recognition—Revenue primarily consists of management fees, performance fees, commission revenue, rental income and sales of real estate.

Management fees are primarily comprised of property management fees and base asset management fees. Property management fees are earned for managing the operations of real estate assets and are based on a fixed percentage of the revenues generated from the respective real estate assets. Base asset management fees are earned from limited partners of funds we sponsor and are generally based on a fixed percentage of committed capital or net asset value. These fees are recognized as revenue ratably over the period that the respective services are performed.

Performance fees or carried interest are allocated to the general partner, special limited partner or asset manager of our real estate funds and loan pool participations based on the cumulative performance of the fund and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, we calculate 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 us to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. Substantially all of the carried interest is recognized in equity in joint venture income and substantially all of the performance fees are recognized in management and leasing fees in our consolidated statements of operations. Total performances fees accrued through December 31, 2012 that may be reversed in future periods if there is negative fund performance were $12.8 million. Performance fees recognized during the year ended December 31, 2012 and 2011 were $8.6 million and $4.2 million, respectively.

Commissions primarily consist of acquisition fees, auction and real estate sales commissions and leasing commissions. Acquisition fees are earned for identifying and closing investments on behalf of investors and are based on a fixed percentage of the acquisition price. Acquisition fees are recognized upon the successful completion of an acquisition after all required services have been performed. In the case of auction and real estate sales commissions,

the revenue is generally recognized when escrow closes. In accordance with the guidelines established for Reporting Revenue Gross as a Principal versus Net as an Agent in the ASC Subtopic 605-45, we record commission revenues and expenses on a gross basis. Of the criteria listed in the Subtopic 605-45, we are the primary obligor in the transaction, do not have inventory risk, perform all or part of the service, have credit risk, and have wide latitude in establishing the price of services rendered and discretion in selection of agents and determination of service specifications. Leasing fees that are payable upon tenant occupancy, payment of rent or other events beyond our control are recognized upon the occurrence of such events.

Rental income from operating leases is generally recognized on a straight-line basis over the terms of the leases.

Sales of real estate are recognized at the close of escrow when title to the real property passes to the buyer and there is no continuing involvement in the real property. We follow the requirements for profit recognition as set forth by the Sale of Real Estate ASC Subtopic 360-20.

Real Estate Acquisitions—When acquiring a property, 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 Business Combinations ASC Subtopics 805-10. Acquisition-related costs are expensed as incurred. 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 and the investments in debt securities are valued, in part, based on third party valuations and management estimates also using an income approach.

Investments in Joint Ventures—We have a number of joint venture interests, generally ranging from 5% to approximately 50%, that were formed to acquire, manage, and/or sell real estate. Investments in joint ventures which we do not control are accounted for under the equity method of accounting as we can exercise significant influence, but do not have the ability to control the joint venture. An investment in a joint venture is recorded at its initial investment and is increased or decreased by our share of undistributed income or loss, plus additional contributions and less distributions. A decline in the value of an investments in a joint venture that is other than temporary is recognized when evidence indicates that such a decline has occurred in accordance with Equity Method Investments ASC Subtopic 323-10.

Profits on the sale of real estate held by joint ventures in which we have continuing involvement are deferred until such time that the continuing involvement has been concluded and all the risks and rewards of ownership have passed to the buyer. Profit on sales to joint ventures in which we retain an equity ownership interest results in partial sales treatment in accordance with Sale of Real Estate ASC Subtopic 360-20, thus deferring a portion of the gain as a result of our continuing ownership percentage in the joint ventures.

We have three investments in joint ventures, KW Property Fund III, L.P. (KW Fund III), Kennedy Wilson Real Estate Fund IV, L.P. (Fund IV) and SG KW Venture I, LLC (the Funds) that are investment companies under the Investment Companies ASC Subtopic 946-10. Thus, the Funds reflect their investments at fair value, with unrealized gains and losses resulting from changes in fair value reflected in their earnings. We have retained the specialized accounting for the Funds pursuant to Retention of Specialized Accounting for Investments in Consolidation ASC Subtopic 810-10 in recording its equity in joint venture income from the Funds.

Additionally, we elected the fair value option for two investments in joint venture entities that were acquired during 2008. We elected to record these investments at fair value to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations.

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

Fair Value Measurements—We account for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis under the provisions of Fair Value Measurements ASC Subtopic 820-10. Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Derivative Instruments and Hedging Activities—We have joint ventures that hold derivatives to reduce our exposure to foreign currencies. We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value and the changes in fair value must be reflected as income or expense. If the derivative qualifies for hedge accounting, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or

recognized in other comprehensive income, which is a component of the stockholders' equity accounts. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

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Earnings per Share—Basic earnings per share is computed based upon the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per share is computed based upon the weighted average number of shares of common stock and potentially dilutive securities outstanding during the periods presented. The dilutive impact of potentially dilutive securities including warrants, convertible securities, and unvested stock which were outstanding during the period is calculated by the "treasury stock" method.
Share-Based Payment Arrangements—We account for our share-based payment arrangements under the provisions of Share-Based Payments ASC Subtopic 718-10. Compensation cost for employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the share-based award that is ultimately settled in our equity. The cost of employee services are recognized over the period during which an employee provides service in exchange for the share-based payment award. Share-based payment arrangements that vest ratably over the requisite service period are recognized on the straight-line basis and performance awards that vest ratably are recognized on a tranche-by-tranche basis over the performance period. Unrecognized compensation costs for share-based payment arrangements that have been modified are recognized over the original service or performance period.

