DILLARDS INC
Form 4
August 08, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MATHENY DRUE

(Last) (First) (Middle)

1600 CANTRELL ROAD

(Street)

LITTLE ROCK, AR 72201

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
DILLARDS INC [DDS]

3. Date of Earliest Transaction (Month/Day/Year)
08/06/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Class A	08/05/2014		W	V	639	A	$ 0	440,556	D	
Common Class A	08/06/2014		A		19	A	$ 120.78	440,575	D	
Common Class A - Retirement Plan								39,030	D	
Common Class A								7,300 (1)	I	See Footnote (1)

Common Class A	150 (2)	I	See Footnote (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MATHENY DRUE 1600 CANTRELL ROAD LITTLE ROCK, AR 72201	X		Executive Vice President	

Signatures

/s/ Drue Matheny	08/08/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Trustee of GST Trust

(2) Owned by spouse

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. " ALIGN="right">1,951,000

Accounts receivable related parties

3,709,000 6,623,000 264,000 10,596,000

Notes receivable

3,586,000 12,360,000 1,000,000 16,946,000

Notes receivable related parties

22,292,000 22,292,000

Real estate, net

66,359,000 47,260,000 113,619,000

Investments in joint ventures

7,116,000 330,249,000 7,673,000 345,038,000

Investment in and advances to consolidated subsidiaries

339,864,000 477,567,000 37,320,000 (854,751,000)

Marketable securities

5,658,000 5,658,000

Loan pool participations

31,590,000 31,590,000

Other assets

13,346,000 3,640,000 3,954,000 20,940,000

Goodwill

17,216,000 6,749,000 23,965,000

Total assets						
	$339,864,000	$668,750,000	$518,280,000	$67,866,000	$(854,751,000)	$740,009,000

Liabilities and equity

Liabilities

Accounts payable

$52,000 $70,000 $212,000 $19,000 $ $353,000

Accrued expenses and other liabilities

1,799,000 13,427,000 14,139,000 1,531,000 30,896,000

Accrued salaries and benefits

3,445,000 1,330,000 239,000 5,014,000

Accrued and deferred tax liability

22,572,000 22,572,000

Senior notes payable

249,372,000 249,372,000

Mortgage loans payable

9,548,000 28,669,000 38,217,000

Junior subordinated debentures

40,000,000 40,000,000

Total liabilities

1,851,000	328,886,000	25,229,000	30,458,000	386,424,000

Equity

Kennedy-Wilson Holdings, Inc. shareholders equity

338,013,000	339,864,000	477,567,000	37,320,000	(854,751,000)	338,013,000

Noncontrolling interests

15,484,000	88,000	15,572,000

Total equity						
	338,013,000	339,864,000	493,051,000	37,408,000	(854,751,000)	353,585,000

Total liabilities and equity	$339,864,000	$668,750,000	$518,280,000	$67,866,000	$(854,751,000)	$740,009,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned as of September 30, 2011 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries [1]	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$	$ 42,793,000	$ 3,350,000	$ 825,000	$	$ 46,968,000
Accounts receivable		348,000	1,551,000	198,000		2,097,000
Accounts receivable related parties		1,652,000	5,268,000	142,000		7,062,000
Notes receivable		862,000	18,402,000	1,000,000		20,264,000
Notes receivable related parties		3,837,000				3,837,000
Real estate, net			56,207,000	26,494,000		82,701,000
Investments in joint ventures		2,501,000	257,521,000	6,864,000		266,886,000
Investment in and advances to consolidated subsidiaries	300,244,000	368,820,000	20,251,000		(689,315,000)	
Loan pool participations			25,218,000			25,218,000
Other assets		4,945,000	3,417,000	488,000		8,850,000
Goodwill			17,216,000	6,749,000		23,965,000
Total assets	$ 300,244,000	$ 425,758,000	$ 408,401,000	$ 42,760,000	$ (689,315,000)	$ 487,848,000
Liabilities and equity						
Liabilities						
Accounts payable	$ 52,000	$ 673,000	$ 725,000	$ 54,000	$	$ 1,504,000
Accrued expenses and other liabilities		1,830,000	6,914,000	320,000		9,064,000
Accrued salaries and benefits		8,857,000	1,553,000	311,000		10,721,000
Accrued and deferred tax liability		25,871,000				25,871,000
Notes payable		20,533,000		4,250,000		24,783,000
Borrowings under line of credit		27,750,000				27,750,000
Mortgage loans payable			17,752,000	17,497,000		35,249,000
Junior subordinated debentures		40,000,000				40,000,000
Total liabilities	52,000	125,514,000	26,944,000	22,432,000		174,942,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders equity	300,192,000	300,244,000	368,820,000	20,251,000	(689,315,000)	300,192,000
Noncontrolling interests			12,637,000	77,000		12,714,000
Total equity	300,192,000	300,244,000	381,457,000	20,328,000	(689,315,000)	312,906,000
Total liabilities and equity	$ 300,244,000	$ 425,758,000	$ 408,401,000	$ 42,760,000	$ (689,315,000)	$ 487,848,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned as of December 31, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor Subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 30,000	$ 4,034,000	$ 798,000	$	$ 4,862,000
Management and leasing fees related party			2,607,000	382,000		2,989,000
Commissions			1,262,000	67,000		1,329,000
Commissions related party			1,930,000			1,930,000
Rental and other income			446,000	1,220,000		1,666,000
Total revenue		30,000	10,279,000	2,467,000		12,776,000
Operating expenses						
Commission and marketing expenses		500,000	1,019,000	122,000		1,641,000
Compensation and related expenses	1,296,000	2,389,000	4,041,000	747,000		8,473,000
General and administrative		1,736,000	1,416,000	177,000		3,329,000
Depreciation and amortization		68,000	193,000	670,000		931,000
Rental operating expenses			542,000	653,000		1,195,000
Total operating expenses	1,296,000	4,693,000	7,211,000	2,369,000		15,569,000
Equity in joint venture income (loss)		54,000	(651,000)	(49,000)		(646,000)
(Loss) income from consolidated subsidiaries	(3,580,000)	3,417,000	(227,000)		390,000	
Interest income from loan pool participations and notes receivable			1,028,000	20,000		1,048,000
Operating (loss) income	(4,876,000)	(1,192,000)	3,218,000	69,000	390,000	(2,391,000)
Non-operating income (expense)						
Interest income		74,000				74,000
Interest income related party		561,000				561,000
Interest expense		(6,020,000)	199,000	(296,000)		(6,117,000)
(Loss) income before benefit for income taxes	(4,876,000)	(6,577,000)	3,417,000	(227,000)	390,000	(7,873,000)
Benefit from income taxes		2,997,000				2,997,000
Net (loss) income	(4,876,000)	(3,580,000)	3,417,000	(227,000)	390,000	(4,876,000)
Net loss (income) attributable to the noncontrolling interests			45,000	(3,000)		42,000
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(4,876,000)	(3,580,000)	3,462,000	(230,000)	390,000	(4,834,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)					(2,036,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(6,912,000)	(3,580,000)	3,462,000	(230,000)	390,000	(6,870,000)
Other comprehensive income, net of tax	(1,783,000)	(1,783,000)	(1,783,000)		3,566,000	(1,783,000)
Total comprehensive (loss) income	$ (8,695,000)	$ (5,363,000)	$ 1,679,000	$ (230,000)	$ 3,956,000	$ (8,653,000)

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the three months ended September 30, 2011 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result,

in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor Subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 26,000	$ 1,619,000	$ 655,000	$	$ 2,300,000
Management and leasing fees related party			3,576,000	253,000		3,829,000
Commissions		443,000	1,325,000	205,000		1,973,000
Commissions related party			2,014,000	20,000		2,034,000
Rental and other income			1,129,000	508,000		1,637,000
Total revenue		469,000	9,663,000	1,641,000		11,773,000
Operating expenses						
Commission and marketing expenses			201,000	62,000		263,000
Compensation and related expenses	2,055,000	6,409,000	3,257,000	693,000		12,414,000
General and administrative		2,621,000	635,000	201,000		3,457,000
Depreciation and amortization		40,000	358,000	218,000		616,000
Rental and operating			729,000	168,000		897,000
Total operating expenses	2,055,000	9,070,000	5,180,000	1,342,000		17,647,000
Equity in joint venture (loss) income		(3,000)	5,162,000	32,000		5,191,000
(Loss) income from consolidated subsidiaries	(1,644,000)	13,590,000	149,000		(12,095,000)	
Interest income from loan pool participations and notes receivable		5,000	4,185,000	19,000		4,209,000
Operating (loss) income	(3,699,000)	4,991,000	13,979,000	350,000	(12,095,000)	3,526,000
Non-operating income (expense)						
Interest income		53,000				53,000
Interest income related party		91,000				91,000
Loss on extinguishment of debt		(4,788,000)				(4,788,000)
Interest expense		(1,608,000)	(389,000)	(201,000)		(2,198,000)
(Loss) income before provision for income taxes	(3,699,000)	(1,261,000)	13,590,000	149,000	(12,095,000)	(3,316,000)
Provision for income taxes		(383,000)				(383,000)
Net (loss) income	(3,699,000)	(1,644,000)	13,590,000	149,000	(12,095,000)	(3,699,000)
Net income attributable to the noncontrolling interests			(1,212,000)	(3,000)		(1,215,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(3,699,000)	(1,644,000)	12,378,000	146,000	(12,095,000)	(4,914,000)
Preferred dividends and accretion of preferred stock issuance costs	(1,804,000)					(1,804,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(5,503,000)	(1,644,000)	12,378,000	146,000	(12,095,000)	(6,718,000)
Other comprehensive income, net of tax	2,912,000	2,912,000	2,912,000		(5,824,000)	2,912,000
Total comprehensive (loss) income	$ (2,591,000)	$ 1,268,000	$ 15,290,000	$ 146,000	$ (17,919,000)	$ (3,806,000)

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the three months ended September 30, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 95,000	$ 7,252,000	$ 2,310,000	$	$ 9,657,000
Management and leasing fees related party			7,236,000	915,000		8,151,000
Commissions		397,000	4,279,000	166,000		4,842,000
Commissions related party			3,577,000	10,000		3,587,000
Sale of real estate			417,000			417,000
Rental and other income			1,134,000	2,225,000		3,359,000
Total revenue		492,000	23,895,000	5,626,000		30,013,000
Operating expenses						
Commission and marketing expenses		500,000	2,239,000	276,000		3,015,000
Compensation and related expenses	3,761,000	7,874,000	10,717,000	2,210,000		24,562,000
Cost of real estate sold			397,000			397,000
General and administrative		5,156,000	3,367,000	660,000		9,183,000
Depreciation and amortization		161,000	640,000	1,027,000		1,828,000
Rental operating expenses			1,267,000	981,000		2,248,000
Total operating expenses	3,761,000	13,691,000	18,627,000	5,154,000		41,233,000
Equity in joint venture income		122,000	7,017,000	90,000		7,229,000
Income from consolidated subsidiaries	1,475,000	24,345,000	6,465,000		(32,285,000)	
Interest income from loan pool participations and notes receivable		12,000	5,763,000	60,000		5,835,000
Operating (loss) income	(2,286,000)	11,280,000	24,513,000	622,000	(32,285,000)	1,844,000
Non-operating income (expense)						
Interest income		264,000				264,000
Interest income related party		970,000				970,000
Remeasurement gain				6,348,000		6,348,000
Interest expense		(13,201,000)	(168,000)	(505,000)		(13,874,000)
(Loss) income before benefit from income taxes	(2,286,000)	(687,000)	24,345,000	6,465,000	(32,285,000)	(4,448,000)
Benefit from income taxes		2,162,000				2,162,000
Net (loss) income	(2,286,000)	1,475,000	24,345,000	6,465,000	(32,285,000)	(2,286,000)
Net income attributable to the noncontrolling interests			(1,284,000)	(11,000)		(1,295,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(2,286,000)	1,475,000	23,061,000	6,454,000	(32,285,000)	(3,581,000)
Preferred dividends and accretion of preferred stock issuance costs	(6,708,000)					(6,708,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(8,994,000)	1,475,000	23,061,000	6,454,000	(32,285,000)	(10,289,000)
Other comprehensive income, net of tax	(1,576,000)	(1,576,000)	(1,576,000)		3,152,000	(1,576,000)
Total comprehensive (loss) income	$ (10,570,000)	$ (101,000)	$ 21,485,000	$ 6,454,000	$ (29,133,000)	$ (11,865,000)

(1)

Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the nine months ended September 30, 2011 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 60,000	$ 4,271,000	$ 2,182,000	$	$ 6,513,000
Management and leasing fees related party			8,764,000	825,000		9,589,000
Commissions		467,000	3,624,000	262,000		4,353,000
Commissions related party			4,299,000	20,000		4,319,000
Sale of real estate			3,937,000			3,937,000
Rental and other income			1,373,000	1,561,000		2,934,000
Total revenue		527,000	26,268,000	4,850,000		31,645,000
Operating expenses						
Commission and marketing expenses			1,822,000	210,000		2,032,000
Compensation and related expenses	8,201,000	9,654,000	9,374,000	2,171,000		29,400,000
Cost of real estate sold			2,714,000			2,714,000
General and administrative		5,017,000	2,586,000	660,000		8,263,000
Depreciation and amortization		116,000	561,000	520,000		1,197,000
Rental operating expenses			903,000	518,000		1,421,000
Total operating expenses	8,201,000	14,787,000	17,960,000	4,079,000		45,027,000
Equity in joint venture (loss) income		(3,000)	5,326,000	(161,000)		5,162,000
Income from consolidated subsidiaries	11,739,000	39,868,000	240,000		(51,847,000)	
Interest income from loan pool participations and notes receivable		30,000	7,893,000	27,000		7,950,000
Operating income (loss)	3,538,000	25,635,000	21,767,000	637,000	(51,847,000)	(270,000)
Non-operating income (expense)						
Interest income		168,000				168,000
Interest income related party		477,000				477,000
Remeasurement gain			2,108,000			2,108,000
Gain on extinguishment of debt			16,670,000			16,670,000
Interest expense		(5,418,000)	(677,000)	(397,000)		(6,492,000)
Loss on extinguishment of debt		(4,788,000)				(4,788,000)
Income before provision for income taxes	3,538,000	16,074,000	39,868,000	240,000	(51,847,000)	7,873,000
Provision for income taxes		(4,335,000)				(4,335,000)
Net income	3,538,000	11,739,000	39,868,000	240,000	(51,847,000)	3,538,000
Net income attributable to the noncontrolling interests			(2,364,000)	(10,000)		(2,374,000)
Net income attributable to Kennedy-Wilson Holdings, Inc.	3,538,000	11,739,000	37,504,000	230,000	(51,847,000)	1,164,000
Preferred dividends and accretion of preferred stock issuance costs	(2,524,000)					(2,524,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	1,014,000	11,739,000	37,504,000	230,000	(51,847,000)	(1,360,000)
Other comprehensive income, net of tax	5,098,000	5,098,000	5,098,000		(10,196,000)	5,098,000
Total comprehensive income	$ 6,112,000	$ 16,837,000	$ 42,602,000	$ 230,000	$ (62,043,000)	$ 3,738,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the nine months ended September 30, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Consolidated Total
Cash flows provided by (used in) provided by operating activities:	$	$ (22,096,000)	$ 8,778,000	$ (1,151,000)	$ (14,469,000)
Cash flows from investing activities:					
Additions of notes receivable		(2,724,000)	(2,920,000)		(5,644,000)
Settlement of notes receivable			559,000		559,000
Additions to notes receivable related party		(23,322,000)			(23,322,000)
Settlement of notes receivable related party		4,867,000			4,867,000
Net proceeds from sale of real estate			416,000		416,000
Purchases of and additions to real estate			(2,220,000)	290,000	(1,930,000)
Investment in Marketable Securities			(7,382,000)		(7,382,000)
Distributions from joint ventures			16,827,000	1,680,000	18,507,000
Contributions to joint ventures		(4,614,000)	(88,366,000)	(2,512,000)	(95,492,000)
Contributions to loan pool participations			(2,901,000)		(2,901,000)
(Investments in) distributions from consolidated subsidiaries, net	(39,440,000)	(46,257,000)	75,084,000	10,613,000	
Net cash used in investing activities	(39,440,000)	(72,050,000)	(10,903,000)	10,071,000	(112,322,000)
Cash flow from financing activities:					
Issuance of senior notes payable		249,344,000			249,344,000
Repayment of notes payable		(20,533,000)		(4,250,000)	(24,783,000)
Borrowings under lines of credit		19,000,000			19,000,000
Repayment of lines of credit		(46,750,000)			(46,750,000)
Borrowings under mortgage loans payable			5,077,000	12,000,000	17,077,000
Repayment of mortgage loans payable			(13,281,000)	(16,828,000)	(30,109,000)
Debt issue costs		(7,486,000)			(7,486,000)
Issuance of common stock	51,360,000				51,360,000
Repurchase of common stock	(36,000)				(36,000)
Repurchase of warrants	(2,434,000)				(2,434,000)
Dividends paid	(7,874,000)				(7,874,000)
Contributions from noncontrolling interests			2,259,000		2,259,000
Distributions from noncontrolling interests			(696,000)		(696,000)
Net cash provided by (used in) financing activities	41,016,000	193,575,000	(6,641,000)	(9,078,000)	218,872,000
Effect of currency exchange rate changes on cash and cash equivalents	(1,576,000)	(1,576,000)	11,517,000		8,365,000
Net change in cash and cash equivalents		97,853,000	2,751,000	(158,000)	100,446,000
Cash and cash equivalents, beginning of period		42,793,000	3,350,000	825,000	46,968,000
Cash and cash equivalents, end of period	$	$ 140,646,000	$ 6,101,000	$ 667,000	$ 147,414,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the nine months ended September 30, 2011 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Consolidated Total
Cash flows (used in) provided by operating activities:	$ (2,547,000)	$ (8,251,000)	$ 8,830,000	$ 1,001,000	$ (967,000)
Cash flows from investing activities:					
Additions to notes receivable			(26,190,000)	(1,000,000)	(27,190,000)
Settlements of notes receivable		15,000	55,000		70,000
Additions to notes receivable related party		(3,975,000)			(3,975,000)
Settlements of notes receivable related party		8,721,000			8,721,000
Net proceeds from sale of real estate			3,639,000		3,639,000
Purchases of and additions to real estate			(14,430,000)	(4,148,000)	(18,578,000)
Distribution from joint ventures			4,424,000	38,000	4,462,000
Contributions to joint ventures		(1,070,000)	(60,305,000)	(5,458,000)	(66,833,000)
Contributions to loan pool participations			(9,612,000)		(9,612,000)
(Investments in) distributions from consolidated subsidiaries, net	(113,451,000)	17,770,000	86,837,000	8,844,000	
Net cash (used in) provided by investing activities	(113,451,000)	21,461,000	(15,582,000)	(1,724,000)	(109,296,000)
Cash flow from financing activities:					
Borrowings under notes payable				4,250,000	4,250,000
Repayment of notes payable		(4,200,000)			(4,200,000)
Borrowings under lines of credit		37,250,000			37,250,000
Repayment of lines of credit		(25,500,000)			(25,500,000)
Borrowings under mortgage loans payable			20,016,000		20,016,000
Repayment of mortgage loans payable			(16,521,000)	(3,242,000)	(19,763,000)
Repayment of convertible subordinated debt		(32,550,000)			(32,550,000)
Debt issue costs			(645,000)		(645,000)
Issuance of preferred stock	132,294,000				132,294,000
Repurchase of common stock	(10,180,000)				(10,180,000)
Repurchase of warrants	(8,584,000)				(8,584,000)
Dividends paid	(2,508,000)				(2,508,000)
Contributions from noncontrolling interests			6,952,000		6,952,000
Distributions from noncontrolling interests			(2,096,000)		(2,096,000)
Net cash provided by (used in) financing activities	111,022,000	(25,000,000)	7,706,000	1,008,000	94,736,000
Effect of currency exchange rate changes on cash and cash equivalents	4,976,000	3,481,000			8,457,000
Net change in cash and cash equivalents		(8,309,000)	954,000	285,000	(7,070,000)
Cash and cash equivalents, beginning of period		54,777,000	2,648,000	359,000	57,784,000
Cash and cash equivalents, end of period	$	$ 46,468,000	$ 3,602,000	$ 644,000	$ 50,714,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the nine months ended September 30, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10 (d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kennedy-Wilson Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Kennedy-Wilson Holdings, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We did not audit the December 31, 2009 financial statements of KW Residential, LLC a 35% owned investee company. Kennedy-Wilson Holdings, Inc. s investment in KW Residential, LLC as of December 31, 2009 was $91,276,000 and its equity in joint venture income was $5,949,000 for the year ended December 31, 2009. The December 31, 2009 financial statements of KW Residential, LLC were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the December 31, 2009 amounts included for KW Residential, LLC, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor on the 2009 financial statements of KW Residential, LLC, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kennedy-Wilson Holdings, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kennedy-Wilson Holdings, Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

