MIMEDX GROUP, INC.
Form 4
February 27, 2014

FORM 4

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

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

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
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Taylor William Charles

(Last) (First) (Middle)

C/O MIMEDX GROUP, INC., 1775 WEST OAK COMMONS CT. NE

(Street)

MARIETTA, GA 30062

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MIMEDX GROUP, INC. [MDXG]

3. Date of Earliest Transaction (Month/Day/Year)
02/25/2014

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)
President and COO

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			
Restricted Common Stock	02/25/2014		A		36,506 (1)	A	$ 7.24	459,506 (2)	D	

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

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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 Underlying Securitie (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amou Numbe Shares
Stock Option	$ 7.24	02/25/2014		A		113,359		02/25/2014 (3)	02/24/2024	Common Stock	113,3

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Taylor William Charles C/O MIMEDX GROUP, INC. 1775 WEST OAK COMMONS CT. NE MARIETTA, GA 30062	X		President and COO	

Signatures

/s/ Michael J. Senken, by Power of Attorney	02/27/2014
**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) The restricted shares vest over three years in equal 1/3 installments on the 1st, 2nd and 3rd anniversary dates of the grant.

(2) 350,000 of these shares are common stock. 109,506 of these shares are Restricted Stock, which vest in equal installments over the first three anniversary dates of the grants.

(3) The options vest in three equal installments over the first three anniversary dates of the grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Balance at December 31, 2013

$
4.3

$
4.9

$
9.2

Unrealized gains (losses), arising during the period

35.8

(5.2
)

30.6

Amounts reclassified out of AOCI during the period[(1)]

(0.3
)

(6.8
)

(7.1
)
Taxes on unrealized losses, arising during the period

(13.9
)

1.6

(12.3
)
Noncontrolling interest

(18.8
)

—

(18.8
)
Balance at June 30, 2014

$
7.1

$
(5.5
)

$
1.6

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

The functional currencies for our interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on our balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on our statements of operations are translated at the average exchange rates during the respective period. The increase in the unrealized gains on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the six months ended June 30, 2014.

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

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

Noncontrolling Interests

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

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

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

NOTE 13—EARNINGS PER SHARE

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

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

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

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

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

NOTE 14—SEGMENT INFORMATION

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

There have been no changes in the basis of segmentation or in the basis of measurement of segment profit or loss since the December 31, 2013 financial statements.

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2014	2013	2014	2013
Services				
Investment management, property services and research fees (includes $33.3, $13.8, $40.6, and $22.2 of related party fees)	$39.0	$19.5	$52.1	$33.1
Total revenue	39.0	19.5	52.1	33.1
Operating expenses	(14.7)	(9.9)	(25.9)	(18.2)
Income from unconsolidated investments	1.1	—	2.1	—
Operating income	25.4	9.6	28.3	14.9
Net income attributable to Kennedy-Wilson Holdings, Inc common shareholders	$25.4	$9.6	$28.3	$14.9

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	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2014	2013	2014	2013
Corporate				
Operating expenses	$(9.6)	$(7.2)	$(15.9)	$(10.9)
Operating loss	(9.6)	(7.2)	(15.9)	(10.9)
Interest expense-corporate	(14.7)	(9.7)	(25.2)	(19.4)
Other	—	0.1	—	0.2
Loss before (provision for) benefit from income taxes	(24.3)	(16.8)	(41.1)	(30.1)
(Provision for) benefit from income taxes	(25.4)	0.5	(34.2)	2.2
Net loss	(49.7)	(16.3)	(75.3)	(27.9)
Preferred dividends and accretion of preferred stock issuance costs	(2.1)	(2.1)	(4.1)	(4.1)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(51.8)	$(18.4)	$(79.4)	$(32.0)

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

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

NOTE 15—INCOME TAXES

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

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

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

NOTE 16—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS

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

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

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

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

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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2014

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

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

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

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CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2014

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

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

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

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Kennedy-Wilson Holdings, Inc.
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FOR THE THREE MONTHS ENDED JUNE 30, 2013

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services, and research fees	$—	$ 0.4	$ 7.3	$ 11.8	$ —	$ 19.5
Rental and hotel	—	—	1.5	8.8	—	10.3
Sale of real estate	—	—	6.1	—	—	6.1
Loans and other	—	—	0.5	—	—	0.5
Total revenue	—	0.4	15.4	20.6	—	36.4
Operating expenses						
Commission and marketing	—	0.3	1.0	—	—	1.3
Rental and hotel operating	—	—	0.8	3.8	—	4.6
Cost of real estate sold	—	—	5.1	—	—	5.1
Compensation and related	1.7	8.6	3.4	4.6	—	18.3
General and administrative	0.3	2.3	0.7	3.1	—	6.4
Depreciation and amortization	—	0.1	1.2	3.1	—	4.4
Total operating expenses	2.0	11.3	12.2	14.6	—	40.1
Income from unconsolidated investments, net of depreciation and amortization	—	—	16.7	(2.0)	0.1	14.8
Income from consolidated subsidiaries	0.6	20.3	0.7	—	(21.6)	—
Operating income (expense)	(1.4)	9.4	20.6	4.0	(21.5)	11.1
Non-operating income (expense)						
Acquisition-related expense	—	—	(0.2)	(0.3)	—	(0.5)
Interest expense-investment	—	—	(0.2)	(2.6)	—	(2.8)
Interest expense-corporate	—	(9.7)	—	—	—	(9.7)
Other income	—	0.2	—	—	(0.1)	0.1
(Loss) income before benefit from income taxes	(1.4)	(0.1)	20.2	1.1	(21.6)	(1.8)
Benefit from (provision for) income taxes	—	0.8	—	(0.3)	—	0.5
Net (loss) income	(1.4)	0.7	20.2	0.8	(21.6)	(1.3)
Net income attributable to the noncontrolling interests	—	—	—	0.9	—	0.9
Preferred dividends and accretion of preferred stock issuance costs	(2.1)	—	—	—	—	(2.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3.5)	$ 0.7	$ 20.2	$ 1.7	$ (21.6)	$ (2.5)

Explanation of Responses:

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

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Investment management, property services, and research fees	$—	$ 0.5	$ 14.2	$ 18.4	$ —	$ 33.1
Rental and hotel	—	—	3.2	13.6	—	16.8
Sale of real estate	—	—	8.5	—	—	8.5
Loans and other	—	—	0.9	—	—	0.9
Total revenue	—	0.5	26.8	32.0	—	59.3
Operating expenses						
Commission and marketing	—	0.4	1.4	—	—	1.8
Rental and hotel operating	—	—	1.7	6.0	—	7.7
Cost of real estate sold	—	—	7.0	—	—	7.0
Compensation and related	3.4	13.6	7.0	7.9	—	31.9
General and administrative	0.3	4.4	2.1	5.0	—	11.8
Depreciation and amortization	—	0.3	2.3	4.9	—	7.5
Total operating expenses	3.7	18.7	21.5	23.8	—	67.7
Income from unconsolidated investments, net of depreciation and amortization	—	—	20.2	(3.3)	—	16.9
Income from consolidated subsidiaries	(0.2)	34.7	9.5	—	(44.0)	—
Operating income (expense)	(3.9)	16.5	35.0	4.9	(44.0)	8.5
Non-operating income (expense)						
Acquisition-related gains	—	—	—	9.5	—	9.5
Acquisition-related expense	—	—	(0.2)	(0.3)	—	(0.5)
Interest expense-investment	—	—	(0.5)	(4.2)	0.1	(4.6)
Interest expense-corporate	—	(19.4)	—	—	—	(19.4)
Other income	—	0.2	0.3	—	(0.1)	0.4
(Loss) income before benefit from income taxes	(3.9)	(2.7)	34.6	9.9	(44.0)	(6.1)
Benefit from (provision for) income taxes	—	2.5	—	(0.3)	—	2.2
Net (loss) income	(3.9)	(0.2)	34.6	9.6	(44.0)	(3.9)
Net income attributable to the noncontrolling interests	—	—	—	1.9	—	1.9
Preferred dividends and accretion of preferred stock issuance costs	(4.1)	—	—	—	—	(4.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(8.0)	$ (0.2)	$ 34.6	$ 11.5	$ (44.0)	$ (6.1)

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Kennedy-Wilson Holdings, Inc.
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(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2014

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$63.6	$ 65.3	$ 127.7	$ 75.8	$ (268.7)	$ 63.7
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation (loss) gain	23.1	23.1	29.1	(3.1)	(49.1)	23.1
Amounts reclassified out of AOCI during the period	(8.3)	(8.3)	(8.3)	—	16.6	(8.3)
Unrealized forward contract foreign currency (loss) gain	(2.1)	(2.1)	(3.6)	(1.2)	6.9	(2.1)
Total other comprehensive (loss) income for the period	$12.7	$ 12.7	$ 17.2	$ (4.3)	$ (25.6)	$ 12.7
Comprehensive income	$76.3	$ 78.0	$ 144.9	$ 71.5	$ (294.3)	$ 76.4
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	(44.1)	—	(44.1)
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$76.3	$ 78.0	$ 144.9	$ 27.4	$ (294.3)	$ 32.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2013