Fair Value Option—We account for financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings in accordance with the provisions of Fair Value Measurements and Disclosures ASC Subtopic 820-10.
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 Accounting for Uncertainty in Income Taxes ASC Subtopic 740-10, we recognize 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.
We record interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

Results of Operations
The following table sets forth items derived from our consolidated statement of operations for the years ended December 31, 2012, 2011, and 2010:

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| | Year Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Revenue | | | |
| Management and leasing fees | $40,304,000 | $27,116,000 | $21,330,000 |
| Commissions | 12,955,000 | 29,960,000 | 11,734,000 |
| Sale of real estate | 2,271,000 | 417,000 | 13,472,000 |
| Rental and other income | 8,526,000 | 5,140,000 | 4,000,000 |
| Total revenue | 64,056,000 | 62,633,000 | 50,536,000 |
| Operating expenses | | | |
| Commission and marketing expenses | 4,550,000 | 3,965,000 | 3,186,000 |
| Compensation and related expenses | 55,834,000 | 41,129,000 | 38,155,000 |
| Merger related expenses | — | — | 2,225,000 |
| Cost of real estate sold | 2,230,000 | 397,000 | 11,526,000 |
| General and administrative | 19,448,000 | 14,455,000 | 11,314,000 |
| Depreciation and amortization | 4,937,000 | 2,798,000 | 1,618,000 |
| Rental operating expense | 4,496,000 | 3,308,000 | 1,913,000 |
| Total operating expenses | 91,495,000 | 66,052,000 | 69,937,000 |
| Equity in joint venture income | 21,527,000 | 12,507,000 | 10,548,000 |
| Interest income from loan pool participations and notes receivable | 9,256,000 | 7,886,000 | 11,855,000 |
| Operating income | 3,344,000 | 16,974,000 | 3,002,000 |
| Non-operating income (expense) | | | |
| Interest income | 2,938,000 | 2,306,000 | 854,000 |
| Acquisition related gains | 25,476,000 | 6,348,000 | 2,108,000 |
| Gain on sale of marketable securities | 4,353,000 | — | — |
| Gain on early extinguishment of mortgage debt | — | — | 16,670,000 |
| Loss on early extinguishment of corporate debt | — | — | (4,788,000) |
| Acquisition related expenses | (675,000) | — | — |
| Interest expense | (28,595,000) | (20,507,000) | (7,634,000) |
| Income from continuing operations before benefit from (provision for) income taxes | 6,841,000 | 5,121,000 | 10,212,000 |
| Benefit from (provision for) income taxes | 208,000 | 2,014,000 | (3,727,000) |
| Income from continuing operations | 7,049,000 | 7,135,000 | 6,485,000 |
| Income from discontinued operations, net of income taxes | 2,000 | 8,000 | — |
| (Loss) gain from sale of real estate, net of income taxes | (212,000) | 335,000 | — |
| Net income | 6,839,000 | 7,478,000 | 6,485,000 |
| Net income attributable to the noncontrolling interests | (2,589,000) | (1,132,000) | (2,979,000) |
| Net income attributable to Kennedy-Wilson Holdings, Inc. | 4,250,000 | 6,346,000 | 3,506,000 |
| Preferred stock dividends and accretion of issuance costs | (8,144,000) | (8,744,000) | (4,558,000) |
| Net loss attributable to Kennedy Wilson Holdings, Inc. common shareholders | $(3,894,000) | $(2,398,000) | $(1,052,000) |
| EBITDA [1] | $92,174,000 | $66,122,000 | $48,108,000 |
| Adjusted EBITDA [2] | $100,321,000 | $71,177,000 | $58,427,000 |

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[1] EBITDA represents net income before interest expense, our share of interest expense included in income from investments in joint ventures and loan pool participations, depreciation and amortization, our share of depreciation and amortization included in income from investments in joint ventures, loss on early extinguishment of corporate debt and income taxes. We do not adjust EBITDA for gains or losses on the extinguishment of mortgage debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we

may resolve these loans through discounted payoffs with the borrowers. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the

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accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

(2) Adjusted EBITDA represents EBITDA, as defined above, adjusted to exclude acquisition and merger related expenses and stock based compensation expense. Our management uses Adjusted EBITDA to analyze our business because it adjusts EBITDA for items we believe do not have an accurate reflection of the nature of our business going forward. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

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

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

| | Three months ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Investments | | |
| Rental and other income and sale of real estate | $5,090,000 | $1,781,000 |
| Operating expenses | (19,159,000) | (7,019,000) |
| Equity in joint venture income | 9,055,000 | 5,278,000 |
| Income from loan pool participations and notes receivable | 2,130,000 | 2,051,000 |
| Operating (loss) income | (2,884,000) | 2,091,000 |
| Interest income - related party | 397,000 | 2,021,000 |
| Acquisition related gain | 25,476,000 | — |
| Gain on sale of marketable securities | 1,422,000 | — |
| Acquisition-related expenses | — | — |
| Interest expense | (1,983,000) | (1,327,000) |
| Income from continuing operations | 22,428,000 | 2,785,000 |
| Income from discontinued operations, net of income taxes | — | 8,000 |
| Gain from sale of real estate, net of income taxes | — | 335,000 |
| Net income | 22,428,000 | 3,128,000 |
| Add back: | | |
| Interest expense | 1,983,000 | 1,327,000 |
| Kennedy Wilson's share of interest expense included investment in joint ventures and loan pool participation | 6,048,000 | 8,472,000 |
| Depreciation and amortization | 1,889,000 | 851,000 |
| Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures | 9,614,000 | 2,342,000 |
| EBITDA | $41,962,000 | $16,120,000 |

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| | Three months ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Services | | |
| Management and leasing fees and commissions | $17,786,000 | $30,839,000 |
| Operating expenses | (8,837,000) | (11,658,000) |
| Operating income | 8,949,000 | 19,181,000 |
| Net income | 8,949,000 | 19,181,000 |
| Add back: | | |
| Depreciation and amortization | 54,000 | 45,000 |
| EBITDA | $9,003,000 | $19,226,000 |

| | Three Months Ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Net income | $10,496,000 | $9,830,000 |
| Non-GAAP adjustments: | | |
| Add back: | | |
| Interest expense | 8,616,000 | 6,634,000 |
| Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participations | 6,048,000 | 8,472,000 |
| Depreciation and amortization | 2,034,000 | 970,000 |
| Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures | 9,614,000 | 2,342,000 |
| Provision for (benefit from) income taxes | 4,913,000 | 148,000 |
| EBITDA | 41,721,000 | 28,396,000 |
| Stock-based compensation | 3,147,000 | 1,294,000 |
| Adjusted EBITDA | $44,868,000 | $29,690,000 |