March 11, 2011, except Note 25, as to which the date is December 27, 2011.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kennedy-Wilson Holdings, Inc.:

We have audited Kennedy-Wilson Holdings Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kennedy-Wilson Holdings Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Kennedy-Wilson Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kennedy-Wilson Holdings, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 10, 2011 expressed an unqualified opinion on those consolidated financial statements. Our report indicates that the December 31, 2009 financial statements of KW Residential, LLC were audited by other auditors and our opinion, insofar as it relates to the amounts included in the December 31, 2009 consolidated financial statements of Kennedy-Wilson Holdings, Inc. for KW Residential, LLC is based solely on the report of the other auditors.

/s/ KPMG LLP

Los Angeles, California

March 11, 2011

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 46,968,000	$ 57,784,000
Accounts receivable	2,097,000	887,000
Accounts receivable related parties	7,062,000	4,278,000
Income tax receivable		6,848,000
Notes receivable	20,264,000	541,000
Notes receivable related parties	3,837,000	6,644,000
Real estate, net of accumulated depreciation	82,701,000	40,581,000
Real estate available for sale		2,472,000
Investments in joint ventures ($34,687,000 and $19,612,000 carried at fair value as of December 31, 2010 and 2009, respectively)	266,886,000	185,252,000
Investment in loan pool participations	25,218,000	
Other assets	8,850,000	7,005,000
Goodwill	23,965,000	23,965,000
Total assets	$ 487,848,000	$ 336,257,000
Liabilities and equity		
Liabilities		
Accounts payable	$ 1,504,000	$ 860,000
Accrued expenses and other liabilities	9,064,000	8,648,000
Accrued salaries and benefits	10,721,000	4,401,000
Deferred tax liability	25,871,000	15,439,000
Notes payable	24,783,000	26,133,000
Borrowings under line of credit	27,750,000	10,000,000
Mortgage loans payable	35,249,000	23,968,000
Convertible subordinated debt		27,472,000
Junior subordinated debentures	40,000,000	40,000,000
Total liabilities	174,942,000	156,921,000
Equity		
Cumulative Preferred stock, $0.0001 par value, 1,000,000 shares authorized, $1,000 per share liquidation preference:		
6.00% Series A, 100,000 and 0 shares issued and outstanding as of December 31, 2010 and 2009, respectively, mandatorily convertible on May 19, 2015		
6.452% Series B, 32,550 and 0 shares issued and outstanding as of December 31, 2010 and 2009, respectively, mandatorily convertible on November 18, 2018		
Common stock, $0.0001 par value, 125,000,000 and 80,000,000 shares authorized, 41,291,596 and 41,177,658 shares issued and 40,179,906 and 41,177,658 shares outstanding as of December 31, 2010 and 2009, respectively	4,000	4,000
Additional paid-in capital	284,669,000	155,878,000
Retained earnings	17,777,000	18,829,000
Accumulated other comprehensive income	9,043,000	2,603,000
Shares held in treasury at cost, $0.0001 par value, 1,111,690 and 0 held as of December 31, 2010 and 2009, respectively	(11,301,000)	
Total Kennedy-Wilson Holdings, Inc. stockholders equity	300,192,000	177,314,000

Noncontrolling interests	12,714,000	2,022,000
Total equity	312,906,000	179,336,000
Total liabilities and equity	$ 487,848,000	$ 336,257,000

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

	Year ended December 31,		
	2010	**2009**	**2008**
Revenue			
Management and leasing fees	$ 8,913,000	$ 9,026,000	$ 10,671,000
Management and leasing fees related party	12,417,000	10,138,000	8,380,000
Commissions	6,359,000	4,204,000	5,906,000
Commissions related party	5,375,000	727,000	4,295,000
Sale of real estate	3,937,000	52,699,000	
Sale of real estate related party	9,535,000	6,698,000	
Rental and other income	4,000,000	2,743,000	2,973,000
Total revenue	50,536,000	86,235,000	32,225,000
Operating expenses			
Commission and marketing expenses	3,186,000	3,411,000	2,827,000
Compensation and related expenses	38,155,000	24,789,000	21,292,000
Merger-related compensation and related expenses	2,225,000	12,468,000	
Cost of real estate sold	2,714,000	36,179,000	
Cost of real estate sold related party	8,812,000	5,752,000	
General and administrative	11,314,000	6,351,000	6,074,000
Merger-related general and administrative		3,652,000	
Depreciation and amortization	1,618,000	1,122,000	920,000
Rental operating expense	1,913,000	1,148,000	1,458,000
Total operating expenses	69,937,000	94,872,000	32,571,000
Equity in joint venture income	10,548,000	8,019,000	10,097,000
Interest income from loan pool participations and notes receivable	11,855,000		
Operating income (loss)	3,002,000	(618,000)	9,751,000
Non-operating income (expense)			
Interest income	192,000	102,000	221,000
Interest income related party	662,000	400,000	341,000
Remeasurement gain	2,108,000		
Gain on early extinguishment of mortgage debt	16,670,000		
Loss on early extinguishment of corporate debt	(4,788,000)		
Interest expense	(7,634,000)	(13,174,000)	(8,596,000)
Other than temporary impairment		(328,000)	(445,000)
Income (loss) before (provision for) benefit from income taxes	10,212,000	(13,618,000)	1,272,000
(Provision for) benefit from income taxes	(3,727,000)	3,961,000	(605,000)
Net income (loss)	6,485,000	(9,657,000)	667,000
Net income attributable to the noncontrolling interests	(2,979,000)	(5,679,000)	(54,000)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	3,506,000	(15,336,000)	613,000
Preferred stock dividends and accretion of issuance costs	(4,558,000)		
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(1,052,000)	(15,336,000)	613,000
Other comprehensive income, net of tax	6,440,000	2,601,000	240,000

Total comprehensive income (loss)	$ 5,388,000	$ (12,735,000)	$ 853,000
Basic income (loss) per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (0.03)	$ (0.57)	$ 0.03
Weighted average shares outstanding for basic (loss) income per share	38,978,272	26,891,304	22,892,498
Diluted income (loss) per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (0.03)	$ (0.57)	$ 0.03
Weighted average shares outstanding for diluted (loss) income per share	38,978,272	26,891,304	24,310,299

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Consolidated Statement of Equity

	Preferred Stock		Common Stock		Additional		Accumulated Other			
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balance, January 1, 2008		$	21,370,370	$ 2,000	$ 9,975,000	$ 47,118,000	$ (238,000)	$	$ 219,000	$ 57,076,000
Issuance of common stock			5,598,982	1,000	52,353,000					52,354,000
Issuance of common stock exercise of stock options			42,785		93,000					93,000
Repurchase of common stock			(624,938)		(6,170,000)					(6,170,000)
Amortization of equity compensation					1,015,000					1,015,000
Discount on convertible subordinated debt					2,813,000					2,813,000
Other comprehensive loss:										
Foreign currency translation, net of tax of $160,000							240,000			240,000
Dividends paid						(2,264,000)				(2,264,000)
Net income						613,000			54,000	667,000
Contributions from noncontrolling interests									482,000	482,000
Distributions to noncontrolling interests									(504,000)	(504,000)
Balance, December 31, 2008			26,387,199	3,000	60,079,000	45,467,000	2,000		251,000	105,802,000
Effect of Merger on common stock			12,820,215	1,000	89,006,000					89,007,000
Issuance of common stock exercise of stock options			55,449		59,000					59,000
Repurchase of common stock			(442,648)		(3,690,000)					(3,690,000)
Stock compensation expense					3,857,000					3,857,000
Common stock issued under 2009 Equity Participation Plan			2,357,443							
2009 Equity Participation Plan replacement payment					(1,500,000)					(1,500,000)
Other comprehensive loss:										
Foreign currency translation, net of tax of $1,472,000							2,407,000			2,407,000
Unrealized loss on marketable security, net of tax of $129,000							194,000			194,000
Dividends paid						(3,235,000)				(3,235,000)
Additional shares to pre-Merger preferred shareholders					7,879,000	(7,879,000)				

Accretion of common stock beneficial conversion	188,000	(188,000)		
Net (loss) income		(15,336,000)	5,679,000	(9,657,000)
Contributions from noncontrolling interests			6,804,000	6,804,000
Distributions to noncontrolling interests			(10,712,000)	(10,712,000)

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	Preferred Stock		Common Stock		Additional		Accumulated Other			
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balance, December 31, 2009			41,177,658	4,000	155,878,000	18,829,000	2,603,000		2,022,000	179,336,000
Issuance of preferred stock, net of issuance costs of $256,000	132,550				132,294,000					132,294,000
Repurchase of 1,111,690 common shares			(1,111,690)					(11,301,000)		(11,301,000)
Repurchase and retirement of warrants					(11,500,000)					(11,500,000)
Stock compensation expense					7,666,000					7,666,000
Common stock issued under 2009 Equity Participation Plan			113,938		428,000					428,000
Other comprehensive income:										
Foreign currency translation, net of tax of $4,269,000							6,434,000			6,434,000
Unrealized gain on marketable security, net of tax of $5,000							6,000			6,000
Preferred stock dividends paid						(4,533,000)				(4,533,000)
Accretion of preferred stock issuance costs					25,000	(25,000)				
Extinguished beneficial conversion feature on convertible debt					(122,000)					(122,000)
Net income						3,506,000			2,979,000	6,485,000
Contributions from noncontrolling interests									10,955,000	10,955,000
Distributions to noncontrolling interests									(3,242,000)	(3,242,000)

Balance, December 31, 2010	132,550	$	40,179,906	$ 4,000	$ 284,669,000	$ 17,777,000	$ 9,043,000	$ (11,301,000)	$ 12,714,000	$ 312,906,000

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 6,485,000	$ (9,657,000)	$ 667,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Gain from sale of real estate	(1,223,000)	(16,520,000)	
Gain from sale of real estate related party	(723,000)	(946,000)	
Gain on early extinguishment of debt	(16,670,000)		
Loss on early extinguishment of debt	4,788,000		
Remeasurement gain	(2,108,000)		
Note receivable and accrued interest forgiven in Merger		4,281,000	
Depreciation and amortization	1,618,000	1,122,000	920,000
Provision for deferred income taxes	6,158,000	4,497,000	3,372,000
Amortization of deferred loan costs	262,000	917,000	658,000
Amortization of beneficial conversion of convertible subordinated debt	168,000	285,000	
Equity in joint venture income	(10,548,000)	(8,019,000)	(10,097,000)
Accretion of interest income on loan pool participations and notes receivable	(11,855,000)		
Amortization of deferred compensation		1,543,000	1,015,000
Stock compensation expense	8,094,000	2,314,000	
2009 Equity Participation Plan replacement payment		(1,500,000)	
Other than temporary impairment on available-for-sale security, net of tax		194,000	
Change in assets and liabilities:			
Accounts receivable	(1,039,000)	204,000	3,144,000
Accounts receivable related party	(2,784,000)	381,000	(3,521,000)
Income tax receivable	6,848,000	(4,480,000)	(2,368,000)
Operating distributions from joint ventures	5,931,000	514,000	294,000
Operating distributions from loan pool participation	266,000		
Other assets	1,432,000	(2,893,000)	(1,339,000)
Accounts payable	644,000	501,000	(374,000)
Accrued expenses and other liabilities	93,000	410,000	1,816,000
Accrued salaries and benefits	6,320,000	1,626,000	(4,450,000)
Income taxes payable			(4,406,000)
Net cash provided by (used in) operating activities	2,157,000	(25,226,000)	(14,669,000)

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	Year ended December 31, 2010	2009	2008
Cash flows from investing activities:			
Additions to notes receivable	(25,636,000)	(500,000)	
Settlements of notes receivable	8,438,000	302,000	26,000
Additions to notes receivable related party	(5,914,000)	(8,774,000)	(300,000)
Settlements of notes receivable related party	8,721,000	2,935,000	6,000
Additions to notes receivable from sale of real estate		(2,663,000)	
Settlements of notes receivable from sale of real estate		1,858,000	
Net proceeds from sale of real estate held for sale	3,639,000	58,027,000	5,181,000
Net proceeds from sale of real estate related party	9,548,000		
Purchases of and additions to real estate	(23,764,000)	(35,800,000)	(41,460,000)
Assets acquired in merger		89,181,000	
Distributions from joint ventures	10,177,000	2,374,000	12,903,000
Contributions to joint ventures	(83,891,000)	(37,933,000)	(73,129,000)
Contributions to loan pool participation	(16,154,000)		
Net cash (used in) provided by investing activities	(114,836,000)	69,007,000	(96,773,000)
Cash flow from financing activities:			
Borrowings under notes payable	4,250,000	37,059,000	20,161,000
Repayment of notes payable	(5,600,000)	(32,114,000)	(8,973,000
Borrowings under lines of credit	48,250,000	20,500,000	47,957,000
Repayment of lines of credit	(30,500,000)	(24,000,000)	(39,457,000)
Borrowings under mortgage loans payable	20,016,000	30,286,000	30,316,000
Repayment of mortgage loans payable	(24,735,000)	(35,866,000)	(10,852,000)
Issuance of convertible subordinated debt			30,000,000
Repayment of convertible subordinated debt	(32,550,000		
Debt issue costs	(644,000)	(798,000)	(518,000)
Issuance of preferred stock	132,294,000		
Issuance of common stock		59,000	52,447,000
Repurchase of common stock	(11,301,000)	(3,690,000)	(6,170,000)
Repurchase of warrants	(11,500,000)		
Dividends paid	(4,533,000)	(3,235,000)	(2,264,000)
Contributions from noncontrolling interests	10,955,000	6,804,000	482,000
Distributions to noncontrolling interests	(3,242,000)	(10,712,000)	(504,000)
Net cash provided by (used in) financing activities	91,160,000	(15,707,000)	112,625,000
Effect of currency exchange rate changes on cash and cash equivalents	10,703,000	3,879,000	400,000
Net change in cash and cash equivalents	(10,816,000	31,953,000	1,583,000
Cash and cash equivalents, beginning of year	57,784,000	25,831,000	24,248,000
Cash and cash equivalents, end of year	$ 46,968,000	$ 57,784,000	$ 25,831,000
Supplemental disclosure of non-cash investing activities:			
Unrealized loss on marketable security, net of tax of $5,000 and $129,000, respectively	$ 11,000	$ 194,000	$
Acretion of preferred stock issuance costs	25,000		

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

During 2010, as a result of the consolidation of two joint venture investments and a subsequent deconsolidation of one of those entities, accounts receivable increased by $171,000, real estate increased by $28,464,000, investment in joint ventures increased by $3,292,000, other assets increased by $3,174,000, accrued expenses and other liabilities increased by $323,000 and mortgage loan payable increased by $32,670,000.

In 2009, the debt on a piece of land that was sold was assumed by the buyer resulting in a decrease of proceeds from the sale of real estate of $2,025,000 and reduction of repayment of mortgage loans payable of $2,025,000.

In 2008, the Company converted notes receivable from various executives and directors of the Company related to a joint venture investment in Japan into equity in the Japanese joint venture resulting in an increase in investments in joint ventures of $4,397,000 and a decrease in notes receivable of $4,397,000.

Supplemental cash flow information:

	Year ended December 31,		
	2010	**2009**	**2008**
Cash paid (received) during the year for:			
Interest	$ 8,400,000	$ 11,618,000	$ 6,945,000
Interest capitalized	$ 790,000	$	$ 999,000
Income taxes	$ 25,000	$ (4,130,000)	$ 4,000,000

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

NOTE 1 ORGANIZATION

Kennedy-Wilson Holdings, Inc., a Delaware corporation, and its subsidiaries (Kennedy-Wilson or KWH), provide various commercial and residential real estate services including property management, asset management, brokerage and marketing in the U.S. and Japan primarily to institutional investors, financial institutions, pension funds, and developers. Kennedy-Wilson, principally through joint venture investments, also acquires, renovates and resells commercial and residential real estate, and invests in discounted loan portfolios.