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$(1.4)	$ 0.7	$ 20.2	$ 0.8	$ (21.6)	$ (1.3)
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation gains	(3.7)	(3.7)	(5.1)	(0.5)	9.3	(3.7)
Unrealized forward contract foreign currency loss	2.2	2.2	2.0	—	(4.2)	2.2
Total other comprehensive income for the period	$(1.5)	$ (1.5)	$ (3.1)	$ (0.5)	$ 5.1	$ (1.5)
Comprehensive (loss) income	$(2.9)	$ (0.8)	$ 17.1	$ 0.3	$ (16.5)	$ (2.8)
Comprehensive income attributable to noncontrolling interests	—	—	—	0.9	—	0.9
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(2.9)	$ (0.8)	$ 17.1	$ 1.2	$ (16.5)	$ (1.9)

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Kennedy-Wilson Holdings, Inc.
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(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net income (loss)	$ 113.6	$ 116.9	$ 209.6	$ 153.0	$ (479.5)	$ 113.6
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation (loss) gain	21.9	21.9	23.9	(3.9)	(41.9)	21.9
Amounts reclassified out of AOCI during the period	(7.1)	(7.1)	(8.3)	1.2	14.2	(7.1)
Unrealized forward contract foreign currency (loss) gain	(3.6)	(3.6)	(1.2)	(1.2)	6.0	(3.6)
Total other comprehensive (loss) income for the period	$ 11.2	$ 11.2	$ 14.4	$ (3.9)	$ (21.7)	$ 11.2
Comprehensive income	$ 124.8	$ 128.1	$ 224.0	$ 149.1	$ (501.2)	$ 124.8
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	(81.5)	—	(81.5)
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$ 124.8	$ 128.1	$ 224.0	$ 67.6	$ (501.2)	$ 43.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2013

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$ (3.9)	$ (0.2)	$ 34.6	$ 9.6	$ (44.0)	$ (3.9)
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation gains	(18.0)	(18.0)	(18.0)	(2.5)	38.5	(18.0)
Unrealized forward contract foreign currency loss	5.8	5.8	5.2	—	(11.0)	5.8
Total other comprehensive income for the period	$ (12.2)	$ (12.2)	$ (12.8)	$ (2.5)	$ 27.5	$ (12.2)
Comprehensive (loss) income	$ (16.1)	$ (12.4)	$ 21.8	$ 7.1	$ (16.5)	$ (16.1)
Comprehensive income attributable to noncontrolling interests	—	—	—	1.9	—	1.9

Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(16.1)	$ (12.4)	$ 21.8	$ 9.0	$(16.5)	$ (14.2)

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

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash provided by (used in) operating activities	$1.8	$ (75.3)	$ 58.5	$ 80.1	$ 65.1
Cash flows from investing activities:					
Additions to loans	—	—	(5.7)	(367.6)	(373.3)
Collections of loans	—	—	0.2	18.5	18.7
Net proceeds from sale of real estate	—	—	—	15.0	15.0
Purchases of and additions to real estate	—	—	(4.4)	(1,285.4)	(1,289.8)
Distributions from unconsolidated investments	—	0.2	44.4	11.0	55.6
Contributions to unconsolidated investments	—	(2.0)	(19.1)	(84.9)	(106.0)
Investment in marketable securities	—	—	(6.9)	—	(6.9)
(Investments in) distributions from consolidated subsidiaries, net	(171.9)	67.1	(141.4)	246.2	—
Net cash (used in) provided by investing activities	(171.9)	65.3	(132.9)	(1,447.2)	(1,686.7)
Cash flows from financing activities:					
Borrowings under line of credit	—	90.0	—	—	90.0
Repayment of line of credit	—	(90.0)	—	—	(90.0)
Borrowings under investment debt	—	—	18.0	277.2	295.2
Borrowings under senior notes payable	—	297.2	—	—	297.2
Debt issue costs	—	(7.0)	(0.4)	(3.9)	(11.3)
Repayment of investment debt	—	—	—	(14.0)	(14.0)
Issuance of common stock	190.7	—	—	—	190.7
Dividends paid	(18.1)	—	—	—	(18.1)
Repurchase and retirement of common stock	(2.6)	—	—	—	(2.6)
Proceeds from issuance of KWE shares	—	—	—	1,351.1	1,351.1
Restricted cash	—	—	—	(42.6)	(42.6)
Acquisition of KWE shares from noncontrolling interest holders	—	—	—	(16.8)	(16.8)
Contributions from noncontrolling interests	—	—	—	8.6	8.6
Distributions to noncontrolling interests	—	—	—	(13.5)	(13.5)
Net cash provided by financing activities	170.0	290.2	17.6	1,546.1	2,023.9
Effect of currency exchange rate changes on cash and cash equivalents	—	—	—	19.2	19.2
Net change in cash and cash equivalents	(0.1)	280.2	(56.8)	198.2	421.5
Cash and cash equivalents, beginning of year	—	48.2	77.2	52.8	178.2
Cash and cash equivalents, end of period	$(0.1)	$ 328.4	$ 20.4	$ 251.0	$ 599.7

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013

(Dollars in millions)	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash (used in) provided by operating activities	$(0.2)	$ (46.4)	$ 16.8	$ 5.9	$ (23.9)
Cash flows from investing activities:					
Additions to loans	—	(6.0)	(8.3)	—	(14.3)
Collections of loans	—	—	33.6	—	33.6
Net proceeds from sale of real estate	—	—	9.0	—	9.0
Purchases of and additions to real estate	—	—	(30.8)	(77.5)	(108.3)
Proceeds from sale of marketable securities	—	10.0	—	—	10.0
Distributions from unconsolidated investments	—	0.2	72.4	2.7	75.3
Contributions to unconsolidated investments	—	(2.3)	(162.7)	(35.5)	(200.5)
(Investment in) distributions from consolidated subsidiaries, net	(35.8)	(24.6)	26.5	33.9	—
Net cash (used in) provided by investing activities	(35.8)	(22.7)	(60.3)	(76.4)	(195.2)
Cash flows from financing activities:					
Borrowings under line of credit	—	85.0	—	—	85.0
Repayment of lines of credit	—	(55.0)	—	—	(55.0)
Borrowings under investment debt	—	—	18.7	49.6	68.3
Repayment of investment debt	—	—	—	(0.6)	(0.6)
Debt issue costs	—	(0.9)	—	—	(0.9)
Issuance of common stock	153.9	—	—	—	153.9
Repurchase of warrants	(1.4)	—	—	—	(1.4)
Dividends paid	(9.1)	—	—	—	(9.1)
Contributions from noncontrolling interests	—	—	—	0.6	0.6
Distributions to noncontrolling interests	—	—	—	(0.2)	(0.2)
Intercompany receivables, net	—	(19.7)	0.1	19.6	—
Net cash provided by (used in) financing activities	143.4	9.4	18.8	69.0	240.6
Effect of currency exchange rate changes on cash and cash equivalents	—	(0.1)	(1.4)	(1.2)	(2.7)
Net change in cash and cash equivalents	107.4	(59.8)	(26.1)	(2.7)	18.8
Cash and cash equivalents, beginning of period	—	64.5	38.5	17.9	120.9
Cash and cash equivalents, end of period	$107.4	$ 4.7	$ 12.4	$ 15.2	$ 139.7

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

NOTE 17—SUBSEQUENT EVENTS

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

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

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

Overview

Kennedy Wilson is a vertically integrated global real estate investment and services company with over $17 billion in assets under management. Founded in 1977, we have owned and operated real estate related investments for over 35 years on behalf of our shareholders and our clients. We have approximately 400 employees in 25 offices throughout the United States, the United Kingdom, Ireland, Spain, Jersey and Japan and manage and work with over 2,000 operating associates. We focus on adding value for our shareholders through opportunistic investing and strategic asset management. Also, our services business creates additional value through fee generation.

The following is our business model:

- Identify countries and markets with an attractive investment landscape
- Establish operating platforms and service businesses in our target markets
- Develop local intelligence and create long-lasting relationships; primarily with financial institutions
- Leverage relationships and local knowledge to drive proprietary investment opportunities with a focus on off-market transactions
- Acquire high quality assets, either on our own or with strategic partners, utilizing cash from our balance sheet and typically financing them on a long-term basis
- Reposition assets and enhance cash flows post-acquisition
- Continuously evaluate and selectively harvest asset and entity value through strategic realizations utilizing both the public and private markets
- Utilize our services businesses to meet client needs, strengthen relationships with financial institutions, and position the Company as a valuable resource and partner to these institutions for any future real estate opportunities

Our strategy has resulted in a strong track record of creating both asset and entity value for the benefit of our shareholders and partners over various real estate cycles.

On February 28, 2014, Kennedy Wilson Europe Real Estate Plc ("KWE," LSE: KWE), a Jersey investment company, closed its initial public offering, raising approximately $1.7 billion in gross proceeds. KWE, whose ordinary shares are listed on the London Stock Exchange's main market, acquires real estate and real estate-related assets in Europe. In connection with KWE's initial public offering, the Company invested $145.2 million of cash and $58.3 million of assets. In May of 2014, the Company purchased an additional one million shares of KWE for a purchase price of approximately $16.8 million. As of June 30, 2014, the Company owns approximately 13.2% of KWE's total issued share capital, making Kennedy Wilson the largest shareholder of KWE. KWE is externally managed by one of our wholly-owned subsidiaries ("KWE Manager") pursuant to an investment management agreement in which capacity Kennedy Wilson will be entitled to receive certain management and performance fees. KWE Manager is paid an annual management fee (payable quarterly in arrears) equal to 1% of KWE's adjusted net asset value once 75% of the proceeds from KWE's initial public offering have been invested or committed for investment. Before such amount of the proceeds have been invested, KWE Manager will receive 1% of the invested and committed portion of the cash proceeds. The management fee payable to KWE Manager will be paid half in cash and half in shares of KWE. As of June 30, 2014 over 75% of the proceeds had been invested by KWE and KWE Manager earned the full 1% fee for the second quarter of 2014. A wholly-owned subsidiary of the Company is also entitled to receive an annual performance fee equal to 20% of the lesser of the excess of the shareholder return for the relevant year (defined as the change in KWE's adjusted net asset value per ordinary share) over a 10% annual return hurdle, and the excess of year-end adjusted net asset value per ordinary share over a "high water mark". The performance fee is payable in shares of KWE that vest equally over a three-year period. No such fee has been earned as of June 30, 2014.