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| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Net income | $6,839,000 | $7,478,000 | $6,485,000 |
| Add back: | | | |
| Interest expense | 28,595,000 | 20,507,000 | 7,634,000 |
| Kennedy-Wilson's share of interest expense included in investment in joint ventures and loan pool participations | 29,412,000 | 23,453,000 | 13,802,000 |
| Depreciation and amortization | 4,937,000 | 2,798,000 | 1,618,000 |
| Kennedy-Wilson's share of depreciation and amortization included in investment in joint ventures | 22,599,000 | 13,900,000 | 10,054,000 |
| Loss on early extinguishment of corporate debt | — | — | 4,788,000 |
| (Benefit from) provision for income taxes | (208,000) | (2,014,000) | 3,727,000 |
| EBITDA [1] | 92,174,000 | 66,122,000 | 48,108,000 |
| Add back: | | | |
| Merger related expenses, including compensation related and general and administrative | — | — | 2,225,000 |
| Stock based compensation | 8,147,000 | 5,055,000 | 8,094,000 |
| Adjusted EBITDA [2] | $100,321,000 | $71,177,000 | $58,427,000 |

[1] [2] See definitions in previous discussion.

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The following summarizes revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculates EBITDA[1] and Adjusted EBITDA[2] by our investments, services and corporate operating segments years ended December 31, 2012, 2011, and 2010:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Investments | | | |
| Rental and other income and sale of real estate [3] | $10,797,000 | $5,557,000 | $17,472,000 |
| Operating expenses | 41,247,000 | 21,722,000 | 27,585,000 |
| Equity in income of joint ventures | 21,527,000 | 12,507,000 | 10,548,000 |
| Interest income from loan pool participations and notes receivable | 9,256,000 | 7,886,000 | 11,855,000 |
| Operating income | 333,000 | 4,228,000 | 12,290,000 |
| Interest income - related party | 2,805,000 | 2,021,000 | — |
| Acquisition related gain | 25,476,000 | 6,348,000 | 2,108,000 |
| Gain on sale of marketable securities | 4,353,000 | — | — |
| Gain on extinguishment of debt | — | — | 16,670,000 |
| Acquisition-related expenses | (675,000) | — | — |
| Interest expense | (2,460,000) | (1,552,000) | (676,000) |
| Income from continuing operations | 29,832,000 | 11,045,000 | 30,392,000 |
| Discontinued operations | | | |
| Income from discontinued operations, net of income taxes | 2,000 | 8,000 | — |
| (Loss) gain from sale of real estate | (212,000) | 335,000 | — |
| Income before provision for income taxes | 29,622,000 | 11,388,000 | 30,392,000 |
| Non-GAAP adjustments: | | | |
| Add back: | | | |
| Interest expense | 2,460,000 | 1,552,000 | 676,000 |
| Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participation | 29,412,000 | 23,453,000 | 13,802,000 |
| Depreciation and amortization | 4,427,000 | 2,420,000 | 1,342,000 |
| Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures | 22,599,000 | 13,900,000 | 10,054,000 |
| EBITDA [1] | $88,520,000 | $52,713,000 | $56,266,000 |

[1] [2] See definitions in previous discussion.
[3] Consolidated results

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Services | | | |
| Management and leasing fees and commissions | $53,259,000 | $57,076,000 | $33,064,000 |
| Operating expenses | 33,248,000 | 31,499,000 | 23,701,000 |
| Operating income | 20,011,000 | 25,577,000 | 9,363,000 |
| Income before provision for income taxes | 20,011,000 | 25,577,000 | 9,363,000 |
| Non-GAAP adjustments: | | | |
| Add back: | | | |
| Depreciation and amortization | 161,000 | 143,000 | 117,000 |
| EBITDA and Adjusted EBTIDA [1] [2] | $20,172,000 | $25,720,000 | $9,480,000 |

[1] [2] See definitions in previous discussion.

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| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Corporate: | | | |
| Operating expenses | (17,000,000 ) | (12,831,000 ) | (18,651,000 ) |
| Operating loss | (17,000,000 ) | (12,831,000 ) | (18,651,000 ) |
| Interest income | 133,000 | 285,000 | 192,000 |
| Interest income - related party | — | — | 662,000 |
| Loss on early extinguishment of debt | — | — | (4,788,000 ) |
| Interest expense | (26,135,000 ) | (18,955,000 ) | (6,958,000 ) |
| Provision for (benefit from) income taxes | 208,000 | 2,014,000 | (3,727,000 ) |
| Net loss | (42,794,000 ) | (29,487,000 ) | (33,270,000 ) |
| Non-GAAP adjustments: | | | |
| Add back: | | | |
| Interest expense | 26,135,000 | 18,955,000 | 6,958,000 |
| Depreciation and amortization | 349,000 | 235,000 | 159,000 |
| Loss on early extinguishment of debt | — | — | 4,788,000 |
| Benefit from (provision) for income taxes | (208,000 ) | (2,014,000 ) | 3,727,000 |
| EBITDA [1] | (16,518,000 ) | (12,311,000 ) | (17,638,000 ) |
| Add back: | | | |
| Merger related expenses, including compensation related and general and administrative | — | — | 2,225,000 |
| Stock based compensation | 8,147,000 | 5,055,000 | 8,094,000 |
| Adjusted EBITDA [2] | $(8,371,000 ) | $(7,256,000 ) | $(7,319,000 ) |

[1] [2] See definitions in previous discussion.

The following compares results of operations for the years ended December 31, 2012 and December 31, 2011 and years ended December 31, 2011 and December 31, 2010.

Our Consolidated Financial Results and Comparison of the years ended December 31, 2012 and 2011

Our revenues for the year ended December 31, 2012 and 2011 were $64.1 million and $62.6 million, respectively. Total operating expenses for the same periods were $91.5 million and $66.1 million, respectively. Net loss attributable to our common shareholders was $3.9 million and $2.4 million in 2012 and 2011, respectively. EBITDA was $92.2 million and $66.1 million in 2012 and 2011, respectively. Adjusted EBITDA was $100.3 million and $71.2 million in 2012 and 2011, respectively. The Company achieved a 39% increase in EBITDA and a 41% increase in adjusted EBITDA for the year ended December 31, 2012 as compared to the same period in 2011.