On November 13, 2009, the stockholders of Prospect Acquisition Company (Prospect) approved a merger with Kennedy-Wilson, Inc. (KWI), whereby KWI became a wholly-owned subsidiary of Prospect, which was renamed Kennedy-Wilson Holdings, Inc. (the Merger). The directors and officers of KWI immediately before the Merger became the directors and officers of Kennedy-Wilson, except that one of the KWI directors immediately before the Merger resigned and was replaced by a director from Prospect (see note 3).

Kennedy-Wilson has evaluated all subsequent events through the date that the financial statements are available for issuance.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

USE OF ESTIMATES The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

REVENUE RECOGNITION Revenue primarily consists of management fees, performance fees, commission revenue and sales of real estate.

Management fees are primarily comprised of property management fees, base asset management fees, and acquisition 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

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management fees are earned from limited partners of funds Kennedy-Wilson sponsors 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. 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.

Performance fees or carried interest are allocated to the general partner or special limited partner of Kennedy-Wilson s real estate funds based on the cumulative fund performance to date that are subject to preferred return to the limited partners. At the end of each reporting period, Kennedy-Wilson calculates the performance fee that would be due to the general partner and special limited partner interests for a fund, pursuant to the fund agreement, 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 Fee to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or (b) negative performance that would cause the amount due to the Kennedy-Wilson to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner. Substantially all of the carried interest is recognized in equity in joint venture income and in certain instances the performance fees are recognized in management and leasing fees in our consolidated statement of operations and comprehensive income (loss).

Commissions primarily consist of auction and real estate sales commissions and leasing commissions. 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, Kennedy-Wilson records commission revenues and expenses on a gross basis. Of the criteria listed in the Subtopic 605-45, Kennedy-Wilson is the primary obligor in the transaction, does not have inventory risk, performs all or part of the service, has credit risk, and has 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 Kennedy-Wilson s control are recognized upon the occurrence of such events.

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. Kennedy-Wilson follows the requirements for profit recognition as set forth by the Sale of Real Estate ASC Subtopic 360-20.

INVESTMENTS IN JOINT VENTURES Kennedy-Wilson has a number of joint venture interests, generally ranging from 5% to approximately 50%, that were formed to acquire, manage, and/or sell real estate. Investments in joint ventures which Kennedy-Wilson does not control are accounted for under the equity method of accounting as Kennedy-Wilson can exercise significant influence, but does 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 Kennedy-Wilson s share of undistributed income or loss 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 Kennedy-Wilson has continuing involvement are deferred until such time that the continuing involvement has been resolved and all the risks and rewards of ownership have passed to the buyer. Profit on sales to joint ventures in which Kennedy-Wilson retains 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 Kennedy-Wilson s continuing ownership percentage in the joint ventures.

Kennedy-Wilson has two investments in joint ventures, KW Property Fund III, L.P. (KW Fund III) and SG KW Venture I, LLC (the Funds) that are investment companies under the Investment Companies ASC Subtopic

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946-10. Thus, the Funds reflect their investments at fair value, with unrealized gains and losses resulting from changes in fair value reflected in earnings. Kennedy-Wilson has 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.

FAIR VALUE MEASUREMENTS Kennedy-Wilson accounts 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.

GOODWILL Goodwill results from the difference between the purchase price and the fair value of net assets acquired based upon the purchase method of accounting for business combinations. In accordance with Accounting for Goodwill ASC Subtopic 350-20, goodwill is reviewed for impairment on an annual basis. In testing for impairment, goodwill is assigned to the reporting unit based upon the amount of goodwill generated at the time of acquisition of the businesses by the reporting unit. An earnings multiple appropriate to the respective reporting unit is applied to the cash basis net operating income of the reporting unit. This process enables an approximation of the reporting unit s value, which is then compared to the net book value of the reporting unit. As a result of the evaluation performed as described above, Kennedy-Wilson has determined that there was no impairment of goodwill as of December 31, 2010, 2009 and 2008.

CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of cash and all highly liquid investments purchased with maturities of three months or less.

LONG-LIVED ASSETS Kennedy-Wilson reviews its long-lived assets (excluding goodwill) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Impairment of Long-Lived Assets ASC Subtopic 360-10. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are presented separately in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of the assets to be disposed of classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

INVESTMENTS IN LOAN POOL PARTICIPATIONS AND NOTES RECEIVABLE Interest income from investments in loan pool participations and notes receivable acquired with deteriorated credit quality are recognized on a level yield basis under the provisions of Loans and Debt Securities Acquired with Deteriorated Credit Quality ASC Subtopic 310-30, where a level yield model is utilized to determine a yield rate which, based upon projected future cash flows, accretes interest income over the estimated holding period. 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 OF FINANCIAL INSTRUMENTS The estimated fair value of financial instruments is determined using available market information and appropriate valuation methodologies. Considerable judgment, however, is necessary to interpret market data and develop the related estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material impact on the estimated fair value amounts.

NONCONTROLLING INTERESTS Noncontrolling interests are reported within equity as a separate component of Kennedy-Wilson s equity in accordance with Noncontrolling Interests in Consolidated Financial

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Statements ASC Subtopic 810-10. Revenues, expenses, gains, losses, net income or loss, and other comprehensive income are reported in the consolidated statement of operations and comprehensive income (loss) at the consolidated amounts and separately stated are amounts attributable to noncontrolling interests.

CAPITALIZED INTEREST Kennedy-Wilson capitalizes interest in accordance with Capitalization of Interest Cost ASC Subtopic 835-20 for assets that are undergoing development or entitlement activities in preparation for their planned principal operations. For qualifying equity investments, interest is capitalized in accordance with Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for Under the Equity Method ASC Subtopic 835-20. An appropriate interest rate is applied to Kennedy-Wilson s cash investment in the qualifying asset. The interest is credited against interest expense and added to the basis in the investment. Interest is capitalized when the development or entitlement activity commences and ceases when the investment has begun its planned principal operations.

GUARANTEES Kennedy-Wilson has certain guarantees associated with loans secured by assets held in various joint venture investments. The maximum potential amount of future payments (undiscounted) Kennedy-Wilson could be required to make under the guarantees was $28 million and $35 million at December 31, 2010 and 2009, respectively. The guarantees expire through 2011 and Kennedy-Wilson s performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales proceeds of the asset. Based upon Kennedy-Wilson s evaluation of guarantees under Estimated Fair Value of Guarantees ASC Subtopic 460-10, the estimated fair value of guarantees made as of December 31, 2010 and 2009 is immaterial.

CONCENTRATION OF CREDIT RISK Financial instruments that subject Kennedy-Wilson to credit risk consist primarily of accounts and notes receivable and cash equivalents. Credit risk is generally diversified due to the large number of entities composing Kennedy-Wilson s customer base and their geographic dispersion throughout the U.S. Kennedy-Wilson performs ongoing credit evaluations of its customers and debtors. Cash and cash equivalents are invested in institutions insured by government agencies. Certain accounts contain balances in excess of the insured limits.

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 unvested shares, convertible securities and warrants which were outstanding during the period calculated by the treasury stock method.

REPURCHASE OF EQUITY INSTRUMENTS Upon the decision to retire repurchased equity instruments, Kennedy-Wilson records the retirement as a reduction to additional paid in capital.

SHARE-BASED PAYMENT ARRANGEMENTS Kennedy-Wilson accounts for its 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 equity of Kennedy-Wilson. The cost of employee services is 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 Kennedy-Wilson accounts 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.

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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, Kennedy-Wilson recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Kennedy-Wilson records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

RECENT ACCOUNTING PRONOUNCEMENTS In December 2010, the FASB issued Accounting Standards Codification (ASC) Update No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations.* The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Kennedy-Wilson expects that the adoption of ASU 2010-29 will not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASC Update No. 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset a consensus of the FASB Emerging Issues Task Force, to clarify that loan modifications within loan pools accounted for as a single asset do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. Update No. 2010-18 is effective for interim and annual reporting periods ending after July 15, 2010, with early adoption permitted. This update is consistent with Kennedy-Wilson s current policy and, as such, Update No. 2010-18 has no material impact on the accompanying condensed consolidated financial statements.

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

RECLASSIFICATIONS Certain balances included in prior years financial statements have been reclassified to conform with current year presentation.

NOTE 3 BUSINESS COMBINATIONS

Prospect Acquisition Corp.

On November 13, 2009, KWI merged with Prospect, a blank check company formed for the purpose of acquiring control of, through a merger, capital stock exchange, asset acquisition, reverse capitalization, stock purchase, reorganization or other similar business combination, one or more operating businesses or assets in the financial services industry (the Merger). The resulting merged entity is KWH which continues the business

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operations of KWI, including all of their personnel and management. Consequently, the Merger achieved Prospect s business combination purpose while providing $89 million in cash for KWH to take immediate actions to acquire real estate and loans secured by real estate in the distressed real estate markets in the United States and abroad.

The Merger was accounted for as a reverse acquisition in accordance with Business Combinations ASC 805-40, because the stockholders of KWI immediately prior to the consummation of the Merger obtained effective control of Prospect, immediately following completion of the Merger, through (1) their stockholder interest comprising the largest single control block of shares in the post-merger company, (2) a majority of the members of the board of directors of the post-merger company being comprised of KWI directors (initially, six directors of KWI and one director of Prospect), and (3) all of the senior executive officers of the post-merger company being comprised of KWI executive officers. Accordingly, the assets, liabilities and results of operations of KWI have become the historical financial statements of Prospect at the closing of the Merger, and Prospect s assets (primarily cash and cash equivalents), liabilities and results of operations have been consolidated with KWI beginning on the date of the Merger, again becoming the combined entity of Kennedy-Wilson. The components of equity are the retained earnings and other equity balances of KWI immediately before the Merger with the capital share account of KWI adjusted to reflect the par value of the outstanding shares of Prospect. Assets, liabilities, and results of operations of Prospect have been consolidated at fair value in accordance with Business Combinations ASC Subtopic 805-10. All direct costs of the Merger have been charged to operations in the period that such costs were incurred.

Effective with the Merger, common stockholders of KWI received as consideration 20.4 million shares of Prospect s common stock and preferred stockholders of KWI received as consideration 5.6 million shares of Prospect s common stock, for an aggregate consideration of 26.0 million shares of Prospect common stock. In addition, 2.5 million shares of Prospect common stock were reserved for issuance to employees, non-employees and management of Kennedy-Wilson pursuant to an equity compensation plan adopted by Prospect s board of directors and approved by Prospect s stockholders on November 13, 2009. Upon completion of the Merger, Prospect shareholders were granted 12.8 million shares of KWH, with a fair value of $89 million, resulting in 31% ownership in the combined company Kennedy-Wilson. The net assets received from Prospect were $89 million of cash, no material liabilities were assumed, and no other identifiable intangible assets were acquired. Because the value of the consideration given to Prospect equals the fair value of the net identifiable assets, no goodwill was recorded from the Merger.

Merger related costs (in millions and included in the accompanying consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2009:

Compensation and related	$ 12.5
General and administrative	3.6
Total	$ 16.1

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The amount of Prospect revenue and earnings included in the accompanying consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2009 and the revenue and earnings of the combined entity had the acquisition date been January 1, 2009 and January 1, 2008, are as follows:

(Unaudited, numbers in thousands, except for per share amounts)	Revenue	Net Income Attributable to Kennedy-Wilson common shareholders	Earnings Per Share
Actual Prospect from November 13, 2009 December 31, 2009	$ 20	$ 16	$
Supplemental pro forma from January 1, 2009 December 31, 2009	86,295	3,323	0.09
Supplemental pro forma from January 1, 2008 December 31, 2008	36,034	1948	0.05

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

Fairways 340, LLC

In June 2010, Kennedy-Wilson acquired its partners interest to obtain 100% of the interest in Fairways 340, LLC (Fairways) that was previously accounted for under the equity method. The assets, liabilities, and results of the operations of Fairways at the date of acquisition were consolidated at fair value and direct costs of the business combination have been charged to operations in the period that such costs were incurred in accordance with Business Combinations ASC Subtopic 805-10. Kennedy-Wilson had a 49.83% ownership interest and equity with a fair value of $8.9 million before the combination and the combination was considered to be achieved in stages. As a result of remeasuring its basis at fair value (utilizing an income approach) upon the combination, Kennedy-Wilson recorded a remeasurement gain in the amount of $2.1 million in the accompanying consolidated statement of operations and comprehensive income (loss).

Subsequently, in October 2010, Kennedy-Wilson sold a controlling interest in Fairways to KW Fund III (of which KWH owns an 11.62% interest in) retaining a direct 50% ownership interest. The sale, which was considered in substance a sale of real estate, resulted in a gain of $0.7 million, after deferral of $0.1 million for the retained ownership interest, which is included in the accompanying consolidated statements of operations and comprehensive income (loss). During the period in which Fairways was consolidated, Kennedy-Wilson recorded $1.2 million in rental revenue, $0.6 million in rental and other expenses, $0.4 million in depreciation expense, and $0.3 million in interest expense in the accompanying consolidated statement of operations and comprehensive income (loss). At December 31, 2010, Fairways is presented as an equity method investment in joint venture.

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NOTE 4 NOTES RECEIVABLE

Notes receivable consists of the following:

	December 31, 2010	December 31, 2009
Note receivable, fixed interest rate of 10%, interest only, due December 2011, secured by personal property	$ 485,000	$ 500,000
Note pool acquired with deteriorated credit quality consisting of loans secured by collateral located in Southern California, and Las Vegas, Nevada with various interest rates and maturities. (see additional discussion below)	18,402,000	
Note receivable, fixed interest rate of 8%, interest only, due May 2012, secured by personal guarantees of borrowers	1,000,000	
Note receivable, fixed interest rate of 12%, interest only, due September 2012	377,000	
Other		41,000
Total notes receivable	20,264,000	541,000
Note receivable from a joint venture investment, fixed interest rate of 10%, principal and accrued interest, secured by deed of trust, repaid in 2010		805,000
Note receivable from a joint venture investment, fixed interest rate of 10% payments due from positive NOI, otherwise principal and accrued interest secured by deed of trust, repaid in 2010		1,352,000
Note receivable from a joint venture investment, fixed interest rate of 15%, principal and accrued interest due December 2011, secured by deed of trust	2,898,000	4,487,000
Note receivable from a joint venture investment, fixed interest rate of 10%, principal and accrued interest due December 2011	939,000	
Total notes receivable from related parties	3,837,000	6,644,000
	$ 24,101,000	$ 7,185,000

In 2010, Kennedy-Wilson entered into an arrangement to purchase a pool of loans or notes receivable with deteriorated credit quality from a bank for $25.3 million. Kennedy-Wilson expects to accrete $4.3 million in interest income on the notes receivable over the estimated collection period. The amount contractually due under the terms of the notes as of December 31, 2010 is $33.3 million. Contractual payments of principal and interest of $0.1 million are due monthly. During the year ended December 31, 2010, Kennedy-Wilson has accreted $2.4 million as interest income on the notes receivable in the accompanying consolidated statements of operations and comprehensive income (loss). As of December 31, 2010, the assets and debt related to the notes receivable are $18.4 million and $15.0 million (see Note 13), respectively.

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NOTE 5 REAL ESTATE

Kennedy-Wilson s investment in real estate includes the following:

	December 31, 2010	2009
Office building in Japan	$ 9,279,000	$ 8,375,000
House in Kona, Hawaii	8,724,000	8,724,000
204-unit residential apartment complex in Lompoc, California	25,780,000	25,707,000
2,700 acres of ranch land in Oahu, Hawaii	36,726,000	
Residential land in Kona, Hawaii	4,101,000	
Other	2,097,000	845,000
	86,707,000	43,651,000
Less: Accumulated depreciation	(4,006,000)	(3,070,000)
Total	$ 82,701,000	$ 40,581,000

During 2010, Kennedy-Wilson acquired a controlling interest and assumed the debt of a 2,700 acre ranch in Hawaii. The purchase price of the controlling interest combined with previously capitalized investments made by Kennedy-Wilson and the $16.0 million payoff of debt at a discount resulted in the new basis consolidated in the amount of $36.7 million as of December 31, 2010. The ranch is currently being developed for its intended use. As such, $0.8 million of avoidable interest has been capitalized to the project.

During 2010, Kennedy-Wilson purchased a note from a bank for $5.3 million secured by a house in Kona, Hawaii. The borrower subsequently transferred the deed to Kennedy-Wilson in lieu of a foreclosure. In addition, the borrower paid Kennedy-Wilson $0.2 million and issued an unsecured promissory note in the amount of $1.0 million.

During 2008, Kennedy-Wilson sold its interest in an entity that owned an office building located in Glendora, California for $1,488,000. The sale resulted in a gain of $564,000, which is included in rental and other income in the accompanying consolidated statements of income and comprehensive income (loss). Kennedy-Wilson continues to provide management services to the property and therefore it is not included in discontinued operations.

NOTE 6 REAL ESTATE AVAILABLE FOR SALE

In 2009, Kennedy-Wilson acquired a 149-unit condominium project located in Los Angeles, California. The project was purchased for the purposes of resale and was classified as held for sale at the date of acquisition. During 2009, Kennedy-Wilson sold 138 units with a historical cost basis of $34.4 million for a gain of $16.5 million. During 2010, Kennedy-Wilson sold the 11 remaining units with a historical cost basis of $2.5 million for a gain of $1.2 million.