Due to the terms provided in the investment management agreement, pursuant to the guidance set forth in FASB Accounting Standards Codification Subtopic 810 - Consolidation ("Subtopic 810"), the Company is required to consolidate KWE's results in its consolidated financial statements. As of June 30, 2014, KWE owned 74 direct real estate assets with approximately 5.9 million square feet and 2 loan portfolios secured by 25 real estate assets. Pursuant to the investment management agreement, subject to certain exceptions, KWE will be provided priority access to all real estate or real estate loan opportunities sourced by the Company in Europe that are within the parameters of KWE's investment policy.

Our operations are defined by two core business segments, KW investments and KW services, which work closely together to identify attractive investment markets and opportunities across the world:

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KW Investments - we invest in various types of real estate investments through our investments business, either on our own or with strategic partners, where we are typically the general partner, with a promoted interest in the profits of the business beyond our ownership percentage. The main types of real estate we invest in are listed below:

Commercial

We source, acquire, and finance various types of commercial real estate that includes office, retail, industrial, and mixed-use assets.

Multifamily

We focus primarily on apartments in supply-constrained, infill markets. We pursue multifamily acquisition opportunities where we can unlock value through a myriad of strategies, including institutional management, asset rehabilitation, repositioning and creative recapitalization.

Loan Originations / Discounted Loan Purchases

We originate and/or acquire loans secured by real estate. Our originations and acquisitions include individual notes on all real estate property types as well as portfolios of loans purchased from financial institutions, corporations and government agencies.

Residential, Hotel, and Other

In certain cases, we may pursue for sale housing acquisition opportunities, including land for entitlements, finished lots, urban infill condominium sites and partially finished and finished condominium projects. This group also includes our investment in hotels and our investments in marketable securities.

The following table describes our investment account (Kennedy Wilson's equity in real estate and loans secured by real estate), which includes the following financial statement captions and is derived from our consolidated balance sheets, as of June 30, 2014 and December 31, 2013:

(Dollars in millions)	June 30, 2014	December 31, 2013
Real estate and acquired in-place lease values, gross of accumulated depreciation and amortization of $57.5 and $26.3, respectively	$3,610.9	$714.4
Loans	402.3	56.8
Investment debt	(1,528.7)	(401.8)
Cash held by consolidated investments	292.8	8.0
Unconsolidated investments[1], gross of accumulated depreciation and amortization of $72.9 and $106.0, respectively	577.2	865.2
Other[2]	(21.5)	4.0
Consolidated investment account	3,333.0	1,246.6
Add back:		
Noncontrolling interests on investments, gross of depreciation and amortization of $16.1 and $4.5, respectively	(1,834.3)	(55.1)
Investment account	$1,498.7	$1,191.5

[1] Excludes $27.9 million and $26.9 million related to our investment in a servicing platform in Spain, as of June 30, 2014 and December 31, 2013, respectively.

[2] Includes the Company's marketable securities, which are part of other assets, as well as net other liabilities of consolidated investments.

The following table breaks down our net investment account information derived from our consolidated balance sheet, by investment type and geographic location as of June 30, 2014:

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(Dollars in millions)	Commercial	Multifamily	Loans Secured by Real Estate	Residential, Hotel, and Other	Total
Western U.S.	$236.4	$300.1	$84.2	$171.1	$791.8
Japan	4.3	93.2	—	0.4	97.9
United Kingdom	220.9	—	48.5	—	269.4
Ireland	85.6	81.4	79.1	25.2	271.3
Subtotal	$547.2	$474.7	$211.8	$196.7	$1,430.4
KW share of cash held by consolidated investments					68.3
Total					$1,498.7

The following table breaks down our investment account information derived from our consolidated balance sheet, by investment type and geographic location as of December 31, 2013:

(Dollars in millions)	Commercial	Multifamily	Loans Secured by Real Estate	Residential and Other	Total
Western U.S.	$252.0	$277.8	$112.5	$150.9	$793.2
Japan	4.5	91.4	—	0.4	96.3
United Kingdom	108.4	—	27.3	—	135.7
Ireland	102.1	51.4	8.3	—	161.8
Subtotal	$467.0	$420.6	$148.1	$151.3	$1,187.0
KW share of cash held by consolidated investments					4.5
Total					$1,191.5

KW Services - our services business offers a comprehensive line of real estate services for the full lifecycle of real estate ownership. Below are the product types we offer through the KW services segment:

Investment Management

We provide acquisition, asset management and disposition services to our equity partners as well as to third parties.

Property Services

This division manages or advises on commercial and residential real estate for third-party clients, fund investors, and investments held by the Company. In addition to earning property management fees, consulting fees, lease commissions, construction management fees, disposition fees, and accounting fees, the Property Services group gives Kennedy Wilson insight into local markets and potential acquisitions.

Research

Meyers Research LLC (“Meyers”), a Kennedy Wilson company, is a premier real estate consulting practice and the industry’s leading provider of data and analytics for the residential real estate development and new home construction industry. Meyers' proprietary iPad application, Zonda, launched in 2013 and provides market insight for the homebuilding industry with real-time data on over 250 metrics impacting the housing market on a national and local level.

Auction and Conventional Sales

The Auction and Conventional Sales group provides innovative marketing and sales strategies for all types of commercial and residential real estate, including single family homes, mixed-use developments, estate homes, multifamily dwellings, new home projects, conversions and scattered properties.

Brokerage

The Brokerage group specializes in innovative marketing programs tailored to client objectives for all types of investment grade and income producing real estate.

Non-GAAP Measures

Consolidated EBITDA and Adjusted EBTIDA

Consolidated EBITDA(1) - Consolidated EBITDA represents net income before noncontrolling interest income, interest expense, our share of interest expense included in income from investments in unconsolidated investments, depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments, loss on early extinguishment of corporate debt and income taxes. We do not adjust Consolidated EBITDA for gains or losses on the

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extinguishment of investment debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers. Our management believes Consolidated EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of Consolidated EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions.
Adjusted EBITDA(1) - represents Consolidated EBITDA, as defined above, adjusted to exclude acquisition and merger related expenses, stock based compensation expense and EBITDA attributable to noncontrolling interests. Our management uses Adjusted EBITDA to analyze our business because it adjusts Consolidated EBITDA for items we believe do not have an accurate reflection of the nature of our business going forward. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations. Such items may vary for different companies for reasons unrelated to overall operating performance.
(1) - Consolidated EBITDA, as defined above, is not a recognized term under GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, Consolidated EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of Consolidated EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Consolidated EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. Such items may vary for different companies for reasons unrelated to overall operating performance.
Adjusted EBITDA represents Consolidated EBITDA, as defined above, adjusted to exclude corporate merger and acquisition related expenses, share based compensation expense and EBITDA attributable to noncontrolling interests for the Company. Such items may vary for different companies for reasons unrelated to overall operating performance. However, Consolidated EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use Consolidated EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of Consolidated EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, Consolidated EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management’s discretionary use, as it does not consider certain cash requirements such as tax and debt service payments, and the items excluded from these metrics may vary for different companies for reasons unrelated to overall operating performance. The amounts shown for Consolidated EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

Kennedy Wilson's Recent Highlights

- During the second quarter, the Company and its equity partners sold a portfolio of commercial properties located primarily in Dublin, Ireland, to Kennedy Wilson Europe Real Estate Plc (LSE:KWE). As a result of the sale, the Company collected fees totaling $26.2 million in addition to a profit of $26.6 million on its 25% interest in the investment. This transaction was approved by the independent shareholders of KWE.
- During the second quarter, as a result of amending an existing operating agreement with one of our equity partners, the Company gained control of an unconsolidated subsidiary that owns the majority of the Company's investments in Japan. This subsidiary holds approximately 2,400 multi-family units in 50 properties located primarily in Tokyo, Japan and its surrounding areas. The Company has an approximate 41% ownership interest in these investments. As a result of gaining control of this investment, the Company was required to consolidate the assets and liabilities at fair value and recognized an acquisition-related gain of $66.7 million of which $22.9 million was allocated to noncontrolling equity partners.

- Shareholder equity increased $207.8 million or 27% to $976.1 million at June 30, 2014 from $768.3 million at December 31, 2013.

Investments business

For the three months ended June 30, 2014, the Company's Investments segment reported the following results:

- Adjusted EBITDA was $97.4 million, a 215% increase from $30.9 million for the same period in 2013.
- For same property multifamily units, total revenues increased 7%, net operating income increased 10% and occupancy remained at 95% at the property level from the same period in 2013.
- For same property commercial real estate, total revenues increased 3%, net operating income increased 2% and occupancy remained at 85% at the property level from the same period in 2013.
- The Company and its equity partners acquired $1.5 billion of real estate related investments. These acquisitions include $1.3 billion of real estate related investments acquired by KWE.