Revenues

Investments Segment Revenues

Rental and other income increased to $8.5 million in 2012 from $5.1 million in 2011. The $3.4 million increase is primarily due to the acquisition of three apartment buildings and one office building in the Western United States during 2012. Additionally, we acquired an approximately 200,000 square foot office portfolio in Oakland, California in the latter half of 2011 which contributed to the increase in rental and other income in 2012.

During the year ended December 31, 2012, we sold five condominium units generating $2.3 million of proceeds from the sale of real estate. During the year ended December 31, 2011, we sold a land parcel in Kent, Washington, generating $0.4 million of proceeds in sale of real estate.

Services Segment Revenues

Third Party Services - These are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

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Our third party management and leasing services increased to $15.8 million during the year ended December 31, 2012 as compared to approximately $12.6 million for the same period in 2011. The $3.2 million or 26% increase primarily relates to our acquisitions of the real estate investment management division of the Bank of Ireland in the latter half of 2011 which provided asset management fees of $3.2 million during the year ended December 31, 2012 as compared to approximately $1.4 million for the same period in 2011. In addition, in March 2012, we acquired a real estate consultancy firm specializing in capital sourcing and real estate research for the single family homebuilding and multifamily apartment industries which generated $1.2 million in management fees.
Our third party commission revenues was at $5.0 million in 2012 as compared to approximately $5.8 million in 2011. During 2012 we had a decrease in auction sales as compared to 2011. Our auction services business has historically been countercyclical and improvements in general economic conditions may cause auction service revenues to decrease.
Related Party Services - These are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interest.
Our related party management and leasing services generated revenues of $24.5 million in 2012 compared to approximately $14.5 million in 2011. The $10.0 million, or 68%, increase primarily relates to our acquisition of the U.K.-based loan pool in the latter half of 2011, which provided additional asset management fees of $8.4 million in 2012. In addition, as a result of our acquisition activity in the latter half of 2011 and during 2012, we have generated an additional $1.6 million in management and leasing fees.
In 2012, our related party commission revenues were $7.9 million compared to approximately $24.2 million in 2011. Our commission revenues are primarily driven by fees related to the acquisition of the $2.1 billion U.K.-based loan portfolio. During 2012, we recognized $4.4 million of acquisition fees related to certain debt hurdles achieved in the U.K.-based loan portfolio as compared to $13.3 million in 2011. During 2011, we received $8.3 million of fees related to the $1.5 billion recapitalization of the Bank of Ireland. We did not received such fees in 2012.
Operating Expenses
Investments Segment Operating Expenses
Operating expenses for the year ended December 31, 2012 increased to $41.2 million compared to $21.7 million for the same period in 2011. The increase is attributable to the following:
Compensation and related expenses increased by $10.8 million and general and administrative expenses increased by $3.7 million due to growth in the Company, including an increase in personnel, particularly due to our expansion in the United Kingdom and Ireland, to source and execute on acquisition opportunities. We began our operations in the United Kingdom and Ireland in June 2011 and have doubled our headcount there since December 31, 2011.
Rental operating expenses increased by $1.2 million and depreciation and amortization increased by $2.0 million due to the acquisition of three apartment buildings and one office building in the Western United States during 2012. Additionally, we acquired an approximate 200,000 square foot office portfolio in Oakland, California in the latter half of 2011 which contributed to the increase in rental operating expenses and depreciation and amortization in 2012.
During the year ended December 31, 2012 we sold five condominium units which resulted in $2.2 million of sale-related costs. During the year ended December 31, 2011, a land parcel in Kent, Washington was sold which resulted in $0.4 million of sale-related costs.
Services Segment Operating Expenses
Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2012 were approximately $33.1 million as compared to $31.4 million for the same period in 2011. The increase is attributable to the following:
Commissions and marketing expenses increased by $0.6 million as a result of an increase in third party services used to generate new business.
General and administrative expenses increased by $1.2 million primarily due to the growth of our company specifically in the United Kingdom and Ireland. We began our operations in the United Kingdom and Ireland in June 2011 and have doubled our headcount there since December 31, 2011.
Corporate Operating Expenses

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Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2012 were approximately $16.7 million as compared to $12.6 million for the same period in 2011. Compensation and related expenses increased by $3.9 million primarily due to the growth of our company.

Investments Segment Equity in Joint Venture Income

Equity in joint ventures generated income of $21.5 million for the year ended December 31, 2012, as compared to income of $12.5 million for the same period in 2011. The income in 2012 and 2011 was primarily derived from property sales and fair value gains as further discussed below.

During the year ended December 31, 2012, the Company and its equity partners sold six multifamily properties (through property sales and sale of equity interest) located in the Western United States for a total of $251.7 million, which resulted in a total gain of $33.7 million, of which $10.1 million was a gain to us and $3.0 million to our noncontrolling interest holders. In addition, we recognized $9.4 million of unrealized fair value gains. Included in equity in joint venture income are one-time acquisition costs which are non-recurring. During the year ended December 31, 2012, approximately $2.4 million of acquisition costs were included in equity in joint venture income.

During the year ended December 31, 2011, the joint venture income was primarily attributable to fair value gains recognized in connection with the foreclosure by one of our joint ventures on a first trust deed position it held followed by its taking ownership of a class A multifamily project in San Jose, California, the acquisition of additional membership interests in a joint venture that we account for using the fair value option, the sale of a 286-unit apartment complex in Anaheim, California and unrealized fair value gains.

Our share of depreciation generated at the joint venture level was $22.6 million and $13.9 million for the years ended December 31, 2012 and 2011, respectively. We look at equity in joint venture income plus our share of the joint ventures depreciation to get a better sense of cash generated by our joint venture investments. The aggregate of these amounts were $44.1 million and $26.4 million for the year ended December 31, 2012 and 2011, respectively, representing a 67% increase.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable generated income of $9.3 million in 2012 as compared to $7.9 million in 2011. During the year ended December 31, 2012, we accreted $8.0 million of interest income on our U.K.-based loan pool. Additionally, we accreted or recognized $6.1 million of interest income from new loan pools or notes originated or acquired in the Western United States. during 2012. These increases were offset by a $4.5 million decrease in accretion income recognized during the same period on a loan pool purchased during 2010 due to an increase in the estimated resolution periods as well as foreclosure on certain underlying real estate collateral. Even with this decrease in accretion we have accreted to date a profit of $4.7 million on this loan pool.