NOTE 7 INVESTMENTS IN JOINT VENTURES

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

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Summarized financial data of the joint ventures is as follows:

	December 31, 2010				
	KW Residential, LLC	Greater than 20% (1)	10% - 20% (2)	Other	Total
Balance sheets for equity method investments:					
Assets					
Cash and restricted cash	$ 26,792,000	$ 25,248,000	$ 396,000	$ 25,647,000	$ 78,083,000
Real estate	609,430,000	215,473,000	119,252,000	1,787,396,000	2,731,551,000
Other	10,571,000	7,056,000	28,583,000	183,125,000	229,335,000
Total assets	$ 646,793,000	$ 247,777,000	$ 148,231,000	$ 1,996,168,000	$ 3,038,969,000
Liabilities					
Debt	$ 338,228,000	$ 81,544,000	$ 66,198,000	$ 1,351,208,000	$ 1,837,178,000
Other	18,457,000	4,219,000	3,273,000	44,454,000	70,403,000
Total liabilities	356,685,000	85,763,000	69,471,000	1,395,662,000	1,907,581,000
Partners capital					
Kennedy Wilson	108,265,000	35,807,000	36,182,000	76,713,000	256,967,000
Other partners	181,843,000	126,207,000	42,578,000	523,793,000	874,421,000
Total partners capital	290,108,000	162,014,000	78,760,000	600,506,000	1,131,388,000
Total liabilities and partners capital	$ 646,793,000	$ 247,777,000	$ 148,231,000	$ 1,996,168,000	$ 3,038,969,000

	December 31, 2009		
	KW Residential, LLC	Other	Total
Balance sheets for equity method investments:			
Assets			
Cash and restricted cash	$ 32,343,000	$ 18,721,000	$ 51,064,000
Real estate	548,927,000	1,759,495,000	2,308,422,000
Other	12,965,000	169,622,000	182,587,000
Total assets	$ 594,235,000	$ 1,947,838,000	$ 2,542,073,000
Liabilities			
Debt	$ 307,877,000	$ 1,045,862,000	$ 1,353,739,000
Other	11,618,000	51,234,000	62,852,000
Total liabilities	319,495,000	1,097,096,000	1,416,591,000
Partners capital			
Kennedy Wilson	91,276,000	87,766,000	179,042,000
Other partners	183,464,000	762,976,000	946,440,000
Total partners capital	274,740,000	850,742,000	1,125,482,000
Total liabilities and partners capital	$ 594,235,000	$ 1,947,838,000	$ 2,542,073,000

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Total investments are comprised of the following:

	Year ended December 31, 2010				
	KW Residential, LLC	Greater than 20% (1)	10% - 20% (2)	Other	Total
Equity method	$ 108,265,000	$ 35,807,000	$ 36,182,000	$ 76,713,000	$ 256,967,000
Unrealized gain on fair value option			7,384,000		7,384,000
	108,265,000	35,807,000	43,566,000	76,713,000	264,351,000
Cost method				2,535,000	2,535,000
Total Investments	$ 108,265,000	$ 35,807,000	$ 43,566,000	$ 79,248,000	$ 266,886,000

	Year ended December 31, 2009		
	KW Residential, LLC	Other	Total
Equity method	$ 91,276,000	$ 87,766,000	$ 179,042,000
Unrealized gain on fair value option		4,907,000	4,907,000
	91,276,000	92,673,000	183,949,000
Cost method		1,303,000	1,303,000
Total Investments	$ 91,276,000	$ 93,976,000	$ 185,252,000

	Year ended December 31, 2010				
	KW Residential, LLC	Greater than 20% (1)	10% - 20% (2)	Other	Total
Statements of income:					
Revenues	$ 34,784,000	$ 24,059,000	$ 11,214,000	$ 130,884,000	$ 200,941,000
Depreciation	11,857,000	4,461,000	2,369,000	38,143,000	56,830,000
Interest	12,235,000	6,177,000	3,041,000	45,765,000	67,218,000
Other expenses	15,920,000	18,695,000	5,968,000	71,702,000	112,285,000
Total expenses	40,012,000	29,333,000	11,378,000	155,610,000	236,333,000
Gains on extinguishment of debt		9,092,000		4,734,000	13,826,000
Net (loss) Income	$ (5,228,000)	$ 3,818,000	$ (164,000)	$ (19,992,000)	$ (21,566,000)
Net income allocation:					
Kennedy Wilson	$ (1,670,000)	$ 7,238,000	$ 2,856,000	$ (353,000)	$ 8,071,000
Other partners	(3,558,000)	(3,420,000)	(3,020,000)	(19,639,000)	(29,637,000)
Net (loss) income	$ (5,228,000)	$ (3,818,000)	$ (164,000)	$ (19,992,000)	$ (21,566,000)

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	Year ended December 31, 2009			Year ended December 31, 2008		
	KW Residential, LLC	Other	Total	KW Residential, LLC	Other	Total
Statements of income:						
Revenues	$ 32,750,000	$ 140,119,000	$ 172,869,000	$ 28,323,000	$ 173,146,000	$ 201,469,000
Depreciation	12,021,000	36,221,000	48,242,000	5,413,000	40,155,000	45,568,000
Interest	14,828,000	51,764,000	66,592,000	12,936,000	51,689,000	64,625,000
Other expenses	17,361,000	66,228,000	83,589,000	14,044,000	61,969,000	76,013,000
Total expenses	44,210,000	154,213,000	198,423,000	32,393,000	153,813,000	186,206,000
Gains on extinguishment of debt	28,320,000		28,320,000			
Net (loss) Income	$ 16,860,000	$ (14,094,000)	$ 2,766,000	$ (4,070,000)	$ 19,333,000	$ 15,263,000
Net income allocation:						
Kennedy Wilson	5,949,000	3,107,000	9,056,000	(694,000)	4,812,000	4,118,000
Other partners	10,911,000	(17,201,000)	(6,290,000)	(3,376,000)	14,521,000	11,145,000
Net (loss) income	$ 16,860,000	$ (14,094,000)	$ 2,766,000	$ (4,070,000)	$ 19,333,000	$ 15,263,000

(1) Investments in these joint ventures exceeds 20% of the total assets of Kennedy-Wilson as of December 31, 2010 or equity in income from the joint venture for the year ended December 31, 2010 exceeds 20% of Kennedy-Wilson s income from continuing operations before income taxes for the year ended December 31, 2010.

(2) Investments in these joint ventures exceeds 10% of the total assets of Kennedy-Wilson at December 31, 2010 or equity in income from the joint venture for the year ended December 31, 2010 exceeds 10% of Kennedy-Wilson s income from continuing operations before income taxes for the year ended December 31, 2010.

Equity in joint venture income for the years ended December 31:

	2010	2009	2008
Net income allocation	$ 8,071,000	$ 9,056,000	$ 4,118,000
Unrealized gain on fair value option	2,477,000	(1,037,000)	5,979,000
	$ 10,548,000	$ 8,019,000	$ 10,097,000

In 2010, Kennedy-Wilson formed a new joint venture platform which provides for a capital commitment from a joint venture partner in the amount of $250 million with Kennedy-Wilson s capital commitment totaling $28 million. The commitment from the partner has a three-year investment period and each proposed investment within the platform is at the discretion of the joint venture partner. As of December 31, 2010, the partner has contributed $132.3 million of capital into three joint ventures. Through December 31, 2010, Kennedy-Wilson has contributed capital in the amount of $14.7 million, including $1.7 million of noncontrolling interests, into the three joint ventures. Of this amount, $12.7 million, including $1.3 million of noncontrolling interests, was used to buyout ownership interests from an existing joint venture partner in KW Residential, LLC (KWR). The remaining amount of $2.0 million, including $0.4 million of noncontrolling interests, was used to invest in new investments.

Additionally, during 2010, Kennedy-Wilson invested $14.2 million, including $4.4 million of noncontrolling interests, in six new joint ventures and recapitalized five joint ventures with $11.5 million, including $0.3 million of noncontrolling interests, to buyout ownership interests from existing joint venture partners.

Also, during 2010, Kennedy-Wilson made $31.0 million in additional contributions to existing joint venture investments. Of this amount $17.4 million was used by several joint ventures to pay down and/or refinance existing debt, which resulted in $5.3 million of gains from the early extinguishment of debt that is included in equity in joint venture income in the accompanying consolidated statements of operations and comprehensive income (loss).

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In 2010, Kennedy-Wilson received $16.1 million in distributions from its joint ventures, of which $5.9 million was from operations and $10.2 million was return of capital.

In 2010, Kennedy-Wilson recognized $10.1 million in gains from foreign currency translation adjustments from its investment in KWR. The foreign currency gain is included in other comprehensive income, net of deferred income taxes of $4.1 million in the accompanying consolidated statements of income and comprehensive income (loss).

Kennedy-Wilson has determined that it has no investments in variable interest entities as of December 31, 2010 and had investments in two variable interest entities as of December 31, 2009 and has concluded that Kennedy-Wilson is not the primary beneficiary. As of December 31, 2009, the variable interest entities had assets totaling $132 million with Kennedy-Wilson s exposure to loss as a result of its interests in these variable interest entities totaling $7.0 million related to its equity contributions. In addition, as of December 31, 2009, Kennedy-Wilson had $14.2 million in the form of loan guarantees that represented 20% of the mortgage loans of the underlying variable interest entities.

Investments in which Kennedy-Wilson does not have significant influence are accounted for under the cost method of accounting. As of December 31, 2010 and 2009, Kennedy-Wilson had five investments accounted for under the cost method with a carrying value totaling $2.5 million and $1.3 million, respectively.

Distributions in excess of Kennedy-Wilson s basis in investments in joint ventures totaling $56,000 were deferred for the year ended December 31, 2008 due to continuing involvement in the real estate sold by the joint venture. Total deferred revenues and gains on sale of investments in joint ventures included in accrued expenses and other liabilities were $3,943,000 and $3,664,000 at December 31, 2010 and 2009, respectively.

NOTE 8 INVESTMENTS IN LOAN POOL PARTICIPATIONS

In 2010, Kennedy-Wilson, in partnership with a bank, acquired two loan portfolios totaling approximately $424.5 million in unpaid principal balance. The loan portfolios, which were acquired from a regional bank, are comprised of loans secured by residential, hotel, retail, office, land, multifamily and other assets predominantly located in Southern California. Kennedy-Wilson expects to accrete $21.9 million, including $4.1 million of noncontrolling interest, in interest income from loan pool participations over the estimated collection period. The amount contractually due under the terms of the notes as of December 31, 2010 is $306.7 million. Contractual payments of principal and interest of $1.1 million are due monthly. During 2010, Kennedy-Wilson recognized $9.3 million, including $1.4 million in noncontrolling interests, of interest income from loan pool participations and notes receivable in the accompanying consolidated statement of operations and comprehensive income (loss). Kennedy- Wilson s investment balance was $25.2 million at December 31, 2010.

NOTE 9 FAIR VALUE MEASUREMENTS AND THE FAIR VALUE OPTION

FAIR VALUE MEASUREMENTS Fair Value Measurements and Disclosures ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

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The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2010

	Level 1	Level 2	Level 3	Total
Available for sale securities	$ 33,000	$	$	$ 33,000
Investments in joint ventures			34,654,000	34,654,000
	$ 33,000	$	$ 34,654,000	$ 34,687,000

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2009

	Level 1	Level 2	Level 3	Total
Available for sale securities	$ 22,000	$	$	$ 22,000
Investments in joint ventures			19,590,000	19,590,000
	$ 22,000	$	$ 19,590,000	$ 19,612,000

The following table presents changes in Level 3 investments for the years ended December 31:

	2010	2009	2008
Beginning balance	$ 19,590,000	$ 15,088,000	$ 22,000
Unrealized and realized gains	6,199,000	2,725,000	7,047,000
Purchases	10,795,000	1,956,000	8,019,000
Sales	(1,930,000)	(179,000)	
Ending Balance	$ 34,654,000	$ 19,590,000	$ 15,088,000

The change in unrealized gains on level 3 investments during 2010, 2009 and 2008 for investments still held as of December 31, 2010, 2009 and 2008 was $6.2 million, $2.6 million, $7.0 million, respectively.

INVESTMENT IN INVESTMENT COMPANIES Kennedy-Wilson records its investment in the Funds based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. The Funds report their investments in real estate at fair value based on valuations of the underlying real estate holdings and indebtedness securing the real estate. The valuations of real estate were based on management estimates of the real estate assets using an income approach. Increases in fair value for the Funds of $3.7 million, $3.8 million, and $1.1 million were recorded in equity in joint venture income in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2010, 2009 and 2008, respectively. The indebtedness securing the real estate and the investments in debt securities were valued, in part, based on third party valuations and management estimates also using an income approach. Kennedy-Wilson s investment balance in the Funds was $20.6 million and $7.9 million at December 31, 2010 and 2009, respectively, which are included in investments in joint ventures in the

accompanying consolidated balance sheet. As of December 31, 2010, Kennedy-Wilson has unfunded capital commitments to the Funds in the amounts of $3.3 million and $6.0 million, respectively.

FAIR VALUE OPTION Kennedy-Wilson has elected the fair value option for two investments in joint venture entities that were acquired during 2009. Kennedy-Wilson elected to record these investments at fair value to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. The increase, decrease, and increase in fair value for these investments of $2.5 million, $1.0

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million, and $6.0 million were recorded in equity in joint venture income in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2010, 2009, and 2008, respectively. Kennedy-Wilson determines the fair value of these investments based upon the income approach, utilizing estimates of future cash flows, discount rates and liquidity risks.

FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, deferred and accrued income taxes, and income tax receivable approximate fair value due to their short-term maturities. The carrying value of notes receivable (excluding related party notes receivable as they are presumed not to be an arm s length transaction) approximate fair value as they are negotiated based upon the fair value of loans with similar characteristics. Bank lines of credit and debt approximate fair value as the terms are comparable to the terms currently being offered to Kennedy-Wilson.

NOTE 10 OTHER ASSETS

Office furniture and equipment and leaseholds improvements are carried at cost. The office furniture and equipment are depreciated over a period of three to ten years and the leasehold improvements are amortized over their estimated useful lives or the lease term, whichever is shorter. Other assets consist of the following:

	December 31,	
	2010	2009
Office furniture and equipment	$ 3,020,000	$ 1,404,000
Less: Accumulated depreciation	(661,000)	(837,000)
	2,359,000	567,000
Prepaid expenses	3,316,000	4,316,000
Loan fees, net of accumulated amortization of $467,000 and $1,213,000 at December 31, 2010 and 2009, respectively	1,629,000	1,248,000
Deposits and other, net of accumulated amortization of $23,000 and $54,000 at December 31, 2010 and 2009, respectively	1,546,000	874,000
	$ 8,850,000	$ 7,005,000

Depreciation and amortization expense related to the above depreciable assets was $279,000, $209,000, and $256,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

NOTE 11 NOTES PAYABLE

Notes payable were incurred primarily in connection with the acquisition of joint venture investments and include the following:

	December 31,	
	2010	2009
Note payable, interest payable monthly, $467,000 monthly principal payments,variable interest rate at the lenders base rate, 4% at December 31, 2010, unsecured, due August 2014	$ 20,533,000	$ 26,133,000
Note payable, fixed interest rate of 5%, interest payable monthly, unsecured, due November 2011	4,250,000	
	$ 24,783,000	$ 26,133,000

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Kennedy-Wilson is required to comply with debt covenants for its borrowings under the $20.5 million outstanding loan amount. The covenants include a tangible net worth, minimum liquidity, debt service coverage ratio, and a requirement to be profitable. At December 31, 2010, Kennedy-Wilson was in compliance with all covenants.

The aggregate maturities of notes payable subsequent to December 31, 2010 are: $9,850,000 in 2011, $5,600,000 in 2012, $5,600,000 in 2013, and $3,733,000 in 2014.

NOTE 12 BORROWINGS UNDER LINES OF CREDIT

In July 2010, Kennedy-Wilson entered into a new unsecured revolving credit facility with US Bank and East West Bank, which effectively increased its existing revolving credit facility from $30 million to $75 million, extended the maturity date to August 2013, and established an interest rate floor of 4% . The facility is available for acquisitions and working capital. The facility bears interest at rates ranging from LIBOR plus 2.50% to LIBOR plus 3.00%, with a floor of 4%. During 2010, the average outstanding borrowings under the facility was $16.3 million with the high and low outstanding balances being $27.8 million and $0, respectively. During 2009, the average outstanding borrowings under the previous facility was $19.1 million with the high and low outstanding balances being $26.0 million and $10.0, respectively. The borrowings under this facility had interest rates ranging from 3.23% to 4.00% and 3.25% to 4.50% during the years ended December 31, 2010 and 2009, respectively. The principal amount outstanding under this facility was $27.8 million as of December 31, 2010 and $10.0 million as of December 31, 2009.

Kennedy-Wilson s ability to borrow under this facility is subject to compliance with certain financial covenants, including maximum balance sheet leverage and fixed charge coverage ratios. As of December 31, 2010 and 2009, Kennedy-Wilson was in compliance with the covenants.

NOTE 13 MORTGAGE LOANS PAYABLE

	December 31, 2010	2009
Mortgage loan payable, variable interest rate of 1-month LIBOR plus 1.25% (1.51% at December 31, 2010), interest payable monthly, due January 2012, secured by multi-family property	17,497,000	20,740,000
Mortgage loan payable, variable interest rate of long-term prime lending rate plus 3.50% (4.80% at December 31, 2010), prime rate adjusts in April and August, interest and principal paid monthly, balance due October 2012, secured by office building	2,784,000	2,778,000
Mortgage loan payable, variable interest rate of 1.00% over prime, interest due quarterly, principal due based on release prices for settled loans, unpaid principal due upon maturity on May 2013	14,968,000	
Mortgage loan payable, variable interest rate of prime, repaid in 2010		450,000
	35,249,000	23,968,000

During 2010, Kennedy-Wilson assumed debt secured by a project in Hawaii (see Note 5) of $32.7 million and simultaneously settled the note for $16.0 million, resulting in a gain on early extinguishment of debt in the amount of $16.7 million (net of closing costs).

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The aggregate maturities of mortgage loans payable subsequent to December 31, 2010 are: $311,000 in 2011, $19,970,000 in 2012, and $14,968,000 in 2013.

NOTE 14 CONVERTIBLE SUBORDINATED DEBT

In July 2010, Kennedy-Wilson extinguished its convertible subordinated debt with a face value of $30.0 million for $32.5 million. The convertible subordinated debt was originally issued with a beneficial conversion feature and the carrying value of the convertible subordinated debt on the day of extinguishment was $27.7 million, net of the unamortized beneficial conversion of $2.3 million. The intrinsic value of the beneficial conversion feature was measured at $0.1 million on the day of extinguishment and was recorded as a reduction to additional paid in capital. The difference between the extinguishment amount and the carrying value of $4.8 million is included in the accompanying consolidated statement of operations and comprehensive income (loss) as a loss on early extinguishment of debt.