For the six months ended June 30, 2014, the Company's Investments segment reported the following results:

- Adjusted EBITDA was $165.5 million, a 187% increase from $57.6 million for the same period in 2013.
- For same property multifamily units, total revenues increased 7%, net operating income increased 10% and occupancy remained at 95% at the property level from the same period in 2013.
- For same property commercial real estate, total revenues increased 4%, net operating income increased 2% and occupancy increased 2% to 85% at the property level from the same period in 2013.
- The Company and its equity partners acquired approximately $2.2 billion of real estate related investments, in which the Company invested $364.3 million of equity. These acquisitions include $1.7 billion of real estate related investments acquired by KWE.
- The Company's investments year-to-date were directed 87% to the United Kingdom and Ireland and 13% to the Western U.S.

Services business

For the three months ended June 30, 2014, the Company's Services segment reported the following results:

- Fees increased by 100% to $39.0 million from $19.5 million for the same period in 2013.
- Fees earned from investments that were eliminated in consolidation totaled $6.1 million compared to $0.7 million for the same period in 2013. In accordance with U.S. GAAP, these fees were excluded from total fees of $39.0 million and $19.5 million for 2014 and 2013, respectively.
- Adjusted EBITDA was $32.7 million, a 217% increase from $10.3 million for the same period in 2013.

For the six months ended June 30, 2014, the Company's Services segment reported the following results:

- Fees increased by 57% to $52.1 million from $33.1 million for the same period in 2013.
- Fees earned from investments that were eliminated in consolidation totaled $7.7 million compared to $1.6 million for the same period in 2013. In accordance with U.S. GAAP, these fees were excluded from total fees of $52.1 million and $33.1 million for 2014 and 2013, respectively.
- Adjusted EBITDA was $38.3 million, a 132% increase from $16.5 million for the same period in 2013.

Kennedy Wilson Europe Real Estate Plc (LSE: KWE)

- Since its launch in February 2014, KWE has acquired 74 direct real estate assets with approximately 5.9 million square feet and two loan portfolios secured by 25 real estate assets totaling $1.7 billion in purchase price.
- Kennedy Wilson owns 13.2% of KWE’s total share capital as of June 30, 2014 and one of our wholly-owned subsidiaries serves as KWE's external manager, in which capacity we receive certain management and performance fees.

Subsequent events

- In July 2014, Kennedy Wilson increased its unsecured corporate line of credit from $140 million to $300 million; the line of credit currently has no outstanding balance.
- In July 2014, the Company acquired a multifamily portfolio comprised of three properties located across southern submarkets of Seattle, Washington. The portfolio consists of 1,212 units and was purchased for $127 million. Kennedy Wilson invested $45 million of equity in the transaction and assumed $85 million of financing, fixed at 4.25%, from Freddie Mac.
- In August 2014, the Company converted its note secured by the landmark Shelbourne Hotel located in Dublin, Ireland into a direct 100% ownership interest in the property.

Results of Operations

The following table sets forth items derived from our consolidated statement of operations for the three and six month periods ended June 30, 2014 and 2013:

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(Dollars in millions, except share and per share amounts)	For the Three Months Ended June 30, 2014	2013	For the Six Months Ended June 30, 2014	2013
Revenue				
Investment management, property services and research fees	$39.0	$19.5	$52.1	$33.1
Rental and hotel	42.6	10.3	67.8	16.8
Sale of real estate	6.1	6.1	17.4	8.5
Loans and other	4.3	0.5	6.0	0.9
Total revenue	92.0	36.4	143.3	59.3
Operating expenses				
Commission and marketing	0.9	1.3	1.8	1.8
Rental and hotel operating	17.9	4.6	32.1	7.7
Cost of real estate sold	3.9	5.1	13.5	7.0
Compensation and related	32.2	18.3	52.8	31.9
General and administrative	8.4	6.4	16.5	11.8
Depreciation and amortization	25.3	4.4	32.6	7.5
Total operating expenses	88.6	40.1	149.3	67.7
Income from unconsolidated investments, net of depreciation and amortization	31.0	14.8	33.8	16.9
Operating income	34.4	11.1	27.8	8.5
Non-operating income (expense)				
Acquisition-related gains	86.0	—	170.3	9.5
Acquisition-related expenses	(7.6)	(0.5)	(11.6)	(0.5)
Interest expense-investment	(11.1)	(2.8)	(16.4)	(4.6)
Interest expense-corporate	(14.7)	(9.7)	(25.2)	(19.4)
Other income	2.1	0.1	2.9	0.4
Income (loss) before (provision for) benefit from income taxes	89.1	(1.8)	147.8	(6.1)
(Provision for) benefit from income taxes	(25.4)	0.5	(34.2)	2.2
Net income (loss)	63.7	(1.3)	113.6	(3.9)
Net (income) loss attributable to the noncontrolling interests	(25.3)	0.9	(62.7)	1.9
Preferred stock dividends and accretion of issuance costs	(2.1)	(2.1)	(4.1)	(4.1)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc common shareholders	$36.3	$(2.5)	$46.8	$(6.1)
Consolidated EBITDA	$162.1	$35.4	$269.7	$65.6
Adjusted EBITDA	$122.2	$36.3	$191.5	$68.0

We use certain non-GAAP measures to analyze our business, including Consolidated EBITDA[1] and Adjusted EBITDA[1], which are calculated as follows:

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(Dollars in millions)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net income (loss)	$63.7	$(1.3)	$113.6	$(3.9)
Non-GAAP adjustments:				
Add back:				
Interest expense-investment	11.1	2.8	16.4	4.6
Interest expense-corporate	14.7	9.7	25.2	19.4
Kennedy Wilson's share of interest expense included in unconsolidated investments	9.5	10.1	20.5	20.7
Depreciation and amortization	25.3	4.4	32.6	7.5
Kennedy Wilson's share of depreciation and amortization included in unconsolidated investments	12.4	10.2	27.2	19.5
Provision for (benefit from) income taxes	25.4	(0.5)	34.2	(2.2)
Consolidated EBITDA	162.1	35.4	269.7	65.6
Add back (less):				
Share-based compensation	1.7	1.7	3.4	3.4
EBITDA attributable to noncontrolling interests[1]	(41.6)	(0.8)	(81.6)	(1.0)
Adjusted EBITDA to Kennedy Wilson common shareholders	$122.2	$36.3	$191.5	$68.0

[1] See Non-GAAP Measures section for definitions and discussion of EBITDA and Adjusted EBITDA

[1] $16.3 million and $1.7 million of depreciation, amortization and interest for the three months ended June 30, 2014 and 2013 and $18.9 million and $2.9 million for the six months ended June 30, 2014 and 2013

The following tables summarize revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculate EBITDA[1] and Adjusted EBITDA[1] by our investments and services operating segments for three and six months ended June 30, 2014 and 2013:

(Dollars in millions)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Investments				
Revenue	$53.0	$16.9	$91.2	$26.2
Operating expenses	(64.3)	(23.1)	(107.7)	(38.8)
Income from unconsolidated investments, net of depreciation and amortization	29.9	14.8	31.7	16.9
Operating income	18.6	8.6	15.2	4.3
Other income (expense)	69.5	(3.7)	145.2	3.6
Net income	88.1	4.9	160.4	7.9
Add back:				
Interest expense-investment	11.1	2.8	16.4	4.6
Kennedy Wilson's share of interest expense included in unconsolidated investments	8.8	10.1	19.5	20.7
Depreciation and amortization	25.3	4.4	32.6	7.5
Kennedy Wilson's share of depreciation and amortization included in unconsolidated investments	11.8	10.2	25.9	19.5
EBITDA attributable to noncontrolling interests[1]	(41.6)	(0.8)	(81.6)	(1.0)
Fees eliminated in consolidation	(6.1)	(0.7)	(7.7)	(1.6)
Adjusted EBITDA[2]	$97.4	$30.9	$165.5	$57.6

[1] $16.3 million and $1.7 million of depreciation, amortization and interest for the three months ended June 30, 2014 and 2013, respectively, and $18.9 million and $2.9 million for the six months ended June 30, 2014 and 2013,

respectively.
(2)See Non-GAAP Measures section for definitions and discussion of EBITDA and Adjusted EBITDA

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(Dollars in millions)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Services				
Investment management, property services and research fees	$39.0	$19.5	$52.1	$33.1
Operating expenses	(14.7)	(9.9)	(25.9)	(18.2)
Operating income	24.3	9.6	26.2	14.9
Income from unconsolidated investments, net of depreciation and amortization	1.1	—	2.1	—
Net income	25.4	9.6	28.3	14.9
Add back:				
Kennedy Wilson's share of interest expense included in unconsolidated investments	0.6	—	1.0	—
Kennedy Wilson's share of depreciation and amortization included in unconsolidated investments	0.6	—	1.3	—
Fees eliminated in consolidation	6.1	0.7	7.7	1.6
EBITDA(1)	$32.7	$10.3	$38.3	$16.5

(1)See Non-GAAP Measures section for definitions and discussion of EBITDA and Adjusted EBITDA