During the year ended December 31, 2011, we accreted $1.4 million of interest income on our U.K.-based loan pool which we acquired in the last quarter of 2011. Additionally we accreted or recognized $5.6 million of interest income from our loan pools in the Western United States.

Non-Operating Items

Acquisition related gains were $25.5 million for the year ended December 31, 2012 compared to $6.3 million for the same period in 2011. The acquisition related gains in 2012 are primarily attributable to a change of control and thereby consolidation of KW Property Fund II, LP, a limited partnership that had been previously accounted for using the equity method. As the fair value was in excess of the carrying value of our equity method ownership interest, we recorded an acquisition related gain in the amount of $22.8 million. The acquisition related gain in 2011 is primarily attributed to a gain recognized in connection with the purchase of an approximately 200,000 square foot office portfolio in Oakland, California with a fair value in excess of the price paid.

Interest expense was $28.6 million in 2012 as compared to $20.5 million in 2011. The increase is primarily attributable to the $250 million senior notes issued in April 2011 and the additional $100 million issued in December 2012 bearing interest at a rate of 8.75% per annum and the $55 million senior notes issued in December 2012 bearing interest at 7.75% per annum. In addition, we incurred additional interest expense associated with the mortgage loans on the acquisition of three apartment buildings and one office building in the Western United States during 2012.

Benefit from income taxes was $0.2 million in 2012 as compared to $2.0 million in 2011.

We had net income of $2.6 million attributable to a non-controlling interest in 2012 compared to $1.1 million in 2011. During 2012 the net income attributable to non-controlling interest holders was primarily due to a gain from the sale of a multifamily

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property. During 2011, a majority of the net income attributable to non-controlling interest holders related to entities which were consolidated at that time. As a result of a restructuring in December 2011, these entities were no longer consolidated as of December 31, 2011.

Our Consolidated Financial Results and Comparison of the years ended December 31, 2011 and 2010

Our revenues for the year ended December 31, 2011 and 2010 were $62.6 million and $50.5 million, respectively. Total operating expenses for the same periods were $66.1 million and $69.9 million, respectively. Net loss attributable to our common shareholders was $2.4 million and $1.1 million in 2011 and 2010, respectively. EBITDA was $66.1 million and $48.1 million in 2011 and 2010, respectively. Adjusted EBITDA was $71.2 million and $58.4 million in 2011 and 2010, respectively. The Company achieved a 37% increase in EBITDA and a 22% increase in adjusted EBITDA for the year ended December 31, 2011 as compared to the same period in 2010.

Revenues

Services Segment Revenues

Third Party Services - These are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

Our third party management and leasing services generated revenues of $12.6 million in 2011 compared to approximately $8.9 million in 2010. The increase primarily relates to our acquisitions of the real estate investment management division of the Bank of Ireland and the U.K.-based loan pool, which provided additional asset management fees of $3.4 million in the year ended December 31, 2011.

In 2011, our third party commission revenues were $5.8 million as compared to approximately $6.4 million in 2010. During 2011 we had a decrease in auction sales as compared to 2010. Our auction services business has historically been countercyclical and improvements in general economic conditions may cause auction service revenues to decrease.

Related Party Services - These are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interests.

Our related party management and leasing services generated revenues of $14.5 million in 2011 compared to approximately $12.4 million in 2010. The increase is due to a full year of asset management fees earned on acquisitions in 2010 and additional fees earned on 2011 acquisitions.

In 2011, our related party commission revenues were $24.2 million compared to approximately $5.4 million in 2010. The increase in commission revenue was primarily driven primarily by $13.3 million of fees related to the acquisition of the $2.1 billion U.K.-based loan portfolio and $8.3 million of fees related to the $1.5 billion recapitalization of the Bank of Ireland.

Investments Segment Revenues

Rental and other income increased to $5.1 million in 2011 from $4.0 million in 2010. The $1.1 million increase is due to Kennedy-Wilson's foreclosure on four assets in the consolidated loan portfolio and the 100% acquisition of equity acquired in an approximately 200,000 square foot office portfolio in Oakland, California in 2011.

Sale of real estate decreased to $0.4 million in 2011 from $13.5 million in 2010. The decrease is primarily attributable to the sale of a controlling interest in land in Kent, Washington in 2011 as compared to the sale of 11 condominium units in southern California and the sale of a 50% interest in an apartment project in northern California in 2010.

Operating Expenses

Operating expenses in 2011 were approximately $65.7 million (not including cost of real estate sold), as compared to $58.4 million in 2010. This increase in operating expenses is a result of the growth in the size of our company as well as the increase in revenues. Revenues before sales of real estate increased approximately 68% in 2011 as compared to 2010 while operating expenses before cost of real estate sold increased only 12% in 2011 as compared to 2010. Additionally, EBITDA and adjusted EBITDA grew by 37% and 22%, respectively, from year over year.

Services Segment Operating Expenses

Commissions and marketing expenses increased to $4.0 million in 2011 from $3.2 million in 2010. The increase is primarily attributable to commissions related to raising capital.

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Compensation and related expenses were approximately $20.6 million in 2011, as compared to $15.4 million in 2010. The increase is primarily attributed to discretionary compensation paid to employees which is commensurate with the increase in our services segment EBITDA and Adjusted EBITDA in 2011 as compared to 2010.

General and administrative expenses were $6.7 million in 2011 as compared to $5.0 million in 2010. The increase is primarily related to increased general and administrative expenses required to support the growth in our company and the associated growth in service revenues.

Investments Segment Operating Expenses

Compensation and related expenses were approximately $11.4 million in 2011 as compared to $9.3 million in 2010. The increase is primarily attributable to discretionary compensation paid to employees.