NOTE 15 JUNIOR SUBORDINATED DEBENTURES

In 2007, Kennedy-Wilson issued junior subordinated debentures in the amount of $40 million. The debentures were issued to a trust established by Kennedy-Wilson, which contemporaneously issued $40 million of trust preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06%, and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly with the principal due in 2037.

Prior to April 30, 2012, Kennedy-Wilson may redeem the debentures, upon a Special Event, as defined in the debentures, at a redemption price equal to 107.5% of the outstanding principal amount. After April 30, 2012, Kennedy-Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

Kennedy-Wilson is required to be in compliance with certain financial covenants, including maximum balance sheet leverage and fixed charge coverage ratios. As of December 31, 2010, Kennedy-Wilson was in compliance with the covenants.

NOTE 16 RELATED PARTY TRANSACTIONS

In 2010, in connection with the acquisition of third-party partners ownership interest in various joint venture investments, Kennedy-Wilson acquired the interests of various related party entities consisting of management and directors of Kennedy-Wilson for their net investments totaling $3.0 million.

During 2010, a noncontrolling entity comprised of Kennedy-Wilson executives co-invested $1.3 million with Kennedy-Wilson in the entity that invested in the venture that acquired a partial interest in KWR.

In 2010, Kennedy-Wilson sold a 50% ownership interest in Fairways and its entire 5% interest in another joint venture to KW Fund III in which it also has an ownership interest of 11.62% and is the general partner. The gain recognized on the sale of Fairways in the amount of $0.7 million is included in the accompanying consolidated statements of operations and comprehensive income (loss). The gain recognized on the sale of the 5% joint venture interest in the amount of $0.6 million is included in equity in income of joint ventures in the accompanying consolidated statements of operations and comprehensive income (loss). Gains on the sale of Fairways and the 5% joint venture interest were deferred in the amount of $0.2 million and are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

In 2010, the firm of Kulik, Gottesman & Mouton Ltd. was paid $177,000 for legal services provided by the firm and $43,000 for director s fees for Kent Mouton, a partner in the firm and a member of Kennedy-Wilson s Board of Directors, respectively. For 2009, the amounts were $366,000 and $25,000, respectively. For 2008, the

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amounts were $286,000 and $30,000, respectively. For the year ended December 31, 2009, Mr. Mouton received a payment of $10,000 upon the termination of the 2009 Equity Participation Plan. (See Note 19)

The firm of Solomon, Winnett & Rosenfield was paid $234,000, $219,000, and $194,000 for income tax services provided by the firm during the years ended December 31, 2010, 2009, and 2008, respectively. Jerry Solomon is a partner in the firm and a member of Kennedy-Wilson s Board of Directors. For the years ended December 31, 2010, 2009, and 2008, Mr. Solomon was paid director s fees in the amounts of $40,000, $22,000, and $29,000, respectively. For the year ended December 31, 2009, Mr. Solomon received a payment of $10,000 upon the termination of the 2009 Equity Participation Plan. (See Note 19)

In 2009, Kennedy-Wilson sold its ownership interest in two consolidated land projects to KW Fund III in which it also had an ownership interest of 7.64%. The gains recognized on the sale of these two ownership interests totaled $946,000 and are included in the accompanying consolidated statements of operations and comprehensive income (loss). Gains on the sale of the joint venture interests were deferred in the amount of $44,000 and are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

In 2008, Kennedy-Wilson sold its ownership interest in three joint venture investments to KW Fund III in which it also had an ownership interest of 7.64%. The gains recognized on the sale of these three ownership interests totaled $1,409,000 and are included in equity in income of joint ventures in the accompanying consolidated statements of operations and comprehensive income (loss). Gains on the sale of the joint venture interests were deferred in the amount of $56,000 and are included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

In 2009, Kennedy-Wilson entered into a seven-year lease with an affiliate of a shareholder for its corporate offices in Beverly Hills, California commencing in January 2010 . In 2010, Kennedy-Wilson amended the lease to provide for the rental of additional square footage. As of December 31, 2010, the future minimum lease payments under this agreement are as follows:

Year	
2011	$ 1,206,000
2012	1,244,000
2013	1,282,000
2014	1,321,000
2015	1,361,000
Thereafter	1,403,000
Total minimum payments	$ 7,817,000

Rental expense under this arrangement totaled $986,000 for the year ended December 31, 2010.

Kennedy-Wilson received fees and other income from affiliates and entities in which Kennedy-Wilson holds ownership interests in the following amounts:

	Year ended December 31,		
	2010	**2009**	**2008**
Property management and leasing fees	$ 12,417,000	$ 10,138,000	$ 8,380,000
Commissions	5,375,000	727,000	4,295,000
Sale of real estate	9,535,000	6,698,000	
Total related party revenue	$ 27,327,000	$ 17,563,000	$ 12,675,000

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In 2010, Kennedy-Wilson received reimbursement from KWR for payroll and services in the amount of $222,000 and $599,000, respectively. For 2009 and 2008, Kennedy-Wilson was paid $273,000 and $270,000, respectively, for payroll and $147,000 and $139,000, respectively, for consulting services.

NOTE 17 INCOME TAXES

The (benefit from) provision for income taxes consists of the following:

	Year ended December 31,		
	2010	**2009**	**2008**
Current			
Federal	$ (2,450,000)	$ (9,461,000)	$ (2,416,000)
State	18,000	228,000	(351,000)
	(2,432,000)	(9,233,000)	(2,767,000)
Deferred			
Federal	5,583,000	5,987,000	2,905,000
State	576,000	(715,000)	467,000
	6,159,000	5,272,000	3,372,000
Total	$ 3,727,000	$ (3,961,000)	$ 605,000

A reconciliation of the statutory federal income tax rate of 34% with Kennedy-Wilson s effective income tax rate is as follows:

	Year ended December 31,		
	2010	**2009**	**2008**
Tax computed at statutory rate	$ 3,472,000	$ (4,630,000)	$ 414,000
State income taxes, net of federal benefit	393,000	(681,000)	69,000
Non-vested stock expense		525,000	375,000
Capitalized transaction costs		528,000	
Adjustment to investment basis		954,000	
Extinguishment of debt	818,000		
Noncontrolling interest and other	(956,000)	(657,000)	(253,000)
Provision for (benefit from) income taxes	$ 3,727,000	$ (3,961,000)	$ 605,000

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The following summarizes the effect of deferred income tax items and the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows:

	Year ended December 31, 2010	2009
Deferred tax assets:		
Accrued reserves	$ 196,000	$ 194,000
Stock option expense	1,714,000	309,000
Net operating loss carryforward and credits	9,145,000	1,236,000
Hedging transactions	1,032,000	
Marketable securities	289,000	294,000
Accrued bonuses		456,000
Total deferred tax assets	12,376,000	2,489,000
Deferred tax liabilities:		
Depreciation and amortization	6,644,000	6,366,000
Prepaid expenses and other	814,000	1,096,000
Investment basis and reserve differences	21,701,000	3,040,000
Accrued payroll		
Unrealized gain on fair value option		3,639,000
Foreign currency translation	6,773,000	1,472,000
Capitalized interest	2,315,000	2,315,000
Total deferred tax liabilities	38,247,000	17,928,000
Net deferred tax liability	$ 25,871,000	$ 15,439,000

Based upon the level of historical taxable income and projections for future taxable income over the periods which Kennedy-Wilson s gross deferred tax assets are deductible, management believes it is more likely than not Kennedy-Wilson will realize the benefits of these deductible differences as of December 31, 2010.

Management has considered the likelihood and significance of possible penalties associated with Kennedy-Wilson s current and intended filing positions and has determined, based on its assessment, that such penalties, if any, would not be expected to be material.

Kennedy-Wilson s federal income tax returns remain open to examination for the tax years 2007 through 2010. Kennedy-Wilson is currently under examination for 2008 and 2009.

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NOTE 18 COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under scheduled operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

Year	
2011	$ 1,865,000
2012	1,579,000
2013	1,425,000
2014	1,396,000
2015	1,397,000
Thereafter	1,403,000
Total minimum payments	$ 9,065,000

Net rental expense amounted to $2.2 million, $2.0 million, and $1.6 million for the years ended December 31, 2010, 2009, and 2008, respectively, and is included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income (loss).

EMPLOYMENT AGREEMENTS Kennedy-Wilson has entered into employment agreements with its Chief Executive Officer and its Chief Executive Officer of the Commercial Investment Group, which provide for annual base compensation in the aggregate amounts of $950,000 and $750,000, respectively, and expire in December 2019 and January 2014, respectively. The employment agreements provided for the payment of cash bonuses, in connection with the Merger, in the amounts of $4,850,000 and $2,000,000, respectively, and were paid in November 2009. Additionally, the employment agreements provide for cash bonuses of $2,425,000 and $1,000,000, respectively, based on Kennedy-Wilson s achievement of certain performance targets as described in the employment agreement and were paid on April 1, 2010 . The employment agreements also provide for the issuance of 556,875 shares of restricted stock to each officer that vest in equal amounts over five years provided certain performance targets are achieved (see Note 19). Also, in connection with the Merger, Kennedy-Wilson forgave a note, including principal and interest, due from its Chief Executive Officer in the total amount of $4,281,000. Additionally, the employment agreements provide for the payment of an annual discretionary bonus in an amount determined in the sole and absolute discretion of the Compensation Committee of the board of directors.

Kennedy-Wilson also has employment agreements with two other non-officer employees which provide for aggregate minimum annual compensation of $995,000 and expire in 2011 and 2014.

LITIGATION Kennedy-Wilson is currently a defendant in certain routine litigation arising in the ordinary course of business. It is the opinion of management and legal counsel that the outcome of these actions will not have a material effect on the financial position or results of operations of Kennedy-Wilson.

NOTE 19 STOCK COMPENSATION PLANS

In March 2009, KWI adopted the 2009 Equity Participation Plan (the Equity Plan) that allowed for the grant of up to 2,852,312 shares of common stock. KWI granted 1,426,156 performance awards and 1,426,156 service awards with an exercise price of $7.89. The performance and service awards were scheduled to vest ratably over a seven year period with settlement in shares of common stock of KWI. The option awards would have expired at the end of ten years. The Equity Plan allowed participants to settle vested awards with cash, a full recourse note, or net share settlement. Kennedy-Wilson determined the compensation expense to be recorded under the Equity Plan using the Black-Scholes-Merton option pricing model. The option pricing model inputs used to determine the grant date fair value of $10.3 million were an expected stock option term of 7 years, expected volatility of 43.4%, expected risk free rate of 2.5%, and no expected dividends. In November 2009, the Equity Plan was canceled and replaced by another 2009 Equity Participation Plan (the New Equity Plan). Upon termination of the Equity Plan, the board of directors of KWI approved a cash payment to option holders totaling $1.5 million.

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On November 13, 2009, Kennedy-Wilson adopted the the New Equity Plan that allows for the grant of up to approximately 2.5 million shares of common stock. During 2010 and 2009, approximately 0.1 million and 2.4 million restricted share awards were granted to employees, respectively, which vest ratably over a five year period. Vesting of the restricted share awards is contingent upon the expected achievement of a performance target as of the initial vesting date of November 13, 2010 and each of the next four years thereafter. The performance targets were achieved for 2010. From inception of the plan through December 31, 2010, 467,781 shares have vested and been issued to participants and 18,562 shares have been forfeited. These restricted share awards are recognized as expense on a tranche by tranche basis over the five year performance period.

The cancellation and settlement of the Equity Plan along with the granting of new awards under the New Equity Plan was determined to be a plan modification. Therefore the aggregate compensation cost recognized as a result of the modification will be the remaining grant date fair value of the Equity Plan plus the incremental compensation cost resulting from the modification. The incremental compensation costs are measured as the grant date fair value of the restricted stock awards plus the cash paid to settle the Equity Plan awards less the fair value of the Equity Plan on the date of modification. Since, on the date of modification, the cumulative compensation cost recognized under the Equity Plan exceeded the cash paid to settle the award, no additional compensation costs were recorded as a result of the cash payment and it was recorded as a reduction to equity. The fair value of the Equity Plan on the date of modification was determined utilizing the Black-Scholes-Merton option pricing model. The option pricing model inputs used were an expected stock option term of 6.29 years, volatility of 41.9%, risk free interest rate of 2.95%, and no expected dividends.

As of December 31, 2010, there was $7.6 million of unrecognized compensation cost for the New Equity Plan related to unvested restricted shares and $6.2 million of unrecognized compensation cost for the Equity Plan. The cost for the New Equity Plan is expected to be recognized over a weighted average period of 2.0 years and the cost for the Equity Plan is expected to be recognized over a weighted average period of 3.1 years.

Compensation cost recognized for the years ended December 31, 2010 and 2009, was $8.1 million and $2.3 million, respectively, and is included in compensation and related expense in the accompanying statement of operations and comprehensive income (loss).

The following table sets forth activity under the New Equity Plan:

Nonvested at January 1, 2009	
Granted	2,357,443
Nonvested at December 31, 2009	2,357,443
Granted	132,500
Vested	(467,781)
Forfeited	(18,562)
Nonvested at December 31, 2010	2,003,600

KWI had the 1992 Incentive and Non-statutory Stock Option Plan (1992 Incentive and Option Plan), which included a Plan A and Plan B and the 1992 Non-Employee Director Stock Option Plan (Plan C). An aggregate of 6,465,239 shares of common stock were reserved for issuance under Plans A and B and 308,050 shares of common stock were reserved for issuance under Plan C.

During the year ended December 31, 2009, the last remaining 55,448 options granted under Plan C of the KWI s 1992 Incentive and Option Plan were exercised. During the year ended December 31, 2008, the last remaining 42,785 options granted under Plan B of the 1992 Incentive and Option Plan were exercised.

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The following table sets forth activity under the option plans:

	Options	Range of Exercise Prices	Weighted Average Exercise Price
Balance, January 1, 2008	98,233	$1.00 - $ 2.32	$1.55
Exercised	(42,785)	$2.17	$2.17
Balance, December 31, 2008	55,448	$1.00 - $2.32	$1.07
Granted	2,852,312	$7.89	$7.89
Exercised	(55,448)	$1.00 -$ 2.32	$1.07
Cancelled	(2,852,312)	$7.89	$7.89
Balance, December 31, 2009			

During 2001 and 2002, KWI s chairman and chief executive officer was granted a total of 6,465,239 shares of non-vested stock that were scheduled to vest over a period of eight to ten years. For the years ended December 31, 2009 and 2008, compensation expense was $1.5 million and $1.0 million, respectively, and is included in compensation and related expenses in the accompanying consolidated statements of operations and comprehensive income (loss). As of December 31, 2009 and 2008, the amount of non-vested shares deducted from additional paid-in capital was $0, and $1.5 million, respectively. During 2009, in connection with the Merger, the vesting of the remaining unvested shares was accelerated and the expense was included in compensation and related expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

NOTE 20 CAPITAL STOCK TRANSACTIONS

During 2010, Kennedy-Wilson repurchased 1,111,690 shares of its common stock at market for total consideration of $11,301,000. These shares are currently held in treasury.

During 2009 and 2008, Kennedy-Wilson acquired approximately 443,000 and 624,000 shares, respectively, of its common stock for total consideration of $3,690,000 and $6,170,000, respectively. These shares were subsequently retired.

During 2010, Kennedy-Wilson repurchased a total of 7,942,555 of its outstanding warrants for total consideration of $11,500,000. 9,807,445 of its warrants remain outstanding as of December 31, 2010. The warrants carry an exercise price of $12.50 with an expiration date of November 14, 2013. Kennedy-Wilson may call for redemption of the warrants in whole and not in part at a price of $0.01 per warrant if the share price of its common stock equals or exceeds $19.50 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the notice of redemption to warrant holders, or upon not less than 30 days prior written notice of redemption to each warrant holder.

During 2010, Kennedy-Wilson issued two series of Convertible Cumulative Preferred stock (together the Preferred Stock), series A (100,000 shares) and series B (32,550 shares), for total proceeds less issuance costs of $99.8 million and $32.5 million, respectively. The series A Preferred Stock is convertible into common stock at any time at the option of the holder prior to May 19, 2015 at a price of $12.41 per share and is mandatorily convertible into common stock on May 19, 2015. The series B Preferred Stock is convertible into common stock at any time at the option of the holder prior to November 3, 2018 at a price of $10.70 per share and is mandatorily convertible into common stock on November 3, 2018. The series A and series B Preferred Stock have dividend rates of 6.0% and 6.452%, respectively, payable quarterly.

The certificate of designations of the Preferred Stock contain provisions that require Kennedy-Wilson to commence an offer to purchase all shares of the Preferred Stock at a purchase price in cash per share of Preferred Stock equal to $1,150 plus all accumulated and accrued dividends upon the occurrence of a fundamental change, defined as a change of control. The parties have agreed that a change of control is deemed to occur when any person or group other than the purchaser of the Preferred Stock and its affiliates, or any officer or director of Kennedy-Wilson as of the issue date of the Preferred Stock, acquires directly or indirectly voting control or direction over more than 35% of the voting control of Kennedy-Wilson for a period of seven consecutive days following the earlier of the date the company becomes aware of such acquisition and the date such person or group files a Schedule 13D. This change of control provision is within Kennedy-Wilson s control as the Board of Directors, at its discretion, would be able to issue blank check Preferred Stock at any time for any reason which could dilute the person or group to below the 35% of the voting control threshold. As such, Kennedy-Wilson has concluded that the change of control is within the control of Kennedy-Wilson and therefore has classified the Preferred Stock as permanent equity in the accompanying consolidated balance sheets.

In connection with the issuance of the Preferred Stock, Kennedy-Wilson entered into registration rights agreements that allow for the holders of the Preferred Stock, with at least a 51% vote, to demand registration of the Preferred Stock (or converted common stock) on or after November 13, 2010. If Kennedy-Wilson does not satisfy the demand for registration, the holders of the Preferred Stock (or converted common stock) would be entitled to receive a payment in an amount equal to 1.50% per annum of the liquidation preference of $1,000 per share. There are sufficient shares of unregistered common stock authorized and unissued to accommodate the conversion feature.