(Dollars in millions)	Three Months Ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Corporate				
Operating expenses	$(9.6)	$(7.2)	$(15.9)	$(10.9)
Operating loss	(9.6)	(7.2)	(15.9)	(10.9)
Interest expense-corporate	(14.7)	(9.7)	(25.2)	(19.4)
Other	—	0.1	—	0.2
Loss before benefit from income taxes	(24.3)	(16.8)	(41.1)	(30.1)
(Provision for) benefit from income taxes	(25.4)	0.5	(34.2)	2.2
Net loss	(49.7)	(16.3)	(75.3)	(27.9)
Add back:				
Interest expense-corporate	14.7	9.7	25.2	19.4
Share-based compensation	1.7	1.7	3.4	3.4
(Provision for) benefit from income taxes	25.4	(0.5)	34.2	(2.2)
EBITDA(1)	$(7.9)	$(5.4)	$(12.5)	$(7.3)

(1)See Non-GAAP Measures section for definitions and discussion of EBITDA and Adjusted EBITDA

Our Consolidated Financial Results: Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Our revenues for the three months ended June 30, 2014 and 2013 were $92.0 million and $36.4 million, respectively. Total operating expenses for the same periods were $88.6 million and $40.1 million, respectively, and net income attributable to our common shareholders was $36.3 million compared to a net loss of $2.5 million, respectively. Adjusted EBITDA to KW common shareholders was $122.2 million and $36.3 million, respectively, for the three months ended June 30, 2014 and 2013. The Company achieved a 237% increase in adjusted EBITDA to Kennedy Wilson common shareholders for the three months ended June 30, 2014 as compared to the same period in 2013.

Revenues

Investments Segment Revenues

Rental and hotel income was $42.6 million for the three months ended June 30, 2014 as compared to $10.3 million for the same period in 2013. The $32.3 million increase is primarily due to new acquisitions by us and our consolidated subsidiaries (including KWE) and consolidations in the latter half of 2013 and the first half of 2014. During the first quarter of 2014, we acquired a portfolio of 14 commercial, retail, and industrial properties located throughout the United Kingdom. In addition, during the first

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quarter of 2014 the Company consolidated the results of six separate joint ventures that hold real estate-related investments located in the U.K. and Ireland.

During the three months ended June 30, 2014, we sold three condominium units, generating $6.1 million of proceeds from the sale of real estate compared to 22 condominium units which sold during the same period in 2013, resulting in $6.1 million of proceeds.

Loan and other income was $4.3 million for the three months ended June 30, 2014 as compared to $0.5 million for the same period in 2013. The increase was mainly due to the acquisition of the notes on the Shelbourne Hotel in Dublin, Ireland, during the first quarter of 2014 and the acquisition by KWE of subordinated notes secured by 20 commercial properties located throughout England and Scotland.

Services Segment Revenues

We earn fees on the following types of services we provide:

- investment management, including acquisition, asset management and disposition services;
- property services, including management of commercial real estate for third-party clients, fund investors, and investments held by the Company;
- research, including consulting practice and data and analytics for the residential real estate development and new home construction industry;
- auction and conventional sales, including innovative marketing and sales strategies for all types of commercial and residential real estate, including single family homes, mixed-use developments, estate homes, multifamily dwellings, new home projects, conversions and scattered properties; and
- brokerage services, including innovative marketing programs tailored to client objectives for all types of investment grade and income producing real estate.

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

Our third party fees were essentially flat at $5.7 million during the three months ended June 30, 2014 as compared to approximately $5.7 million for the same period in 2013.

Related Party Services

Our related party fees generated revenues of $33.3 million during the three months ended June 30, 2014 as compared to $13.8 million for the same period in 2013. The increase in related party revenue primarily relates to management fees earned on the sale of a portfolio of commercial properties located primarily in Dublin, Ireland. Fees earned from investments that were eliminated in consolidation totaled $6.1 million, a $5.4 million increase from $0.7 million for the same period in 2013. In accordance with U.S. GAAP, these fees were excluded from total fees of $33.3 million and $13.8 million, respectively.

Operating Expenses

Investments Segment Operating Expenses

Operating expenses for the three months ended June 30, 2014 increased to $64.3 million compared to $23.1 million for the same period in 2013. The increase is primarily attributable to the following:

Rental operating expenses increased by $13.3 million, and depreciation and amortization increased by $20.9 million due to the acquisitions and consolidations in the latter half of 2013 and in the first quarter of 2014.

During the three months ended June 30, 2014, we sold three condominium units resulting in $3.9 million of sale-related costs compared to 22 condominium units which sold during the same period in 2013, resulting in $5.1 million of sale-related costs.

Compensation and related expenses increased by $7.4 million primarily due to an increase in personnel as a result of our growth of in the United Kingdom and Ireland. This increase included accrued discretionary compensation.

General and administrative expenses increased by $0.8 million primarily due to our growing operations in the United Kingdom and Ireland.

Services Segment Operating Expenses

Operating expenses for the three months ended June 30, 2014 were $14.7 million as compared to $9.9 million for the same period in 2013. The increase is attributable to the following:

Compensation and related expenses increased by $3.8 million and general and administrative expenses increased by $1.4 million as a result of the expansion in our research group and the launch of our iPad application, Zonda, and related sales professionals.

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Zonda provides market insight for the homebuilding industry with real-time data on over 250 metrics impacting the housing market on a national and local level.

Corporate Operating Expenses

Operating expenses for the three months ended June 30, 2014 were approximately $9.6 million as compared to $7.2 million for the same period in 2013. Compensation and related expenses increased by $2.7 million primarily due to an increase in personnel as a result of our growth of in the United Kingdom and Ireland. This increase includes accrued discretionary compensation.

Income from Unconsolidated Investments

Investments Segment Income from Unconsolidated Investments

During the three months ended June 30, 2014, income from unconsolidated investments was $29.9 million as compared to $14.8 million for the same period in 2013. During the second quarter, the Company and its equity partners sold a portfolio of commercial properties located primarily in Dublin, Ireland, to KWE. This transaction was approved by the independent shareholders of KWE. As a result of the sale, the Company recorded a profit of $26.6 million on its 25% interest in the investment. In addition, as a result of obtaining control in the first quarter of 2014, the Company consolidated six investments in Europe which were previously accounted for using the equity method. The income pickup for these six investments totaled $14.8 million in the second quarter of 2013.

Services Segment Income from Unconsolidated Investments

During the three months ended June 30, 2014, income from unconsolidated investments was $1.1 million with no comparable activity in 2013. During the fourth quarter of 2013, the Company along with an equity partner acquired an interest in a loan servicing platform in Spain with approximately €23.0 billion of assets under management. The income recognized during the second quarter of 2014 relates to this acquisition.

Non-operating Items

Acquisition-related gains were $86.0 million for the three months ended June 30, 2014 with no comparable activity during the same period in 2013. On June 30, 2014, the Company and one of its equity partners amended an existing operating agreement governing 50 multifamily buildings in and around Tokyo, Japan comprising approximately 2,400 units. The Company has an approximate 41% ownership interest in these investments. This investment was previously accounted for by the Company on an equity method basis. The amendments to the operating agreements provided control to the Company of these investments. As the fair value of our interests in these properties were in excess of the carrying value, we recorded acquisition-related gains of $66.7 million.

In addition, KWE acquired the subordinated notes on 20 commercial properties located throughout England and Scotland during the quarter and used its position as a debt holder to secure the acquisition of the underlying properties. The Company recognized an acquisition-related gain of $15.2 million on the transaction due to its ability to acquire the underlying real estate at a discount to its fair value.

Interest expense associated with corporate debt was $14.7 million for the three months ended June 30, 2014 as compared to $9.7 million for the same period in 2013. The increase in corporate interest expense is attributable to the issuance of $300.0 million aggregate principal of the our 5.875% senior notes due, which occurred in March 2014 and interest expense paid on the revolving line of credit.

Interest expense associated with investment debt was $11.1 million for the three months ended June 30, 2014 as compared to $2.8 million for the same period in 2013. The increase is due to the acquisitions and consolidations in the latter half of 2013 and during 2014.

Provision for income taxes was $25.4 million during the three months ended June 30, 2014 as compared to a $0.5 million benefit from income taxes for the same period in 2013. During the three months ended June 30, 2014, we had domestic gains of $88.9 million which incur a tax expense at the federal tax rate of approximately 34% and foreign gains of $0.1 million by our subsidiaries in the United Kingdom and Ireland which are subject to corporate tax rates of 21.0% and 12.5%, respectively. The provision for income taxes does not include non-controlling interests.

We had net income of $25.3 million attributable to noncontrolling interests during the three months ended June 30, 2014 compared to a net loss attributable to noncontrolling interest of $0.9 million during the three months ended June 30, 2013. The increase is mainly due to the acquisition-related gains described above being allocated to noncontrolling interest holders.

Our Consolidated Financial Results: Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

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Our revenues for the six months ended June 30, 2014 and 2013 were $143.3 million and $59.3 million, respectively. Total operating expenses for the same periods were $149.3 million and $67.7 million, respectively, and net income attributable to our common shareholders was $46.8 million compared to a net loss of $6.1 million, respectively. Adjusted EBITDA to Kennedy Wilson common shareholders was $191.5 million and $68.0 million for the six months ended June 30, 2014 and 2013, respectively. The Company achieved a 182% increase in adjusted EBITDA to Kennedy Wilson common shareholders for the six months ended June 30, 2014 as compared to the same period in 2013.