Cost of real estate sold decreased to $0.4 million in 2011 from $11.5 million in 2010. The decrease is primarily attributable to the sale of a controlling interest in land in Kent, Washington in 2011 as compared to the sale of 11 condominium units in southern California and the sale of a 50% interest in an apartment project in northern California in 2010.

Rental operating expenses in 2011 and 2010 were approximately $3.3 million and $1.9 million, respectively, an increase of 73% from 2010 to 2011. The increase is due to Kennedy-Wilson's foreclosure on four assets in the consolidated loan portfolio and the acquisition of the outstanding partnership interests to achieve ownership of an approximate 200,000 square foot office portfolio in Oakland, California in 2011.

General and administrative expenses were $4.1 million in 2011 as compared to $3.5 million in 2010. The increase is primarily related to increased general and administrative expenses required to support the growth in our company and the associated equity in income generated from our investment segment.

Depreciation and amortization expense increased to $2.4 million in 2011, a 80% increase from $1.3 million in 2010. The increase is primarily attributable to Kennedy-Wilson's foreclosure on four assets in the consolidated loan portfolio and the acquisition of the outstanding partnership interests to achieve ownership of an approximate 200,000 square foot office portfolio in Oakland, California, in 2011.

Corporate Operating Expenses

Compensation and related expenses were approximately $9.1 million in 2011, as compared to $13.4 million in 2010. The decrease is primarily related to $5.1 million of stock compensation expense in 2011 as compared to $8.1 million in 2010 associated with the 2009 Equity Participation Plan.

Merger related expenses were $2.2 million for the year ended December 31, 2010. These were costs incurred in connection with the Merger.

General and administrative expenses were $3.6 million in 2011, as compared to $2.8 million in 2010. The increase is primarily related to increased general and administrative expenses required to support the growth in our company.

Investments Segment Equity in Joint Venture Income

Investments in joint ventures generated income of $12.5 million in 2011, an increase of $2.0 million from income of $10.5 million recorded in 2010, due primarily to $4.3 million of unrealized fair value gains recognized in 2011 versus $6.2 million in 2010. This decrease in fair value gains recognized was offset by improved operating results at the joint venture level due to decreased financing costs achieved in refinances that took place in 2010 and 2011.

Our share of depreciation generated at the joint venture level was $13.9 million and $10.0 million for the years ended December 31, 2011 and 2010, respectively. We look at equity in joint venture income plus our share of the joint ventures depreciation to get a better sense of cash generated by our joint venture investments. The aggregate of these amounts were $26.4 million and $20.6 million for the year ended December 31, 2011 and 2010, respectively, representing a 28% increase.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable generated income of $7.9 million in 2011 as compared to $11.9 million in 2010. This can be attributed to a decrease in accretion income recognized on our loan pools purchased during 2010 due to an increase in the estimated resolution periods as well as foreclosure on certain underlying real estate collateral. Additionally, the 2011 results only include two months of accretion related to our investment in the U.K.-based loan pool.

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Non-Operating Items
Acquisition related gain was $6.3 million for the year ended December 31, 2011 compared to $2.1 million for the same period 2010. The acquisition related gain in 2011 is primarily attributed to a gain recognized in connection with the purchase of a approximate 200,000 square foot office portfolio in Oakland, California with a fair value in excess of the price paid as compared to the purchase of a controlling joint venture interest in a project in Northern California with a fair value in excess of the price paid during the same period in 2010.
We achieved a gain on early extinguishment of debt of $16.7 million in 2010 related to the purchase of debt on a 2,700 acre ranch in Hawaii at a discount. No such gain was recorded in 2011.
Loss on early extinguishment of debt was $4.8 million for 2010. The loss was related to the early extinguishment of convertible subordinated debt at an amount that was above face value and the associated decrease in the value of the beneficial conversion feature. No similar loss was recorded in 2011.
Interest expense was $20.5 million in 2011 as compared to $7.6 million in 2010. The increase is primarily attributable to the $250 million senior notes issued in April 2011 bearing interest at a rate of 8.75%. Additionally, in 2010, we paid off our convertible subordinated note.
Benefit from income taxes was $2.0 million in 2011 as compared to a provision for income taxes of $3.7 million in 2010. During 2011, a majority of our taxable income was earned directly by our Irish subsidiaries which are taxed at the foreign tax rate of 12.5%, resulting in a rate differential and benefit from income taxes. During 2010, a majority of our income was earned directly in the United States which is taxed at the federal rate of approximately 34%.
Income from discontinued operations was $0.3 million in 2011. The income relates to the foreclosure sale of a property from our consolidated loan pool.
We had net income of $1.1 million attributable to a non-controlling interest in 2011 compared to $3.0 million in 2010. The decrease is primarily due to the 2010 allocation to the noncontrolling interest in the income of the loan pool participations for reasons described above.

Liquidity and Capital Resources
Our liquidity and capital resources requirements include capital expenditures for our real estate and joint venture investments, and working capital needs. Historically, we have not required significant capital resources to support our brokerage and property management operations. We finance these operations with internally generated funds, borrowings under our revolving line of credit and sales of equity and debt securities. Our investments in real estate are typically financed with equity from our balance sheet and mortgage loans secured primarily by that real estate. These mortgage loans are generally nonrecourse in that, in the event of default, recourse will be limited to the mortgaged property serving as collateral. In some cases, we guarantee a portion of the loan related to a joint venture investment, usually until some condition, such as completion of construction or leasing or certain net operating income criteria, has been met. We do not expect these guarantees to materially affect liquidity or capital resources.
During the year ended December 31, 2012, the Company earned $9.4 million related to operations in the United Kingdom and Ireland. Foreign taxes of $1.1 million are included in the consolidated tax provision for income taxes related to the portion of income earned directly by the United Kingdom and Ireland subsidiaries for the year ended December 31, 2012. 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 US domestic taxes of $7.4 million would be incurred. Additionally, approximately $13.7 million of our consolidated cash and cash equivalents is held by our United Kingdom and Irish subsidiaries.