In 2008, before preferred shares were converted to common shares and the shares were recast to match the presentation of Prospect in connection with the Merger, KWI issued 53,000 shares of Series A Preferred Stock (the Initial Preferred Stock). The proceeds from the issuance of the Initial Preferred Stock were $52,354,000, net of expenses related to the offering totaling $646,000. The holders of the Initial Preferred Stock were entitled to receive dividends at a rate of 7% of the liquidation value of $1,000 per share, payable quarterly. The Initial Preferred Stock had a conversion price of $42 per share. In connection with the Merger the Initial Preferred Stock was converted to common stock and the conversion price was modified to $36 per share. The change in conversion price resulted in the issuance of additional shares to pre-merger preferred shareholders in the amount of $7,879,000. In addition, cash dividend payments to pre-Merger preferred shareholders for the years ended December 31, 2009 and 2008 were $3,235,000 and $2,264,000, respectively.

NOTE 21 EMPLOYEE BENEFIT ARRANGEMENTS

Kennedy-Wilson has a qualified plan under the provisions of Section 401(k) of the Internal Revenue Code. Under this plan, participants are able to make salary deferral contributions of up to 15% of their total compensation, up to a specified maximum. The 401(k) plan also includes provisions which authorize Kennedy-Wilson to make discretionary contributions. During 2010, 2009, and 2008, Kennedy-Wilson made matching contributions of $232,000, $32,000, and $6,000, respectively, to this plan and is included in compensation and related expenses in the accompanying consolidated statements of operations and comprehensive loss.

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NOTE 22 EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31, 2010	2009	2008
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (1,052,000)	$ (15,336,000)	$ 613,000
Basic (loss) income per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(0.03)	(0.57)	0.03
Weighted average shares outstanding for basic (loss) income per share	38,978,272	26,891,304	22,892,498
Diluted (loss) income per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders:	$ (0.3)	$ (0.57)	$ 0.03
Weighted average shares outstanding for diluted (loss) income per share	38,978,272	26,891,304	24,310,299
Weighted average common shares	38,978,272	26,891,304	22,892,498
Options and warrants			65,583
Non-vested stock			1,352,218
Total diluted shares	38,978,272	26,891,304	24,310,299

The dilutive shares from warrants, convertible securities, options and non-vested stock have not been included in the diluted weighted average shares as Kennedy-Wilson has a net loss available to common shareholders. There were a total of 0, 147,857 and 0 potentially dilutive securities as of December 31, 2010, 2009 and 2008, respectively.

NOTE 23 SEGMENT INFORMATION

Kennedy-Wilson s business is defined by two core segments: KW Services and KW Investments. 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 invests Kennedy-Wilson capital in multifamily, residential and office properties as well as loans secured by real estate. Kennedy-Wilson s segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these services and investments.

KW SERVICES Kennedy-Wilson offers a comprehensive line of real estate services for the full life cycle of real estate ownership and investment to clients that include financial institutions, developers, builders and government agencies. Kennedy Wilson provides auction and conventional sales, property management, asset management, leasing, construction management, acquisitions, dispositions and trust services.

KW INVESTMENTS Kennedy-Wilson, on its own and through joint ventures, is an investor in real estate, including multifamily, residential and office properties as well as loans secured by real estate.

Substantially all of the management fees and commissions related party revenues were generated via intersegment activity for the years ended December 31, 2010, 2009 and 2008. The amounts representing investments with related parties and non-affiliates are included in the investments segment. No single external customer provided Kennedy-Wilson with 10% or more of its revenues during any period presented in these financial statements.

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The following tables summarize the income and expense activity by segment for the year ended December 31, 2010 and total assets as of December 31, 2010.

	Services	Investments	Corporate	Consolidated
Management fees and commissions	$ 15,272,000	$	$	$ 15,272,000
Management fees and commissions related party	17,792,000			17,792,000
Sale of real estate		3,937,000		3,937,000
Sale of real estate related party		9,535,000		9,535,000
Rental and other revenue		4,000,000		4,000,000
Total revenue	33,064,000	17,472,000		50,536,000
Operating expenses	23,584,000	26,243,000	18,492,000	68,319,000
Depreciation and amortization	117,000	1,342,000	159,000	1,618,000
Total operating expenses	23,701,000	27,585,000	18,651,000	69,937,000
Equity in joint venture income		10,548,000		10,548,000
Income from loan pool participations and notes receivable		11,855,000		11,855,000
Total operating income (loss)	9,363,000	12,290,000	(18,651,000)	3,002,000
Interest income			192,000	192,000
Interest income related party			662,000	662,000
Remeasurement gain		2,108,000		2,108,000
Gain on early extinguishment of debt		16,670,000		16,670,000
Loss on early extinguishment of debt			(4,788,000)	(4,788,000)
Interest expense		(676,000)	(6,958,000)	(7,634,000)
Income (loss) before provision for income taxes	$ 9,363,000	$ 30,392,000	(29,543,000)	10,212,000
Provision for income taxes			$ (3,727,000)	(3,727,000)
Net income			$ (33,270,000)	$ 6,485,000
Total assets	$ 38,780,000	$ 400,519,000	$ 48,549,000	$ 487,848,000
Expenditures for long lived assets		$ 23,764,000		$ 23,764,000

All of the revenues included in the table above are attributable to the United States, except for $485,000 in rental revenue that is attributable to Japan. This rental revenue was generated from the office building in Japan that had a carrying value of $8,891,000 as of December 31, 2010. The only other activity outside the United States is conducted through Kennedy-Wilson s equity method investment KWR (See Note 7).

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The following tables summarize the income and expense activity by segment for the year ended December 31, 2009 and total assets as of December 31, 2009.

	Services	Investments	Corporate	Consolidated
Management fees and commissions	$ 13,230,000	$	$	$ 13,230,000
Management fees and commissions related party	10,865,000			10,865,000
Sale of real estate		52,699,000		52,699,000
Sale of real estate related party		6,698,000		6,698,000
Rental and other revenue		2,717,000	26,000	2,743,000
Total revenue	24,095,000	62,114,000	26,000	86,235,000
Operating expenses	20,499,000	49,458,000	23,793,000	93,750,000
Depreciation and amortization	70,000	919,000	133,000	1,122,000
Total operating expenses	20,569,000	50,377,000	23,926,000	94,872,000
Equity in joint venture income		8,019,000		8,019,000
Total operating income (loss)	3,526,000	19,756,000	(23,900,000)	(618,000)
Interest income			102,000	102,000
Interest income related party			400,000	400,000
Interest expense		(5,106,000)	(8,068,000)	(13,174,000)
Other than temporary impairment on available for sale security		(328,000)		(328,000)
Income (loss) before provision for income taxes	$ 3,526,000	$ 14,322,000	(31,466,000)	(13,618,000)
Benefit from income taxes			3,961,000	3,961,000
Net loss			$ (27,505,000)	$ (9,657,000)
Total assets	$ 30,600,000	$ 236,780,000	$ 68,877,000	$ 336,257,000
Expenditures for long lived assets		$ 35,800,000		$ 35,800,000

All of the revenues included in the table above are attributable to the United States, except for $483,000 in rental revenue that is attributable to Japan. This rental revenue was generated from the office building in Japan that had a carrying value of $8,145,000 as of December 31, 2009. The only other activity outside the United States is conducted through Kennedy-Wilson s equity method investment KWR (See Note 7).

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The following tables summarize the income and expense activity by segment for the year ended December 31, 2008 and total assets as of December 31, 2008.

	Services	Investments	Corporate	Consolidated
Management fees and commissions	$ 16,577,000	$	$	$ 16,577,000
Management fees and commissions related party	12,675,000			12,675,000
Rental and other revenue		2,973,000		2,973,000
Total revenue	29,252,000	2,973,000		32,225,000
Operating expenses	21,251,000	8,182,000	2,218,000	31,651,000
Depreciation and amortization	83,000	683,000	154,000	920,000
Total operating expenses	21,334,000	8,865,000	2,372,000	32,571,000
Equity in joint venture income		10,097,000		10,097,000
Total operating income (loss)	7,918,000	4,205,000	(2,372,000)	9,751,000
Interest income			221,000	221,000
Interest income related party			341,000	341,000
Interest expense		(1,974,000)	(6,622,000)	(8,596,000)
Other than temporary impairment on available for sale security			(445,000)	(445,000)
Income (loss) before provision for income taxes	$ 7,918,000	$ 2,231,000	(8,877,000)	1,272,000
Provision for income taxes			(605,000)	(605,000)
Net loss			$ (9,482,000)	$ 667,000
Total assets	$ 39,791,000	$ 175,368,000	$ 40,724,000	$ 255,883,000
Expenditures for long lived assets		$ 41,460,000		$ 41,460,000

All of the revenues included in the table above are attributable to the United States, except for $198,000 in rental revenue that is attributable to Japan. This rental revenue was generated from the office building in Japan that had a carrying value of $8,428,000 as of December 31, 2008. The only other activity outside the United States is conducted through Kennedy-Wilson s equity method investment KWR (See Note 7).

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NOTE 24 UNAUDITED QUARTERLY INFORMATION

Year Ended December 31, 2010	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenues	$ 10,826,000	$ 9,046,000	$ 11,773,000	$ 18,891,000
Operating expenses	14,871,000	12,509,000	17,647,000	24,910,000
Equity in joint venture (loss) income	657,000	(686,000)	5,191,000	5,386,000
Interest income from loan pool participations and notes receivable	651,000	3,090,000	4,209,000	3,905,000
Operating income (loss)	(2,737,000)	(1,059,000)	3,526,000	3,272,000
Non-operating (expenses) income	(1,833,000)	16,818,000	(6,842,000)	(933,000)
Income (loss) before provision for income taxes	(4,570,000)	15,759,000	(3,316,000)	2,339,000
(Provision for) benefit from income taxes	1,998,000	(5,950,000)	(383,000)	608,000
Net income (loss)	(2,572,000)	9,809,000	(3,699,000)	2,947,000
Net income attributable to noncontrolling interests	(568,000)	(591,000)	(1,215,000)	(605,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. shareholders	$ (3,140,000)	$ 9,218,000	$ (4,914,000)	$ 2,342,000
Preferred stock dividends and accretion of issuance costs		(720,000)	(1,804,000)	(2,034,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (3,140,000)	$ 8,498,000	$ (6,718,000)	$ 308,000
Basic (loss) earnings per share	$ (0.08)	$ 0.22	$ (0.17)	$ 0.01
Diluted (loss) earnings per share	(0.08)	0.20	(0.17)	0.01

Year Ended December 31, 2009	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenues	$ 12,483,000	$ 6,817,000	$ 41,021,000	$ 25,914,000
Operating expenses	11,942,000	8,660,000	32,687,000	41,583,000
Equity in joint venture (loss) income	(192,000)	(269,000)	893,000	7,587,000
Operating income (loss)	349,000	(2,112,000)	9,227,000	(8,082,000)
Non-operating expenses	2,461,000	2,741,000	5,611,000	2,187,000
(Loss) income before provision for income taxes	(2,112,000)	(4,853,000)	3,616,000	(10,269,000)
Benefit from (provision for) income taxes	653,000	1,562,000	(251,000)	1,997,000
Net (loss) income	(1,459,000)	(3,291,000)	3,365,000	(8,272,000)
Net loss (income) attributable to noncontrolling interests	57,000	210,000	(3,325,000)	(2,621,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. shareholders	$ (1,402,000)	$ (3,081,000)	$ 40,000	$ (10,893,000)
Basic (loss) earnings per share	$ (0.06)	$ (0.12)	$	$ (0.34)
Diluted (loss) earnings per share	(0.06)	(0.12)		(0.34)

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NOTE 25 GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS

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

(1) Condensed consolidating balance sheets as of December 31, 2010 and 2009, respectively; consolidating statements of operations and comprehensive (loss) income for the years ended December 31, 2010, 2009 and 2008, respectively; and condensed consolidating statements of cash flows for the years ended December 31, 2010, 2009 and 2008, respectively, of (a) Kennedy-Wilson Holdings, Inc., as the parent, (b) Kennedy-Wilson, Inc., as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the non-guarantor subsidiaries and (e) Kennedy-Wilson Holdings, Inc. on a consolidated basis; and

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

Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$	$ 42,793,000	$ 3,350,000	$ 825,000	$	$ 46,968,000
Accounts receivable		348,000	1,551,000	198,000		2,097,000
Accounts receivable related parties		1,652,000	5,268,000	142,000		7,062,000
Notes receivable		862,000	18,402,000	1,000,000		20,264,000
Notes receivable related parties		3,837,000				3,837,000
Real estate, net			56,207,000	26,494,000		82,701,000
Investments in joint ventures		2,501,000	257,521,000	6,864,000		266,886,000
Investment in and advances to consolidated subsidiaries	300,244,000	368,820,000	20,251,000		(689,315,000)	
Loan pool participations			25,218,000			25,218,000
Other assets		4,945,000	3,417,000	488,000		8,850,000
Goodwill			17,216,000	6,749,000		23,965,000
Total assets	$ 300,244,000	$ 425,758,000	$ 408,401,000	$ 42,760,000	$ (689,315,000)	$ 487,848,000
Liabilities and equity						
Liabilities						
Accounts payable	$ 52,000	$ 673,000	$ 725,000	$ 54,000	$	$ 1,504,000
Accrued expenses and other liabilities		1,830,000	6,914,000	320,000		9,064,000
Accrued salaries and benefits		8,857,000	1,553,000	311,000		10,721,000
Accrued and deferred tax liability		25,871,000				25,871,000
Notes payable		20,533,000		4,250,000		24,783,000
Borrowings under line of credit		27,750,000				27,750,000
Mortgage loans payable			17,752,000	17,497,000		35,249,000
Junior subordinated debentures		40,000,000				40,000,000
Total liabilities	52,000	125,514,000	26,944,000	22,432,000		174,942,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders equity	300,192,000	300,244,000	368,820,000	20,251,000	(689,315,000)	300,192,000
Noncontrolling interests			12,637,000	77,000		12,714,000
Total equity	300,192,000	300,244,000	381,457,000	20,328,000	(689,315,000)	312,906,000
Total liabilities and equity	$ 300,244,000	$ 425,758,000	$ 408,401,000	$ 42,760,000	$ (689,315,000)	$ 487,848,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned as of December 31, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2009

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$	$ 54,777,000	$ 2,648,000	$ 359,000	$	$ 57,784,000
Accounts receivable		548,000	100,000	239,000		887,000
Accounts receivable related parties		926,000	3,216,000	136,000		4,278,000
Income tax receivable		6,848,000				6,848,000
Notes receivable		500,000	41,000			541,000
Notes receivable related parties		6,644,000				6,644,000
Real estate, net of accumulated depreciation			17,596,000	22,985,000		40,581,000
Real estate available for sale			2,472,000			2,472,000
Investments in joint ventures		1,282,000	182,106,000	1,864,000		185,252,000
Investment in and advances to consolidated subsidiaries	177,460,000	225,325,000	11,465,000		(414,250,000)	
Other assets	228,000	5,433,000	725,000	619,000		7,005,000
Goodwill			17,216,000	6,749,000		23,965,000
Total assets	$ 177,688,000	$ 302,283,000	$ 237,585,000	$ 32,951,000	$ (414,250,000)	$ 336,257,000
Liabilities and equity						
Liabilities						
Accounts payable	$ 374,000	$ 36,000	$ 411,000	$ 39,000	$	$ 860,000
Accrued expenses and other liabilities		2,542,000	5,822,000	284,000		8,648,000
Accrued salaries and benefits		3,201,000	839,000	361,000		4,401,000
Deferred tax liability		15,439,000				15,439,000
Notes payable		26,133,000				26,133,000
Borrowings under line of credit		10,000,000				10,000,000
Mortgage loans payable			3,228,000	20,740,000		23,968,000
Convertible subordinated debt		27,472,000				27,472,000
Junior subordinated debentures		40,000,000				40,000,000
Total liabilities	374,000	124,823,000	10,300,000	21,424,000		156,921,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders equity	177,314,000	177,460,000	225,325,000	11,465,000	(414,250,000)	177,314,000
Noncontrolling interests			1,960,000	62,000		2,022,000
Total equity	177,314,000	177,460,000	227,285,000	11,527,000	(414,250,000)	179,336,000
Total liabilities and equity	$ 177,688,000	$ 302,283,000	$ 237,585,000	$ 32,951,000	$ (414,250,000)	$ 336,257,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2009 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 183,000	$ 5,873,000	$ 2,857,000	$	$ 8,913,000
Management and leasing fees related party			11,258,000	1,159,000		12,417,000
Commissions		684,000	5,338,000	337,000		6,359,000
Commissions related party			5,355,000	20,000		5,375,000
Sale of real estate			3,937,000			3,937,000
Sale of real estate related party			9,535,000			9,535,000
Rental and other income			1,903,000	2,097,000		4,000,000
Total revenue		867,000	43,199,000	6,470,000		50,536,000
Operating expenses						
Commission and marketing expenses			2,841,000	345,000		3,186,000
Compensation and related expenses	8,094,000	14,063,000	13,121,000	2,877,000		38,155,000
Merger-related compensation and related expense	2,225,000					2,225,000
Cost of real estate sold			2,714,000			2,714,000
Cost of real estate sold related party			8,812,000			8,812,000
General and administrative	227,000	6,753,000	3,453,000	881,000		11,314,000
Depreciation and amortization		159,000	764,000	695,000		1,618,000
Rental operating expenses			1,234,000	679,000		1,913,000
Total operating expenses	10,546,000	20,975,000	32,939,000	5,477,000		69,937,000
Equity in joint venture income (loss)			10,629,000	(81,000)		10,548,000
Income from loan pool participations and notes receivable		46,000	11,760,000	49,000		11,855,000
Income from consolidated subsidiaries	17,031,000	50,902,000	426,000		(68,359,000)	
Operating income	6,485,000	30,840,000	33,075,000	961,000	(68,359,000)	3,002,000
Non-operating income (expense)						
Interest income		153,000	39,000			192,000
Interest income related party		662,000				662,000
Remeasurement gain			2,108,000			2,108,000
Gain on early extinguishment of mortgage debt			16,670,000			16,670,000
Loss on extinguishment of debt		(4,788,000)				(4,788,000)
Interest expense		(6,109,000)	(990,000)	(535,000)		(7,634,000)
Income before provision for income taxes	6,485,000	20,758,000	50,902,000	426,000	(68,359,000)	10,212,000
Provision for income taxes		(3,727,000)				(3,727,000)
Net income	6,485,000	17,031,000	50,902,000	426,000	(68,359,000)	6,485,000
Net income attributable to the noncontrolling interests			(2,963,000)	(16,000)		(2,979,000)
Net income attributable to Kennedy-Wilson Holdings, Inc.	6,485,000	17,031,000	47,939,000	410,000	(68,359,000)	3,506,000
Preferred dividends and accretion of preferred stock issuance costs	(4,558,000)					(4,558,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	1,927,000	17,031,000	47,939,000	410,000	(68,359,000)	(1,052,000)
Other comprehensive income, net of tax	6,440,000	6,440,000	6,440,000		(12,880,000)	6,440,000
Total comprehensive income	$ 8,367,000	$ 23,471,000	$ 54,379,000	$ 410,000	$ (81,239,000)	$ 5,388,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 49,000	$ 5,724,000	$ 3,253,000	$	$ 9,026,000
Management and leasing fees related party			8,775,000	1,363,000		10,138,000
Commissions		708,000	3,360,000	136,000		4,204,000
Commissions related party			727,000			727,000
Sale of real estate			52,699,000			52,699,000
Sale of real estate related party			6,698,000			6,698,000
Rental and other income		26,000	575,000	2,142,000		2,743,000
Total revenue		783,000	78,558,000	6,894,000		86,235,000
Operating expenses						
Commission and marketing expenses			2,891,000	520,000		3,411,000
Compensation and related expenses	3,857,000	6,199,000	11,744,000	2,989,000		24,789,000
Merger-related compensation and related expense	12,468,000					12,468,000
Cost of real estate sold			36,179,000			36,179,000
Cost of real estate sold related party			5,752,000			5,752,000
General and administrative	3,000	1,466,000	3,960,000	922,000		6,351,000
Merger-related general and administrative	3,652,000					3,652,000
Depreciation and amortization		133,000	309,000	680,000		1,122,000
Rental operating expenses			302,000	846,000		1,148,000
Total operating expenses	19,980,000	7,798,000	61,137,000	5,957,000		94,872,000
Equity in joint venture income (loss)			8,137,000	(118,000)		8,019,000
Income (loss) from consolidated subsidiaries	10,323,000	21,091,000	(579,000)		(30,835,000)	
Operating (loss) income	(9,657,000)	14,706,000	24,979,000	819,000	(30,835,000)	(618,000)
Non-operating income (expense)						
Interest income		102,000				102,000
Interest income related party		400,000				400,000
Interest expense		(7,894,000)	(3,882,000)	(1,398,000)		(13,174,000)
Other than temporary impairment		(322,000)	(6,000)			(328,000)
(Loss) income before benefit from income taxes	(9,657,000)	6,362,000	21,091,000	(579,000)	(30,835,000)	(13,618,000)
Benefit from income taxes		3,961,000				3,961,000
Net (loss) income	(9,657,000)	10,323,000	21,091,000	(579,000)	(30,835,000)	(9,657,000)
Net income (loss) attributable to the noncontrolling interests			(5,704,000)	25,000		(5,679,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(9,657,000)	10,323,000	15,387,000	(554,000)	(30,835,000)	(15,336,000)
Other comprehensive income, net of tax	2,601,000	2,601,000	2,601,000		(5,202,000)	2,601,000
Total comprehensive (loss) income	$ (7,056,000)	$ 12,924,000	$ 17,988,000	$ (554,000)	$ (36,037,000)	$ (12,735,000)