Revenues

Investments Segment Revenues

Rental and hotel income was $67.8 million for the six months ended June 30, 2014 as compared to $16.8 million for the same period in 2013. The $51.0 million increase is primarily due to new acquisitions by us and our consolidated subsidiaries (including KWE) and consolidations in the latter half of 2013 and first half of 2014.

During the six months ended June 30, 2014, we sold five condominium units, generating $12.5 million of proceeds from the sale of real estate, and sold a parcel of land generating $4.1 million of proceeds compared to 37 condominium units and one retail unit which sold during the same period in 2013, resulting in $8.5 million of proceeds.

Loan and other income was $6.0 million for the six months ended June 30, 2014 as compared to $0.9 million for the same period in 2013. The increase was due to the acquisition of the notes on the Shelbourne Hotel in Dublin, Ireland, during the first quarter of 2014 and the acquisition of subordinated notes secured by 20 commercial properties located throughout England and Scotland.

Services Segment Revenues

We earn fees on the following types of services we provide:

- investment management, including acquisition, asset management and disposition services;
- property services, including management of commercial real estate for third-party clients, fund investors, and investments held by the Company;
- research, including consulting practice and data and analytics for the residential real estate development and new home construction industry;
- auction and conventional sales, including innovative marketing and sales strategies for all types of commercial and residential real estate, including single family homes, mixed-use developments, estate homes, multifamily dwellings, new home projects, conversions and scattered properties; and
- brokerage services, including innovative marketing programs tailored to client objectives for all types of investment grade and income producing real estate.

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

Our third party fees increased to $11.5 million during the six months ended June 30, 2014 as compared to approximately $10.9 million for the same period in 2013. The $0.6 million increase or 6% increase primarily relates to the positive performance in our real estate consultancy division which specializes in real estate research and capital sourcing for the single-family homebuilding and multifamily apartment industries.

Related Party Services

Our related party fees generated revenues of $40.6 million during the six months ended June 30, 2014 as compared to $22.2 million for the same period in 2013. The increase in related party revenue primarily relates to to management fees earned on the sale of a portfolio of commercial properties located primarily in Dublin, Ireland. Fees earned from investments that were eliminated in consolidation totaled $7.7 million, a $6.1 million increase from $1.6 million for the same period in 2013. In accordance with U.S. GAAP, these fees were excluded from total fees of $40.6 million and $22.2 million, respectively.

Operating Expenses

Investments Segment Operating Expenses

Operating expenses for the six months ended June 30, 2014 increased to $107.7 million compared to $38.8 million for the same period in 2013. The increase is primarily attributable to the following:

Rental operating expenses increased by $24.4 million, and depreciation and amortization increased by $25.1 million due to the acquisitions and consolidations in the latter half of 2013 and in the first quarter of 2014.

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During the six months ended June 30, 2014, we sold five condominium units and a parcel of land resulting in $13.5 million of sale-related costs compared to 37 condominium units and one retail unit which sold during the same period in 2013, resulting in $7.0 million of sale-related costs.
Compensation and related expenses increased by $10.8 million primarily due to an increase in personnel as a result of our growth of in the United Kingdom and Ireland. This increase included accrued discretionary compensation.
General and administrative expenses increased by $2.1 million primarily due to our growing operations in the United Kingdom and Ireland.
Services Segment Operating Expenses
Operating expenses for the six months ended June 30, 2014 were $25.9 million as compared to $18.2 million for the same period in 2013. The increase is attributable to the following:
Compensation and related expenses increased by $4.9 million and general and administrative expenses increased by $2.7 million as a result of the expansion in our research group and the launch of our iPad application, Zonda, and related sales professionals. Zonda provides market insight for the homebuilding industry with real-time data on over 250 metrics impacting the housing market on a national and local level.
Corporate Operating Expenses
Operating expenses for the six months ended June 30, 2014 were approximately $15.9 million as compared to $$10.9 million for the same period in 2013. Compensation and related expenses increased by $5.2 million primarily due to an increase in personnel as a result of our growth of in the United Kingdom and Ireland and the launch of KWE. This increase included accrued discretionary compensation.
Income from Unconsolidated Investments
Investments Segment Income from Unconsolidated Investments
During the six months ended June 30, 2014, income from unconsolidated investments was $31.7 million as compared to $16.9 million for the same period in 2013. During the second quarter of 2014, the Company and its equity partners sold a portfolio of commercial properties located primarily in Dublin, Ireland, to KWE. This transaction was approved by the independent shareholders of KWE. As a result of the sale, the Company recorded a profit of $26.6 million on its 25% interest in the investment. In addition, as a result of obtaining control in the first quarter of 2014, the Company consolidated six investments in Europe which were previously accounted for using the equity method. Total income for these six investments totaled $15.4 million during the first six months of 2013.
Services Segment Income from Unconsolidated Investments
During the six months ended June 30, 2014, income from unconsolidated investments was $2.1 million with no comparable activity in 2013. During the fourth quarter of 2013, the Company along with an equity partner acquired an interest in a loan servicing platform in Spain with approximately €23.0 billion of assets under management. The income recognized during the first six months of 2014 relates to this acquisition.
Non-operating Items
Acquisition-related gains were $170.3 million for the six months ended June 30, 2014 compared to $9.5 million during the same period in 2013. On March 31, 2014, the Company and one of its equity partners amended existing operating agreements governing six separate joint ventures that hold real estate-related investments located in the U.K. and Ireland. The Company has an approximate 50% ownership interest in these investments. On June 30, 2014, the Company and one of its equity partners amended an existing operating agreement governing 50 multifamily buildings in and around Tokyo, Japan comprising approximately 2,400 units. The Company has an approximate 41% ownership interest in these investments. These joint ventures were previously accounted for by the Company on an equity method basis. As a result of gaining control, the Company was required to consolidate the assets and liabilities of these properties at fair value. As the fair value of our interests in these properties were in excess of the carrying value, we recorded acquisition-related gains of $151.4 million in the accompanying consolidated statement of operations for the six months ended June 30, 2014.
In addition, during the quarter ended March 31, 2014, we foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, California. As a result of the foreclosure, the Company was required to consolidate the assets and liabilities at fair value. As the fair value of the assets was in excess of the basis in the previously held mortgage notes, we recognized a $3.7 million acquisition related gain. During the quarter ended June

30, 2014, KWE acquired the subordinated notes on 20 commercial properties located throughout England and Scotland during the quarter and used its position as a debt holder to secure the acquisition of the underlying properties. The Company recognized an acquisition-related gain of $15.2 million on the transaction due to its ability to acquire the underlying real estate at a discount to its fair value.

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Interest expense associated with corporate debt was $25.2 million for the six months ended June 30, 2014 as compared to $19.4 million for the same period in 2013. The increase in corporate interest expense is attributable to the issuance of $300.0 million aggregate principal of the 2024 Notes which occurred in March 2014 and interest expense paid on the revolving line of credit.

Interest expense associated with investment debt was $16.4 million for the six months ended June 30, 2014 as compared to $4.6 million for the same period in 2013. The increase is due to the acquisitions and consolidations in the latter half of 2013 and during 2014, including the consolidation of KWE.

Provision for income taxes was $34.2 million during the six months ended June 30, 2014 as compared to a $2.2 million benefit from income taxes for the same period in 2013. During the six months ended June 30, 2014, we had domestic gains of $151.7 million which incur a tax expense at the federal tax rate of approximately 34% offset by foreign losses of $3.9 million by our subsidiaries in the United Kingdom and Ireland which are subject to corporate tax rates of 21.0% and 12.5%, respectively, resulting in a net expense from income taxes. The provision for income taxes does not include non-controlling interest.

We had net income of $62.7 million attributable to noncontrolling interest during the six months ended June 30, 2014 compared to a net loss attributable to noncontrolling interest of $1.9 million during the six months ended June 30, 2013. The increase is mainly due to the acquisition-related gains described above being allocated to noncontrolling interest holders and the consolidation of KWE, in which our ownership is 13.2% as of June 30, 2014.

Liquidity and Capital Resources

Our liquidity and capital resources requirements include acquisitions of real estate and real estate related assets, capital expenditures for consolidated real estate and unconsolidated investments and working capital needs. We finance these operations with internally generated funds, borrowings under our revolving line of credit and sales of equity and debt securities. Our investments in real estate are typically financed with equity from our balance sheet and mortgage loans secured primarily by that real estate. These mortgage loans are generally nonrecourse in that, in the event of default, recourse will be limited to the mortgaged property serving as collateral, subject to limited customary exceptions. In some cases, we guarantee a portion of the loan related to a consolidated property or an unconsolidated investment, usually until some condition, such as completion of construction or leasing or certain net operating income criteria, has been met. We do not expect these guarantees to materially affect liquidity or capital resources. Please refer to the "Off Balance Sheet Arrangements" section for further information. Historically, we have not required significant capital resources to support our brokerage and property management operations.

We believe that our existing cash and cash equivalents plus capital generated from investment management, property services, and research fees, sales of real estate owned, collections from loans and loan pools, as well as our current revolving line of credit, will provide us with sufficient capital requirements to maintain our current portfolio for at least the next twelve months.