Currency Derivative Instruments

Fluctuations in currency exchange rates may affect our financial position and results of operations. During 2012, we entered into a currency forward contract to manage our exposure to currency fluctuations between our functional currency (the U.S. dollar) and the functional currency (Euros) of certain of our wholly owned subsidiaries and joint venture investments and our exposure to currency fluctuations caused by our investment in marketable securities. We

hedged these exposures by entering into a currency forward contract to sell EUR16,000,000 at a forward rate. We expect this hedging instrument to partially hedge our exposure to our net investment in certain foreign operations and the changes in fair value of our marketable securities caused by currency

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fluctuations. The currency forward contract matures on June 4, 2015, and its fair value held as of December 31, 2012 was $1.5 million, which is included in accrued expenses and other liabilities on our consolidated balance sheet.

For 2012, we recorded a loss of $1.2 million in other comprehensive income as the portion of the currency forward contract used to hedge the currency exposure of certain of our wholly owned subsidiaries qualifies as a net investment hedge under ASC Topic 815. During 2012, we recorded a loss of $0.3 million in general and administrative expenses related to the portion of the currency forward contract that was used to hedge currency exposure of our investment in marketable securities

Cash Flows

Operating

Our cash flows from operating activities are primarily dependent upon the operating distributions from our joint venture investments and loan pool participations, revenues from our services business, and the level of our operating expenses and other general and administrative costs. Net cash provided by operating activities totaled $6.8 million for the year ended December 31, 2012 as compared to net cash used in operating activities of $6.0 million for the year ended December 31, 2011.

Investing

Our cash flows from investing activities are generally comprised of cash used to fund investments in our joint ventures and loan pool participations, property acquisitions and capital expenditures, loans secured by real estate, and investments in marketable securities as well as cash received from dispositions, resolutions and other distributions of these investments. Net cash used in investing activities totaled $389.7 million for the year ended December 31, 2012. We invested $119.0 million in the acquisitions of real estate primarily related to the purchase of the three multifamily properties and one commercial property in the Western United States. We also invested $178.7 million of equity in joint ventures of which $149.5 million was invested in the acquisition of nine income producing multifamily and residential properties and 11 income producing commercial properties located primarily in the Western United States and Ireland. In addition, we invested $257.9 million to fund our equity in new and existing loans. The cash used in the aforementioned investing activities was offset by receipt of $48.7 million in distributions from our joint ventures primarily due to the sale of six multifamily properties (through property sales and sale of equity interest) located in the Western United States. In addition, we received $58.1 million in distributions from our loan pools primarily due to loan resolutions. Lastly, we sold our marketable securities which provided $34.1 million.

Net cash used in investing activities totaled $198.1 million for the year ended December 31, 2011. This was primarily due to $78.2 million of equity invested in joint ventures of which $63.6 million was invested in the acquisition of eight income-producing multifamily properties and five income producing commercial properties in the Western United States and a development project in Hawaii. In addition, we contributed $14.2 million to our joint venture in Japan for the purpose of refinancing a large portion of the Japanese multifamily portfolio and $7.0 million to increase our investment in a project in Northern California. Additionally, we advanced $172.0 million to fund our equity in new and existing loans of which $61.2 million was invested in our U.K.-based loan pool. We also invested $32.8 million in the ordinary stock of the Bank of Ireland. The cash used in the aforementioned investing activities was offset by the receipt of $32.7 million in distributions from our joint ventures and $66.4 million from our loan pool participations.

Financing

Our net cash related to financing activities is generally impacted by our borrowings and capital raising activities net of dividends and distributions paid to common and preferred shareholders and noncontrolling interests. Net cash provided by financing activities totaled $388.4 million for the year ended December 31, 2012. This was primarily due to proceeds of $106.2 million received from the issuance of 8.6 million shares of common stock primarily to institutional investors, issuance of $155 million of senior debt which generated $160.3 million in proceeds, $157.7

million of proceeds from mortgage loans to finance our property acquisitions, offset by payments of cash dividends of $21.9 million to our common and preferred shareholders and a $4.9 million distribution to noncontrolling interest holders as a result of the sale of a 180-unit apartment building.

Net cash provided by financing activities totaled $272.6 million for the year ended December 31, 2011. This was primarily due to the issuance of $250 million of senior notes which generated $249.3 million in proceeds. In addition, we issued 4.8 million shares of our common stock in a private placement for net proceeds of $51.4 million and we also completed a follow-on offering of 6.9 million shares of our common stock primarily to institutional investors for net proceeds of $71.7 million. This was offset by net repayments of $73.0 million under our line of credit, mortgage loans and notes payables and payments of cash dividends of $11.7 million.

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Since being listed in November 2009, cumulative preferred and common dividends declared were $24.6 million and $17.4 million, respectively, and are included as a component of retained earnings in the accompanying consolidated balance sheet and consolidated statement of equity.
We believe that our existing cash and cash equivalents plus capital generated from property management and leasing, brokerage, sales of real estate owned, collections from notes receivable, as well as our current line of credit, will provide us with sufficient capital requirements to maintain our current portfolio for at least the next 12 months.
To the extent that we engage in additional strategic investments, including real estate, note portfolios, or acquisitions of other real estate related companies, we may need to obtain third party financing which could include bank financing or the public sale or private placement of debt or equity securities.
Under our current joint venture strategy, we generally contribute property expertise and a fully funded initial cash contribution, with commitments to provide additional funding. Capital required for additional improvements and supporting operations during leasing and stabilization periods is generally obtained at the time of acquisition via debt financing or third party investors. Accordingly, we generally do not have significant capital commitments with unconsolidated entities. However, there may be certain circumstances when we, usually with the other members of the joint venture entity, may be required to contribute additional capital for a period of time.
Our need to raise funds from time to time to meet our capital requirements will depend on many factors, including the success and pace of the implementation of our strategy for growth. We regularly monitor capital-raising alternatives to be able to take advantage of other available avenues to support our working capital and investment needs, including strategic partnerships and other alliances, bank borrowings, and the sale of equity or debt securities. We expect to meet the repayment obligations of our senior notes and borrowing under our line of credit from cash generated by our business activities, including the sale of assets and the refinancing of debt.