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2009 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10 (d) of Regulation S-X promulgated

by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2008

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$	$ 929,000	$ 6,632,000	$ 3,110,000	$	$ 10,671,000
Management and leasing fees related party		54,000	7,095,000	1,231,000		8,380,000
Commissions		1,055,000	4,799,000	52,000		5,906,000
Commissions related party		23,000	4,257,000	15,000		4,295,000
Rental and other income		842,000	198,000	1,933,000		2,973,000
Total revenue		2,903,000	22,981,000	6,341,000		32,225,000
Operating expenses						
Commission and marketing expenses		25,000	2,252,000	550,000		2,827,000
Compensation and related expenses	1,015,000	4,974,000	12,208,000	3,095,000		21,292,000
General and administrative		2,512,000	2,797,000	765,000		6,074,000
Depreciation and amortization		225,000	156,000	539,000		920,000
Rental operating expenses		5,000	649,000	804,000		1,458,000
Total operating expenses	1,015,000	7,741,000	18,062,000	5,753,000		32,571,000
Equity in joint venture income		926,000	9,138,000	33,000		10,097,000
Income (loss) from consolidated subsidiaries	1,682,000	12,817,000	(1,164,000)		(13,335,000)	
Operating income	667,000	8,905,000	12,893,000	621,000	(13,335,000)	9,751,000
Non-operating income (expense)						
Interest income		220,000	1,000			221,000
Interest income related party		341,000				341,000
Interest expense		(6,734,000)	(77,000)	(1,785,000)		(8,596,000)
Other than temporary impairment		(445,000)				(445,000)
Income (loss) before provision for income taxes	667,000	2,287,000	12,817,000	(1,164,000)	(13,335,000)	1,272,000
Provision for income taxes		(605,000)				(605,000)
Net income (loss)	667,000	1,682,000	12,817,000	(1,164,000)	(13,335,000)	667,000
Net (income) loss attributable to the noncontrolling interests		(3,000)	(81,000)	30,000		(54,000)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc.	667,000	1,679,000	12,736,000	(1,134,000)	(13,335,000)	613,000
Other comprehensive income, net of tax	240,000	240,000	240,000		(480,000)	240,000
Total comprehensive income (loss)	$ 907,000	$ 1,919,000	$ 12,976,000	$ (1,134,000)	$ (13,815,000)	$ 853,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2008 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10 (d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Consolidated Total
Cash flows (used in) provided by operating activities:	$ (2,670,000)	$ (9,635,000)	$ 13,074,000	$ 1,388,000	$ 2,157,000
Cash flows from investing activities:					
Additions to notes receivable		(377,000)	(24,259,000)	(1,000,000)	(25,636,000)
Settlements of notes receivable		15,000	8,423,000		8,438,000
Additions to notes receivable - related party		(5,914,000)			(5,914,000)
Settlements of notes receivable - related party		8,721,000			8,721,000
Net proceeds from sale of real estate			3,639,000		3,639,000
Net proceeds from sale of real estate - related party			9,548,000		9,548,000
Purchases of and additions to real estate			(19,590,000)	(4,174,000)	(23,764,000)
Distributions from joint ventures			9,790,000	387,000	10,177,000
Contributions to joint ventures		(1,220,000)	(77,203,000)	(5,468,000)	(83,891,000)
Contributions to loan pool participations			(16,154,000)		(16,154,000)
(Investments in) distributions from consolidated subsidiaries, net	(108,730,000)	13,161,000	87,197,000	8,372,000	
Net cash (used in) provided by investing activities	(108,730,000)	14,386,000	(18,609,000)	(1,883,000)	(114,836,000)
Cash flow from financing activities:					
Borrowings under notes payable				4,250,000	4,250,000
Repayment of notes payable		(5,600,000)			(5,600,000)
Borrowings under lines of credit		48,250,000			48,250,000
Repayment of lines of credit		(30,500,000)			(30,500,000)
Borrowings under mortgage loans payable			20,016,000		20,016,000
Repayment of mortgage loans payable			(21,492,000)	(3,243,000)	(24,735,000)
Repayment of convertible subordinated debt		(32,550,000)			(32,550,000)
Debt issue costs		(598,000)		(46,000)	(644,000)
Issuance of preferred stock	132,294,000				132,294,000
Repurchase of common stock	(11,301,000)				(11,301,000)
Repurchase of warrants	(11,500,000)				(11,500,000)
Dividends paid	(4,533,000)				(4,533,000)
Contributions from noncontrolling interests			10,955,000		10,955,000
Distributions from noncontrolling interests			(3,242,000)		(3,242,000)
Net cash provided by (used in) financing activities	104,960,000	(20,998,000)	6,237,000	961,000	91,160,000
Effect of currency exchange rate changes on cash and cash equivalents	6,440,000	4,263,000			10,703,000
Net change in cash and cash equivalents		(11,984,000)	702,000	466,000	(10,816,000)
Cash and cash equivalents, beginning of year		54,777,000	2,648,000	359,000	57,784,000
Cash and cash equivalents, end of year	$	$ 42,793,000	$ 3,350,000	$ 825,000	$ 46,968,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2010 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries [1]	Non-guarantor Subsidiaries	Consolidated Total
Cash flows (used in) provided by operating activities:	$ (17,648,000)	$ (6,449,000)	$ (1,497,000)	$ 368,000	$ (25,226,000)
Cash flows from investing activities:					
Additions to notes receivable		(500,000)			(500,000)
Settlements of notes receivable		300,000	2,000		302,000
Additions to notes receivable - related party		(8,774,000)			(8,774,000)
Settlements of notes receivable - related party		2,935,000			2,935,000
Additions to notes receivable from sale of real estate		(2,663,000)			(2,663,000)
Settlements of notes receivable from sale of real estate		1,858,000			1,858,000
Net proceeds from sale of real estate held for sale			58,027,000		58,027,000
Purchases of and additions to real estate			(35,730,000)	(70,000)	(35,800,000)
Assets acquired in merger	89,181,000				89,181,000
Distributions from joint ventures			2,283,000	91,000	2,374,000
Contributions to joint ventures		(1,000,000)	(36,933,000)		(37,933,000)
(Investments in) distributions from consolidated subsidiaries, net	(67,267,000)	43,705,000	24,422,000	(860,000)	
Net cash provided by (used in) investing activities	21,914,000	35,861,000	12,071,000	(839,000)	69,007,000
Cash flow from financing activities:					
Borrowings under notes payable		37,059,000			37,059,000
Repayment of notes payable		(32,114,000)			(32,114,000)
Borrowings under lines of credit		20,500,000			20,500,000
Repayment of lines of credit		(24,000,000)			(24,000,000)
Borrowings under mortgage loans payable			30,286,000		30,286,000
Repayment of mortgage loans payable			(35,866,000)		(35,866,000)
Debt issue costs		(160,000)	(638,000)		(798,000)
Issuance of common stock	59,000				59,000
Repurchase of common stock	(3,690,000)				(3,690,000)
Dividends paid	(3,235,000)				(3,235,000)
Contributions from noncontrolling interests			6,804,000		6,804,000
Distributions from noncontrolling interests			(10,712,000)		(10,712,000)
Net cash (used in) provided by financing activities	(6,866,000)	1,285,000	(10,126,000)		(15,707,000)
Effect of currency exchange rate changes on cash and cash equivalents	2,600,000	1,279,000			3,879,000
Net change in cash and cash equivalents		31,976,000	448,000	(471,000)	31,953,000
Cash and cash equivalents, beginning of year		22,801,000	2,200,000	830,000	25,831,000
Cash and cash equivalents, end of year	$	$ 54,777,000	$ 2,648,000	$ 359,000	$ 57,784,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2009 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10 (d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries (1)	Non-guarantor Subsidiaries	Consolidated Total
Cash flows (used in) provided by operating activities:	$ (159,000)	$ (19,386,000)	$ 5,866,000	$ (990,000)	$ (14,669,000)
Cash flows from investing activities:					
Settlements of notes receivable		7,000	19,000		26,000
Settlements of notes receivable - related party			6,000		6,000
Additions to notes receivable - related party		(300,000)			(300,000)
Net proceeds from sale of real estate held for sale		5,181,000			5,181,000
Purchases of and additions to real estate		(195,000)	(17,186,000)	(24,079,000)	(41,460,000)
Distributions from joint ventures		6,011,000	6,406,000	486,000	12,903,000
Contributions to joint ventures		(2,169,000)	(70,173,000)	(787,000)	(73,129,000)
(Investments in) distributions from consolidated subsidiaries, net	(47,067,000)	(30,466,000)	72,212,000	5,321,000	
Net cash used in investing activities	(47,067,000)	(21,931,000)	(8,716,000)	(19,059,000)	(96,773,000)
Cash flow from financing activities:					
Borrowings under notes payable		20,161,000			20,161,000
Repayment of notes payable		(8,973,000)			(8,973,000)
Borrowings under lines of credit		47,957,000			47,957,000
Repayment of lines of credit		(39,457,000)			(39,457,000)
Borrowings under mortgage loans payable		120,000	9,420,000	20,776,000	30,316,000
Repayment of mortgage loans payable		(4,204,000)	(6,612,000)	(36,000)	(10,852,000)
Issuance of convertible subordinated debt	2,813,000	27,187,000			30,000,000
Debt issue costs		(518,000)			(518,000)
Issuance of common stock	52,447,000				52,447,000
Repurchase of common stock	(6,170,000)				(6,170,000)
Dividends paid	(2,264,000)				(2,264,000)
Contributions from noncontrolling interests			482,000		482,000
Distributions from noncontrolling interests			(504,000)		(504,000)
Net cash provided by financing activities	46,826,000	42,273,000	2,786,000	20,740,000	112,625,000
Effect of currency exchange rate changes on cash and cash equivalents	400,000				400,000
Net change in cash and cash equivalents		956,000	(64,000)	691,000	1,583,000
Cash and cash equivalents, beginning of year		21,845,000	2,264,000	139,000	24,248,000
Cash and cash equivalents, end of year	$	$ 22,801,000	$ 2,200,000	$ 830,000	$ 25,831,000

(1) Included in the guarantor subsidiaries column below are data for certain guarantor subsidiaries that were less than 100% owned for the year ended December 31, 2008 by Kennedy-Wilson at the time the notes were originally issued. Such guarantor subsidiaries were restructured prior to the date of this prospectus such that Kennedy-Wilson now owns 100% of all of the guarantor subsidiaries. As a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for such guarantor subsidiaries.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Schedule III Real Estate and Accumulated Depreciation

December 31, 2010

(Dollars in thousands)

		Initial Cost		Costs Capitalized Subsequent to Acquisition		Gross Balance at December 31, 2010						
Description	**Encumbrances**	**Land**	**Building & Improvements**	**Improvements**	**Carrying Costs**	**Land**	**Building & Improvements**	**Total**	**Accumulated Depreciation**	**Depreciable Life in Years**	**Date of Construction**	**Date Acquired**
Commercial												
Commercial building, Tokyo, Japan	$ 2,784,000	$ 3,970,000	$ 3,230,000	$ 2,080,000	$	$ 5,065,000	$ 4,215,000	$ 9,280,000	$ (389,000)	37 yrs	2007	2008
Commercial building, Carlsbad, CA		495,000	257,000			495,000	257,000	752,000		37 yrs	1983	2010
Multifamily												
204-unit Apartment building, Lompoc, CA	17,497,000	5,329,000	20,150,000	301,000		5,329,000	20,451,000	25,780,000	(3,387,000)	39 yrs	1986	2008
Residential												
Single family home, Kona, HI		4,111,000	4,250,000	363,000		4,474,000	4,250,000	8,724,000	(226,000)	39 yrs	2008	2008
Condominium unit, Seattle, WA			500,000				500,000	500,000		2007	2010	
Land												
Single family home lot, Kona, HI	4,250,000	4,101,000				4,101,000		4,101,000		N/A	N/A	2010
2700 acres, Oahu, HI		31,741,000	3,753,000	431,000		32,060,000	4,665,000	36,725,000	(4,000)	N/A	1912	2010
Land, Kent, WA		733,000		112,000		845,000		845,000		N/A	N/A	2008
	$ 24,531,000	$ 50,480,000	$ 32,140,000	$ 3,287,000	$	$ 52,369,000	$ 34,338,000	$ 86,707,000	$ (4,006,000)			

See accompanying report of independent registered public accounting firm.

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Kennedy-Wilson Holdings, Inc. and Subsidiaries

Schedule III Real Estate and Accumulated Depreciation

December 31, 2010, 2009, and 2008

(Dollars in thousands)

Changes in real estate for the years ended December 31 were as follows:

	For the year ended December 31, 2010	2009
Balance at the beginning of period	$ 46,123,000	$ 50,883,000
Additions during the period:		
Improvements		111,000
Acquisitions	52,228,000	35,689,000
Deductions during the period:		
Dispositions	(11,644,000)	(40,560,000)
Balance at close of period	$ 86,707,000	$ 46,123,000

Changes in accumulated depreciation for the years ended December 31 were as follows:

	For the year ended December 31,		
	2010	2009	2008
Balance at the beginning of period	$ 3,070,000	$ 2,156,000	$ 18,000
Additions during the period:			
Depreciation expense	1,339,000	914,000	664,000
Deductions during the period:			
Dispositions	(403,000)		1,474,000
Balance at close of period	$ 4,006,000	$ 3,070,000	$ 2,156,000

See accompanying report of independent registered public accounting firm.

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Independent Auditors Report

The Board of Directors

Kennedy-Wilson Holdings, Inc.:

We have audited the accompanying historical summaries of gross income and direct operating expenses (Historical Summaries) of 303-333 Hegenberger (the Property) for each of the years in the three-year period ended December 31, 2010. These Historical Summaries are the responsibility of the Property s management. Our responsibility is to express an opinion on the Historical Summaries based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summaries are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Property s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summaries, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summaries. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summaries were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in note 1. The presentation is not intended to be a complete presentation of the Property s gross income and direct operating expenses.

In our opinion, the Historical Summaries referred to above present fairly, in all material respects, the gross income and direct operating expenses described in note 1, of 303-333 Hegenberger for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California

October 3, 2011

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303-333 HEGENBERGER

Historical Summaries of Gross Income and Direct Operating Expenses

Nine months ended September 30, 2011 (Unaudited) and

years ended December 31, 2010, 2009 and 2008

	Nine months ended September 30, 2011 (Unaudited)	2010	2009	2008
Gross income:				
Rent	$ 1,698,000	$ 2,150,000	$ 2,274,000	$ 2,096,000
Parking and other	261,000	290,000	306,000	261,000
Tenant recoveries	93,000	173,000	187,000	158,000
	2,052,000	2,613,000	2,767,000	2,515,000
Direct operating expenses:				
Property operating and maintenance	820,000	1,118,000	1,145,000	1,119,000
Property taxes	381,000	497,000	483,000	460,000
Insurance	66,000	90,000	98,000	132,000
Management fees paid to affiliate	76,000	109,000	113,000	103,000
Other	44,000	62,000	65,000	64,000
	1,387,000	1,876,000	1,904,000	1,878,000
Gross income in excess of direct operating expenses	$ 665,000	$ 737,000	$ 863,000	$ 637,000

See accompanying notes to historical summaries of gross income and direct operating expenses.