To the extent that we engage in additional strategic investments, including real estate, note portfolios, or acquisitions of other real estate related companies, we may need to obtain third party financing which could include bank financing or the public sale or private placement of debt or equity securities. At June 30, 2014, we have approximately $227.3 million of cash held by one of our consolidated subsidiaries, KWE, the majority of which are expected to be used to engage in additional strategic investments. KWE currently has a loan to value ratio of approximately 20% on its investments and, in the future, we believe we could add leverage to these properties which could generate additional liquidity. In addition, subsequent to June 30, 2014, we increased our unsecured corporate line of credit from $140 million to $300 million; the line of credit currently has no outstanding balance.

Under our current investment strategy, we generally contribute property expertise and a fully funded initial cash contribution, with commitments to provide additional funding. Capital required for additional improvements and supporting operations during leasing and stabilization periods is generally obtained at the time of acquisition via debt financing or third party investors for our unconsolidated investments. Accordingly, we generally do not have significant capital commitments with unconsolidated entities. However, there may be certain circumstances when we, usually with the other members of the unconsolidated investment entity, may be required to contribute additional capital for a period of time.

Our need to raise funds from time to time to meet our capital requirements will depend on many factors, including the success and pace of the implementation of our strategy for strategic and accretive growth. We regularly monitor capital-raising alternatives to be able to take advantage of other available avenues to support our working capital and investment needs, including strategic partnerships and other alliances, bank borrowings, and the sale of equity or debt securities. Additionally, we expect to meet the repayment obligations of our corporate borrowings from cash generated by our business or the public sale or private placement of debt or equity securities.

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During the six months ended June 30, 2014, the Company generated a book loss of $3.9 million related to operations in the United Kingdom, Ireland and Spain. A foreign tax benefit of $0.7 million attributable to Kennedy-Wilson Holdings, Inc is included in the consolidated tax provision for income taxes related to the portion of income earned directly by subsidiaries in the United Kingdom and Ireland for the six months ended ended June 30, 2014. U.S. domestic taxes have not been provided for in the consolidated tax provision on amounts earned directly by these subsidiaries since it is the Company's plan to indefinitely invest amounts earned by these subsidiaries in the United Kingdom and Ireland operations. If these subsidiaries' cumulative earnings were repatriated to the United States additional, U.S. domestic taxes of $1.4 million attributable to Kennedy-Wilson Holdings, Inc would be incurred. Additionally, approximately $284.5 million of our consolidated cash and cash equivalents is held by our subsidiaries in the United Kingdom and Ireland and $21.4 million held by our subsidiaries in Japan.

Currency Derivative Instruments

Fluctuations in currency exchange rates may affect our financial position and results of operations. We enter into currency forward contracts to manage our exposure to currency fluctuations between our functional currency (the U.S. dollar) and the functional currency (Euros, British Pound Sterling, and Japanese Yen) of certain of our wholly owned subsidiaries and joint venture investments. In addition, KWE will enter into forward foreign currency contracts in order to manage currency fluctuations between its functional currency (GBP) and the functional currency of certain wholly owned subsidiaries (Euro).

For the six months ended ended June 30, 2014 and 2013, we recorded a loss, net of taxes, of $10.4 million and a gain of $5.8 million, respectively, in other comprehensive income as the portion of the currency forward contract used to hedge the currency exposure of certain of our wholly owned subsidiaries qualifies as a net investment hedge under ASC Topic 815.

Cash Flows

Operating

Our cash flows from operating activities are primarily dependent upon operations from our consolidated properties, the operating distributions from our unconsolidated investments, revenues from our services business net of operating expenses and other general and administrative costs. Net cash provided by operating activities totaled $65.1 million for the six months ended June 30, 2014. This was primarily related to operating distributions from our unconsolidated investments of $57.7 million including a $26.2 million asset management fee payment from the sale of a portfolio of commercial properties in Ireland. These increases were offset by the payment of interest expense to fund our investment business, accrued expenses and other liabilities, accrued salaries and benefits and prepayment of expenses. Net cash used in operating activities totaled $23.9 million for the six months ended June 30, 2013. This was primarily related to the payment of interest expense to fund our investment business, accrued expenses and other liabilities, accrued salaries and benefits and prepayment of expenses offset by operating distributions from our unconsolidated investments of $17.9 million.

Investing

Our cash flows from investing activities are generally comprised of cash used to fund property acquisitions, investments in unconsolidated investments, capital expenditures, and loans secured by real estate, as well as return of capital investments from dispositions or refinances on our hard assets and resolutions in our loan participations and loan pools. Net cash used in investing activities totaled $1.7 billion for the six months ended June 30, 2014. This was primarily due to $106.0 million of equity invested in unconsolidated investments of which $57.2 million related to the acquisition of a portfolio of 14 assets comprised of commercial, retail and industrial assets which was subsequently contributed into KWE as part of its initial public offering. We invested $1.3 billion for the purchase and addition to real estate which mainly included 26 commercial properties located in the United Kingdom and 272 residential units and 31,000 commercial spaces in Dublin, 13 commercial buildings in Dublin, 20 commercial buildings in the United Kingdom and two multifamily properties in the Western United States. In addition, we invested $373.3 million to fund our equity in loans mainly for the acquisition of notes secured by the Shelbourne Hotel in Dublin, Ireland and the acquisition of subordinated notes secured by 20 commercial properties located throughout England and Scotland by KWE. The cash used in the aforementioned investing activities was offset by receipt of $55.6 million in distributions from our unconsolidated investments primarily due to refinancing of property level debt and the sale of underlying properties.

Net cash used in investing activities totaled $195.2 million for the six months ended June 30, 2013. This was primarily due to $200.5 million of equity invested in joint ventures of which $58.0 million related to the acquisition of a multifamily property in Dublin, $20.6 million was invested in the acquisition of a portfolio of 29 income-producing commercial properties located in the United Kingdom, $22.7 million for three commercial properties in the Western U.S., $18.5 million was contributed to a joint venture for the acquisition of four connections collateralized by five properties and $9.1 million for two multifamily properties in the Western U.S. We invested $108.3 million for the purchase and addition to real estate which included $61.4 million for an apartment building in Salt Lake City, UT, $29.7 million for an office building in Beverly Hills, CA and $15.7 million for an apartment building in Northern California. In addition, we invested $41.7 million to fund our equity in note receivables and investments in loan pool participations and we received $49.6 million in distributions from our loan pools primarily due to loan

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resolutions including $38.9 million from the UK Loan Pool. The cash used in the aforementioned investing activities was offset by receipt of $25.7 million in distributions from our joint ventures primarily due to refinancing of property level debt of $14.2 million and $10.8 million from the settlement of several Japanese yen-related hedges.

Financing

Our net cash related to financing activities is generally impacted by capital-raising activities net of dividends and distributions paid to common and preferred shareholders and noncontrolling interests as well as financing activities for consolidated real estate investments. Net cash provided by financing activities totaled $2.0 billion for the six months ended June 30, 2014. This was primarily due to proceeds, net of issuance costs, of $1.4 billion from non controlling interest holders for the initial public offering of KWE, net proceeds of $190.7 million received from the issuance of 9.2 million shares of common stock primarily to institutional investors, the issuance of $300.0 million of senior notes which generated $297.2 million in proceeds, and $295.2 million of proceeds from mortgage loans to finance and refinance consolidated property acquisitions offset by $11.3 million of debt issuance costs. These were offset by repayment of $14.0 million of investment debt and payments of cash dividends of $18.1 million to our common and preferred shareholders.

Net cash provided by financing activities totaled $240.6 million for the six months ended June 30, 2013. This was primarily due to net proceeds of $153.9 million received from the issuance of 10.4 million shares of common stock primarily to institutional investors, $68.3 million from borrowings under mortgage loans for the acquisition of an apartment building in Salt Lake City, Utah, and an office building in Beverly Hills, California, and net borrowings of $30.0 million on the Company's line of credit. These were offset by payments of cash dividends of $9.1 million to our common and preferred shareholders and $1.4 million for the repurchase of warrants.

Contractual Obligations and Commercial Commitments

At June 30, 2014, our contractual cash obligations, including debt and operating leases, included the following:

	Payments Due by Period				
(Dollars in millions)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Borrowings: [1]					
Investment debt[2]	$1,507.2	$30.5	$396.3	528.6	551.8
Subordinated debt	40.0	—	—	—	40.0
Senior notes[3]	705.0	—	—	350.0	355.0
Total borrowings	2,252.2	30.5	396.3	878.6	946.8
Operating leases	8.6	1.6	3.3	1.5	2.2
Total contractual cash obligations	$2,260.8	$32.1	$399.6	$880.1	$949.0

(1) See notes 8-11 of our Notes to Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following interest payments: six months ending December 31, 2014 - $53.9 million; 1-3 years - $319.2 million; 4-5 years - $147.6 million; After 5 years - $237.6 million. The interest payments on variable rate debt have been calculated using the interest rate in effect at June 30, 2014.

(2) Excludes $21.5 million of unamortized debt premiums on investment debt.

(3) Excludes $1.0 million of net unamortized debt premium on senior notes.

Indebtedness and Related Covenants

The following describes our corporate indebtedness and related covenants.

Senior Notes Payable

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

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of the 2019 Notes with money Kennedy-Wilson, Inc. or Kennedy-Wilson Holdings, Inc. raises in certain equity offerings. The amount of the 2019 Notes included in the consolidated balance sheets, net of unamortized discount and premium, was $353.7 million at June 30, 2014.