Contractual Obligations and Commercial Commitments
At December 31, 2012, our contractual cash obligations, including debt, lines of credit, and operating leases included the following:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
| Contractual obligations | | | | | |
| Borrowings: [(1)] | | | | | |
| Mortgage loans and notes payable | $236,538,000 | $12,918,000 | $90,735,000 | $43,917,000 | $88,968,000 |
| Senior notes | 405,000,000 | — | — | — | 405,000,000 |
| Subordinated debt | 40,000,000 | — | — | — | 40,000,000 |
| Total borrowings | 681,538,000 | 12,918,000 | 90,735,000 | 43,917,000 | 533,968,000 |
| Operating leases | 8,619,000 | 2,369,000 | 4,272,000 | 1,978,000 | — |
| Total contractual cash obligations | $690,157,000 | $15,287,000 | $95,007,000 | $45,895,000 | $533,968,000 |

(1) See Notes 10-14 of our Notes to Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following interest payments: Less than 1 year-$49,210,000; 1-3 years-$96,222,000; 4-5 years-$84,186,000; After 5 years: $183,054,000. The interest payments on variable rate debt have been calculated at the interest rate in effect as of December 31, 2012.

Significant indebtedness
Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay our obligations as they become due. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to

service our debt, would increase.
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

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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.

In June 2012, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, amended its existing unsecured revolving credit facility with U.S. Bank and East-West Bank which effectively increased the total principal amount available to be borrowed by an additional $25.0 million, for an aggregate of $100.0 million. The loans under the amended unsecured credit facility will bear interest at a rate equal to LIBOR plus 2.75% and the maturity date was extended to June 30, 2015. As of December 31, 2012, there were no amounts drawn under the amended unsecured credit facility.

In April 2011, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, issued $200.0 million in aggregate principal amount of its 8.750% senior notes due 2019, for approximately $198.6 million, net of discount. An additional $50.0 million in aggregate principal amount of its 8.75% senior notes due 2019, was issued for approximately $50.8 million, net of premium. In December 2012, Kennedy Wilson issued an additional $100.0 million aggregate principal amount of these 8.750% senior notes for approximately $105.3 million, net of premium. Collectively, the issuances are referred to as "the 2019 Notes". The terms of the 2019 Notes are governed by an indenture, dated as of April 5, 2011, by and among the issuer, Kennedy-Wilson, as parent guarantor; certain subsidiaries of the issuer, as subsidiary guarantors; and Wilmington Trust FSB, as amended by various subsequent supplemental indentures. The 2019 Notes bear interest at 8.750% per annum. Interest is payable on April 1 and October 1 of each year, beginning on October 1, 2011, until the maturity date of April 1, 2019. The issuer's obligations under the 2019 Notes are fully and unconditionally guaranteed by Kennedy-Wilson and the subsidiary guarantors. At any time prior to April 1, 2015, the issuer may redeem the 2019 Notes, in whole or in part, at a price equal to 100% of the principal amount, plus an applicable "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after April 1, 2015, the issuer may redeem the 2019 Notes, in whole or in part, at the redemption prices specified in the indenture. Until April 1, 2014, the issuer may choose to redeem the 2019 Notes in an amount not to exceed in aggregate 35% of the original principal amount of the 2019 Notes together with any additional 2019 Notes issued under the indenture with money the issuer or Kennedy-Wilson raise in certain equity offerings. The amount of the 2019 Notes included in the consolidated balance sheets, net of unamortized discount and premium, was $354.6 million at December 31, 2012.

In December 2012, Kennedy Wilson completed a public offering of $55.0 million aggregate principal amount of 7.75% Senior Notes due 2042 (the "2042 Notes"). The 2042 Notes were issued pursuant to an indenture dated as of November 28, 2012, by and between Kennedy-Wilson, as issuer and Wilmington Trust FSB, as trustee, as amended by various subsequent supplemental indentures. The issuer's obligations under the 2042 Notes are fully and unconditionally guaranteed by Kennedy-Wilson and the subsidiary guarantors. At any time prior to December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus an applicable “make-whole” premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. Interest on the 2042 Notes accrues at a rate of 7.75% per annum and is payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 2013. The 2042 Notes will mature on December 1, 2042. The amount of the 2042 Notes included in the accompanying consolidated balance sheets was $55.0 million at December 31, 2012.

The junior subordinated debentures, the unsecured credit facility with U.S. Bank and East West Bank, and the indenture governing the 2019 Notes and 2042 Notes contain numerous restrictive covenants that, among other things, limit Kennedy-Wilson's and certain of its subsidiaries' ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The unsecured credit facility and junior subordinated debentures also require Kennedy-Wilson to maintain a minimum tangible net worth and a specified amount of cash and cash equivalents.

The junior subordinated debentures require Kennedy-Wilson to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing our junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four-quarter rolling basis, and (ii) a ratio of total debt to net worth (as defined in the indenture governing the junior subordinated debentures) of not greater than 3.00 to 1.00 at anytime. As of December 31, 2012, Kennedy-Wilson's fixed charge coverage ratio was 3.42 to 1.00 and its ratio of total debt to net worth was 1.35 to 1.00.
The revolving loan agreement that governs the amended 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 and (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of December 31, 2012, Kennedy-Wilson, Inc.'s adjusted fixed charge coverage ratio was 2.49 to 1.00 and its balance sheet leverage was 0.93 to 1.00.

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The indentures governing the 2019 Notes and 2042 Notes limits Kennedy-Wilson's ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, Kennedy-Wilson's 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 December 31, 2012, the balance sheet leverage ratio was 0.87 to 1.00.

Off-Balance Sheet Arrangements

Guarantees

We have provided guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees was approximately $55.5 million at December 31, 2012. The guarantees expire by the year end of 2017 and our performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales proceeds of the property. If we were to become obligated to perform on these guarantees, it could have an adverse affect on our financial condition.

As of December 31, 2012, we have a unfulfilled capital commitments totaling $8.3 million to our joint ventures. As we identify investment opportunities in the future, we may be called upon to contribute additional capital to joint ventures in satisfaction of our capital commitment obligations.

Non-Recourse Carve Out Guarantees

Most of our real estate prop