303-333 HEGENBERGER

Notes to Historical Summaries of Gross Income and Direct Operating Expenses

Nine months ended September 30, 2011 (Unaudited) and

years ended December 31, 2010, 2009, and 2008

(1) Basis of Presentation

The historical summaries of gross income and direct operating expenses relate to the operations of 303-333 Hegenberger (the Property). The Property comprises two suburban office buildings totaling approximately 197,000 rentable square feet with surface parking, located in the airport submarket of Oakland, California. KWI Property Fund I, L. P. formed KWP Fund I Hegenberger, L.P. (the Partnership), which acquired the Property on May 4, 2006 for $32,400,000, including capitalized acquisition costs of $400,000. A wholly owned subsidiary of Kennedy-Wilson Holdings, Inc. (KWH) owned an equity interest in KWI Property Fund I, L.P. and on June 30, 2011, KWH acquired full ownership of the Partnership by assuming its assets and liabilities and contributing sufficient funds to refinance the Property.

The historical summaries of gross income and direct operating expenses have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and, accordingly, are not representative of the actual results of operations of the Property for the nine months ended September 30, 2011 and the years ended December 31, 2010, 2009, and 2008 due to the exclusion of the following expenses, which may not be comparable to the proposed future operations of the Property:

Depreciation and amortization

Mortgage interest expense since the Property was refinanced at the time of the change in ownership

Federal and state income taxes

Management is not aware of any material factors relating to the Property other than those already described above that would cause the reported financial information not to be necessarily indicative of future operating results, except as discussed in note 4.

(2) Summary of Significant Accounting Policies

(a) Revenue Recognition

Rental revenue from tenants is recognized on a straight-line basis over the noncancelable lease term when collectibility is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.

Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, since the Partnership is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the associated credit risk.

(b) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting and disclosure of gross income and direct operating expenses during the reporting period to prepare the historical summaries of gross income and direct operating expenses in conformity with

U.S. generally accepted accounting principles. Actual results could differ from those estimates.

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303-333 HEGENBERGER

Notes to Historical Summaries of Gross Income and Direct Operating Expenses

Nine months ended September 30, 2011 (Unaudited) and

years ended December 31, 2010, 2009, and 2008

(3) Minimum Future Lease Rentals

There are various lease agreements in place with tenants to lease space at the Property with lease terms ranging from one month to seven years. As of December 31, 2010, the minimum future cash rents receivable under noncancelable operating leases in each of the next five years are as follows:

2011	$ 1,996,000
2012	1,370,000
2013	1,077,000
2014	920,000
2015	731,000
	$ 6,094,000

Leases generally require reimbursement of the tenant s proportionate share of common area, real estate taxes, and other operating expenses, which are excluded from the amounts above.

As of September 30, 2011, the Property was leased to a total of 43 tenants, of which four tenants accounted for approximately 53% (unaudited) of base rental revenue for the nine months then ended.

As of December 31, 2010, the Property was leased to a total of 41 tenants, of which four tenants accounted for approximately 55% of base rental revenue for the year then ended.

As of December 31, 2009, the Property was leased to a total of 42 tenants, of which four tenants accounted for approximately 56% of base rental revenue for the year then ended.

As of December 31, 2008, the Property was leased to a total of 48 tenants, of which three tenants accounted for approximately 45% of base rental revenue for the year then ended.

(4) Future Operating Results

Due to the acquisition of the Property in June 2011, it is anticipated that future property taxes will decrease approximately $84,000 as a result of the Property value reassessment.

(5) Related Parties

The Partnership has a management agreement with KW Properties, Ltd. (KWP), which is an affiliate of KWH. In accordance with the management agreement, KWP receives 3% of gross rental revenues as compensation for managing the Property plus an accounting fee of $3,000 per month.

For the nine months ended September 30, 2011 and the years ended December 31, 2010, 2009, and 2008, the Partnership incurred $55,000 (unaudited), $109,000, $113,000, and $103,000, respectively, in property management fees and accounting fees. These amounts are reflected as management fees paid to affiliate on the historical summaries of gross income and direct operating expenses.

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Independent Auditors Report

The Board of Directors

Kennedy-Wilson Holdings, Inc.:

We have audited the accompanying historical summary of gross income and direct operating expenses (Historical Summary) of 9320 Telstar Avenue (the Property) for the year ended December 31, 2010. This Historical Summary is the responsibility of the Property s management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Property s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in note 1. The presentation is not intended to be a complete presentation of the Property s gross income and direct operating expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 1 of 9320 Telstar Avenue for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California

October 3, 2011

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9320 TELSTAR AVENUE

Notes to Historical Summary of Gross Income and Direct Operating Expenses

Nine-Months Ended September 30, 2011 (Unaudited) and

Year Ended December 31, 2010

	Nine-Months Ended September 30, 2011 (Unaudited)	Year Ended December 31, 2010
Gross income:		
Rent	$ 3,000,000	$ 4,034,000
Tenant recoveries	449,000	629,000
	3,449,000	4,663,000
Direct operating expenses:		
Property taxes and insurance	440,000	618,000
Utilities	463,000	612,000
Property operating and maintenance	270,000	378,000
Management fees	80,000	121,000
Other	11,000	17,000
	1,264,000	1,746,000
Gross income in excess of direct operating expenses	$ 2,185,000	$ 2,917,000

See accompanying notes to the historical summary of gross income and direct operating expenses.

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9320 TELSTAR AVENUE

Notes to Historical Summary of Gross Income and Direct Operating Expenses

Nine-Months Ended September 30, 2011 (Unaudited) and

Year Ended December 31, 2010

(1) Basis of Presentation

The historical summary of gross income and direct operating expenses relate to the operations of 9320 Telstar Avenue (the Property). The Property is an office building totaling approximately 247,000 rentable square feet, located in El Monte, California, in which Kennedy-Wilson Holdings, Inc. owns an equity interest in the entity that owns the Property.

The accompanying historical summary of gross income and direct operating expenses has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and, accordingly, is not representative of the actual results of operations of the Property for the nine months ended September 30, 2011 and the year ended December 31, 2010 due to the exclusion of the following expenses, which may not be comparable to the proposed future operations of the Property:

- Depreciation and amortization,
- Mortgage interest expense since the Property was refinanced at the time of the change in ownership, and
- Federal and state income taxes

Management is not aware of any material factors relating to the Property other than those already described above that would cause the reported financial information not to be necessarily indicative of future operating results, except as disclosed in note 4.

(2) Summary of Significant Accounting Policies

(a) Revenue recognition

Rental revenue from tenants is recognized on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.

Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, since the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the associated credit risk.

(b) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting and disclosure of revenue and certain expenses during the reporting period to prepare statements of revenue and certain expenses in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

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9320 TELSTAR AVENUE

Notes to Historical Summary of Gross Income and Direct Operating Expenses

Nine-Months Ended September 30, 2011 (Unaudited) and

Year Ended December 31, 2010

(3) Minimum Future Lease Rentals
As of December 31, 2010, the minimum future cash rents receivable under noncancelable operating leases in each of the next five years are as follows:

2011	$ 3,086,000
2012	300,000
2013	300,000
2014	300,000
2015	293,000
	$ 4,279,000

Leases generally require reimbursement of the tenant s proportionate share of common area, real estate taxes and other operating expenses, which are excluded from the amounts above.

As of September 30, 2011, the Property was leased to two tenants, of which one tenant accounted for approximately 92.3% (unaudited) of base rental revenue for the nine months then ended.

As of December 31, 2010, the Property was leased to two tenants, of which one tenant accounted for approximately 91.5% of base rental revenue for the year then ended.

(4) Future Operating Results
Due to the acquisition of the property in June 2011, it is anticipated that future property taxes will decrease approximately $83,000 as a result of the property value reassessment.

(5) Subsequent Events
Management of the Property has evaluated subsequent events through the date these financial statements are available for issuance.

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KENNEDY-WILSON HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA FINANCIAL INFORMATION

This pro forma information should be read in conjunction with the consolidated financial statements of Kennedy-Wilson Holdings, Inc. and its subsidiaries (the Company or our) included in the Company s Form 10-K for the fiscal year ended December 31, 2010 and the Company s Form 10-Q for the quarterly period ended September 30, 2011, as filed with the Securities and Exchange Commission.

A pro forma balance sheet is not presented since the acquisitions are already reflected in our historical balance sheet as of September 30, 2011.

The following unaudited pro forma consolidated statement of operations and comprehensive (loss) income of the Company for the year ended December 31, 2010 and the nine months ended September 30, 2011 has been prepared to give effect to the acquisition of (1) 303-333 Hegenberger (Hegenberger), consisting of two suburban office properties totaling approximately 197,000 rentable square feet with surface parking, located in the airport submarket of Oakland, California and (2) 9320 Telstar Avenue (Telstar), consisting of an office building totaling approximately 247,000 rentable square feet, located in El Monte, California, in which the Company owns an equity interest in the entity that owns the Property. The pro forma consolidated statements of operations and comprehensive (loss) income assume that each acquisition had occurred on January 1, 2010.

These unaudited pro forma consolidated financial statements are presented for informational purposes only and should be read in conjunction with the historical financial statements of Hegenberger and Telstar and their related notes thereto included elsewhere in this prospectus. The adjustments to our pro forma consolidated financial statements are based on available information and assumptions that we consider reasonable. Our pro forma consolidated financial statements do not purport to represent (1) the results of our operations that would have actually occurred had the acquisition of Hegenberger and Telstar occurred on January 1, 2010 or (2) an estimate of the results of our operations as of any future date or for any future period, as applicable.

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Kennedy-Wilson Holdings, Inc.

Pro Forma Consolidated Statement of Operations and Comprehensive (Loss) Income

For the Nine Months Ended September 30, 2011

	Kennedy-Wilson Holdings, Inc. (a)	Hegenberger		Telstar		Eliminations		Company Pro Forma
Revenue								
Management and leasing fees	$ 9,657,000	$		$		$		$ 9,657,000
Management and leasing fees related party	8,151,000							8,151,000
Commissions	4,842,000							4,842,000
Commissions related party	3,587,000							3,587,000
Sale of real estate	417,000							417,000
Rental and other income	3,359,000	1,336,000	(b)					4,695,000
Total revenue	30,013,000	1,336,000						31,349,000
Operating expenses								
Commission and marketing expenses	3,015,000							3,015,000
Compensation and related expenses	24,562,000							24,562,000
Cost of real estate sold	397,000							397,000
General and administrative	9,183,000							9,183,000
Depreciation and amortization	1,828,000	1,016,000	(c)					2,844,000
Rental operating expenses	2,248,000	924,000	(b)					3,172,000
Total operating expenses	41,233,000	1,940,000						43,173,000
Equity in joint venture income (loss)	7,229,000			450,000	(f)	594,000	(g)	8,273,000
Interest income from loan pool participations and notes receivable	5,835,000							5,835,000
Operating income (loss)	1,844,000	(604,000)		450,000		594,000		2,284,000
Non-operating income (expense)								
Interest income	264,000							264,000
Interest income related party	970,000							970,000
Remeasurement gain	6,348,000							6,348,000
Gain on extinguishment of debt								
Interest expense	(13,874,000)	(437,000)	(d)					(14,311,000)
(Loss) income before benefit from (provision for) income taxes	(4,448,000)	(1,041,000)		450,000		594,000		(4,445,000)
Benefit from (provision for) income taxes	2,162,000	414,000	(e)	(179,000)	(e)	(236,000)	(e)	2,161,000
Net (loss) income	(2,286,000)	(627,000)		271,000		358,000		(2,284,000)
Net loss attributable to the noncontrolling interests	(1,295,000)							(1,295,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(3,581,000)	(627,000)		271,000		358,000		(3,579,000)
Preferred dividends and accretion of preferred stock issuance costs	(6,708,000)							(6,708,000)
	(10,289,000)	(627,000)		271,000		358,000		(10,287,000)

Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders					
Other comprehensive loss, net of tax	(1,576,000)				(1,576,000)
Total comprehensive (loss) income	$ (11,865,000)	$ (627,000)	$ 271,000	$ 358,000	$ (11,863,000)
Basic and diluted loss per share					
Basic and diluted loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (0.25)				$ (0.25)
Weighted average number of common shares outstanding	40,712,496				40,712,496

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(a) Reflects our historical consolidated statement of operations and comprehensive income (loss) for the nine month period ended September 30, 2011 which are included in Kennedy-Wilson Holdings, Inc. s previously filed report on Form 10-Q for the quarter ended September 30, 2011.

(b) Pro forma results of Hegenberger, assuming the acquisition of Hegenberger had occurred on January 1, 2010. Hegenberger was acquired on June 28, 2011.

(c) Depreciation and amortization includes $137,000 of monthly amortization related to $2,469,000 of in-place lease value recorded at acquisition.

(d) Interest expense on Hegenberger mortgage payable of $12,000,000 at a fixed rate of 6.75% per annum plus monthly amortization of deferred financing costs of $5,000.

(e) Combined U.S. federal statutory and State of California rates of 39.8%.

(f) Pro forma results of Telstar, which the Company has direct and indirect ownership interests totaling 37.83% and is accounted for under the equity method, assuming the acquisition of Telstar had occurred on January 1, 2010. The equity method investment in Telstar was made on June 15, 2011.

(g) Elimination of the equity in joint venture loss recorded by the Company related to its previous 5% indirect ownership in Hegenberger. $556,000 of this loss relates to the loss on sale of the entity when it was acquired by the Company.

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Kennedy-Wilson Holdings, Inc.

Pro Forma Consolidated Statement of Operations and Comprehensive (Loss) Income

For the Year Ended December 31, 2010

	Kennedy-Wilson Holdings, Inc. (a)	Hegenberger		Telstar		Eliminations		Company Pro Forma
Revenue								
Management and leasing fees	$ 8,913,000	$		$		$		$ 8,913,000
Management and leasing fees related party	12,417,000							12,417,000
Commissions	6,359,000							6,359,000
Commissions related party	5,375,000							5,375,000
Sale of real estate	3,937,000							3,937,000
Sale of real estate related party	9,535,000							9,535,000
Rental and other income	4,000,000	2,613,000	(b)					6,613,000
Total revenue	50,536,000	2,613,000						53,149,000
Operating expenses								
Commission and marketing expenses	3,186,000							3,186,000
Compensation and related expenses	38,155,000							38,155,000
Merger-related compenstation and related expenses	2,225,000							2,225,000
Cost of real estate sold	2,714,000							2,714,000
Cost of real estate sold related party	8,812,000							8,812,000
General and administrative	11,314,000							11,314,000
Depreciation and amortization	1,618,000	2,032,000	(c)					3,650,000
Rental operating expenses	1,913,000	1,876,000	(b)					3,789,000
Total operating expenses	69,937,000	3,908,000						73,845,000
Equity in joint venture income (loss)	10,548,000			611,000	(f)	75,000	(g)	11,234,000
Interest income from loan pool participations and notes receivable	11,855,000							11,855,000
Operating income (loss)	3,002,000	(1,295,000)		611,000		75,000		2,393,000
Non-operating income (expense)								
Interest income	192,000							192,000
Interest income related party	662,000							662,000
Remeasurement gain	2,108,000							2,108,000
Gain on extinguishment of mortgage debt	16,670,000							16,670,000
Loss on early extinguishment of corporate debt	(4,788,000)							(4,788,000)
Interest expense	(7,634,000)	(869,000)	(d)					(8,503,000)
Income before provision for income taxes	10,212,000	(2,164,000)		611,000		75,000		8,734,000
(Provision for) benefit from income taxes	(3,727,000)	861,000	(e)	(243,000)	(e)	(30,000)	(e)	(3,139,000)
Net income	6,485,000	(1,303,000)		368,000		45,000		5,595,000
Net income attributable to the noncontrolling interests	(2,979,000)							(2,979,000)
Net income attributable to Kennedy-Wilson Holdings, Inc.	3,506,000	(1,303,000)		368,000		45,000		2,616,000
Preferred dividends and accretion of preferred stock issuance costs	(4,558,000)							(4,558,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(1,052,000)	(1,303,000)		368,000		45,000		(1,942,000)
Other comprehensive income, net of tax	6,440,000							6,440,000

Total comprehensive (loss) income	$ 5,388,000	$ (1,303,000)	$ 368,000	$ 45,000	$ 4,498,000
Basic and diluted loss per share					
Basic and diluted loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$ (0.03)				$ (0.05)
Weighted average number of common shares outstanding	38,978,272				38,978,272

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(a) Reflects our historical consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2010, which is included in Kennedy-Wilson Holdings, Inc. s previously filed Annual Report on Form 10-K for the year ended December 31, 2010.
(b) Pro forma results of Hegenberger, assuming the acquisition of Hegenberger had occurred on January 1, 2010. Hegenberger was acquired on June 28, 2011.
(c) Depreciation and amortization includes $137,000 of monthly amortization related to $2,469,000 of in-place lease value recorded at acquisition.
(d) Interest expense on Hegenberger mortgage payable of $12,000,000 at a fixed rate of 6.75% per annum plus monthly amortization of deferred financing costs of $5,000.
(e) Combined U.S. federal statutory and State of California income tax rates of 39.8%.
(f) Pro forma results of Telstar, which the Company has direct and indirect ownership interests in totaling 37.83% and is accounted for under the equity method, assuming the acquisition of Telstar had occurred on January 1, 2010. The equity method investment in Telstar was made on June 15, 2011.
(g) Elimination of the equity in joint venture loss recorded by the Company related to its previous 5% indirect ownership in Hegenberger.

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$250,000,000

Kennedy-Wilson, Inc.

Exchange Offer for

8.750% Senior Notes due 2019

PROSPECTUS

Until the date that is 90 days from the date of this prospectus, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

December 30, 2011