In November and December 2012, Kennedy-Wilson, Inc. completed a public offering of $55.0 million aggregate principal amount of 7.750% Senior Notes due 2042 (the "2042 Notes"). The 2042 Notes were issued pursuant to an indenture dated as of November 28, 2012, by and among Kennedy-Wilson, Inc., as issuer, Kennedy-Wilson Holdings, Inc., as parent guarantor, certain subsidiaries of the issuer, as subsidiary guarantees and Wilmington Trust National Association, as trustee, as amended by various subsequent supplemental indentures. The issuer's obligations under the 2042 Notes are fully and unconditionally guaranteed by Kennedy Wilson and the subsidiary guarantors. At any time prior to December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus an applicable “make-whole” premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. Interest on the 2042 Notes accrues at a rate of 7.750% per annum and is payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 2013. The 2042 Notes will mature on December 1, 2042. The amount of the 2042 Notes included in the accompanying consolidated balance sheets was $55.0 million at June 30, 2014.

In March 2014, Kennedy-Wilson, Inc., completed a public offering of $300.0 million aggregate principal amount of 5.875% Senior Notes due 2024 (the “2024 Notes”), for approximately $290.7 million, net of discount and estimated offering expenses. The 2024 Notes were issued pursuant to an indenture dated as of March 25, 2014, by and among Kennedy-Wilson, Inc., as issuer, Kennedy-Wilson Holdings, Inc., as parent guarantor, certain subsidiaries of the issuer, as subsidiary guarantees and Wilmington Trust National Association, as trustee, as supplemented by a supplemental indenture (the “2024 Indenture”). The issuer's obligations under the 2024 Notes are fully and unconditionally guaranteed by Kennedy Wilson and the subsidiary guarantors. At any time prior to April 1, 2017, the issuer may redeem the 2024 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus an applicable “make-whole” premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after April 1, 2019, the issuer may redeem the 2024 Notes, in whole or in part, at a redemption prices specified in the 2024 Indenture, plus accrued and unpaid interest, if any, to the redemption date. Prior to April 1, 2019, the issuer may also redeem up to 35% of the 2024 Notes from the proceeds of certain equity offerings. Interest on the 2024 Notes accrues at a rate of 5.875% per annum and is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2014. The 2024 Notes will mature on April 1, 2024. The amount of the 2024 Notes included in the accompanying consolidated balance sheets was $297.3 million at June 30, 2014.

Junior Subordinated Debentures

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

Borrowings Under Line of Credit

In September 2013, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, amended its existing unsecured revolving credit facility with U.S. Bank and East-West Bank which increased the total principal amount available to be borrowed by an additional $40.0 million, for an aggregate availability of $140.0 million. The loan bears interest at a rate equal to LIBOR plus 2.75% and the maturity date was extended to October 1, 2016. As of June 30, 2014, the unsecured credit facility was undrawn and $140.0 million was still available.

Debt Covenants

The junior subordinated debentures, the unsecured credit facility with U.S. Bank and East West Bank, and the indentures governing the 2019 Notes, 2024 Notes, and 2042 Notes contain numerous restrictive covenants that, among other things, limit Kennedy Wilson's and certain of its subsidiaries' ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The unsecured credit facility and junior subordinated debentures also require Kennedy Wilson to maintain a minimum tangible net worth and a specified amount of cash and cash equivalents.

The junior subordinated debentures require Kennedy-Wilson, Inc. to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing the junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four-quarter rolling basis; (ii) a ratio of total debt to net worth (as defined in the indenture) of not greater than 3.00 to 1.00 at any time; (iii) a tangible

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net worth (as defined in the indenture) not less than the sum of (x) $15.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds $75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued; and (iv) a net worth (as defined in the indenture) not less than the sum of (x) $40.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds $75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued. As of June 30, 2014, Kennedy Wilson's fixed charge coverage ratio was 4.39 to 1.00, its ratio of total debt to net worth was 2.33 to 1.00 and its tangible net worth and net worth were $924.8 million and $976.1 million, respectively, and Kennedy Wilson was in compliance with these covenants.

The revolving loan agreement that governs the unsecured credit facility requires Kennedy Wilson to maintain (i) a minimum rent adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four-quarter rolling average basis; (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter; (iii) an effective tangible net worth (as defined in the revolving loan agreement) equal to or greater than $250.0 million, measured at the end of each calendar quarter; and (iv) unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least $40.0 million.

As of June 30, 2014, Kennedy Wilson's rent adjusted fixed charge coverage ratio was 3.73 to 1.00, its balance sheet leverage ratio was 0.80 to 1.00, and its effective tangible net worth and its unrestricted cash, cash equivalents and publicly traded marketable securities were $928.5 million and $610.7 million, respectively, and Kennedy-Wilson, Inc. was in compliance with these covenants.

The indentures governing the 2019 Notes, 2024 Notes, and 2042 Notes limit Kennedy-Wilson, Inc.'s ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, Kennedy-Wilson, Inc.'s maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of June 30, 2014, the balance sheet leverage ratio was 0.76 to 1.00.

Off-Balance Sheet Arrangements

We have provided guarantees associated with loans secured by consolidated assets or assets held in various unconsolidated investments. At June 30, 2014, the maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees was approximately $63.8 million. The guarantees expire through 2019, and our performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds of the applicable properties. If we were to become obligated to perform on these guarantees, it could have an adverse effect on our financial condition.

As of June 30, 2014, we have unfulfilled capital commitments totaling $11.3 million to our unconsolidated investments. As we identify investment opportunities in the future, we may be called upon to contribute additional capital to unconsolidated investments in satisfaction of our capital commitment obligations.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2013 for discussion of our non-recourse carve-out guarantees arrangements, as there have been no material changes to that disclosure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk exposure of our Company relates to changes in interest rates in connection with our short-term borrowings, some of which bear interest at variable rates based on the lender’s base rate, prime rate, EURIBOR, GBP LIBOR, or LIBOR plus an applicable borrowing margin. These borrowings do not give rise to a significant interest rate risk because they have short maturities. However, the amount of income or loss we recognize for unconsolidated joint ventures or consolidated interest expense from property level debt may be impacted by changes in interest rates. Historically, the impact from the changes in rates has not been significant. Our exposure to market risk also consists of foreign currency exchange rate fluctuations related to our international operations.

Interest Rate Risk

We have established an interest rate management policy, which attempts to minimize our overall cost of debt while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, we have elected to maintain a combination of variable and fixed rate debt. As of June 30, 2014, 64% of our property level debt is fixed rate, 23% is floating rate with interest caps and 13% is floating rate without interest caps.

The table below represents contractual balances of our financial instruments at the expected maturity dates as well as the fair value as of June 30, 2014. The expected maturity categories take into consideration actual amortization of principal and do
not take into consideration reinvestment of cash. The weighted average interest rate for the various assets and liabilities presented are actual as of June 30, 2014. We closely monitor the fluctuation in interest rates, and if rates were to increase significantly, we believe that we would be able to either hedge the change in the interest rate or refinance the loans with fixed interest rate debt. All instruments included in this analysis are non-trading.

	Principal Maturing in:							Fair Value June 30, 2014
	2014	2015	2016	2017	2018	Thereafter	Total	
(Dollars in millions)								
Interest rate sensitive assets								
Cash equivalents	$642.3	$—	$—	$—	$—	$—	$642.3	$642.3
Average interest rate	0.32 %	— %	— %	— %	— %	— %	0.32 %	—
Fixed rate receivables	384.6	8.2	3.6	5.9	—	—	402.3	402.3
Average interest rate (1)	9.93 %	10.74 %	10.24 %	2.16 %	— %	— %	10.27 %	—
Variable rate receivables	—	—	—	—	—	—	—	—
Average interest rate	— %	— %	— %	— %	— %	— %	— %	—
Total	$1,026.9	$8.2	$3.6	$5.9	$—	$—	$1,044.6	$1,044.6
Weighted average interest rate	3.92 %	10.74 %	10.24 %	2.16 %	— %	— %	4.15 %	
Interest rate sensitive liabilities								
Variable rate borrowings	$7.0	$102.8	$23.0	$146.9	$329.9	$206.5	$816.1	$834.5
Average interest rate	3.73 %	5.30 %	2.55 %	3.86 %	4.08 %	4.35 %	4.11 %	—
Fixed rate borrowings	—	2.9	14.4	61.1	24.9	1,332.8	1,436.1	1,485.2
Average interest rate	— %	5.00 %	5.91 %	1.61 %	3.51 %	6.31 %	6.05 %	—
Total	$7.0	$105.7	$37.4	$208.0	$354.8	$1,539.3	$2,252.2	$2,319.7
Weighted average interest rate	3.73 %	5.30 %	3.85 %	3.20 %	4.04 %	6.04 %	5.35 %	

(1) 2014 average interest rate is exclusive of non-performing receivables

Currency Risk

We have established a foreign currency exposure policy, which attempts to minimize our overall exposure to foreign currency fluctuations. We enter into currency forward contracts to manage our exposure to currency fluctuations between our functional currency (the U.S. dollar) and the functional currency (Euros, British Pound Sterling, and Japanese Yen) of certain of our wholly owned subsidiaries and joint venture investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the record period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Controls over Financial Reporting

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The discussion of our business and operations in this Quarterly Report on Form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC, which describe various risks and uncertainties to which we are or may become subject. There were no material changes from the risk factors disclosed in Item 1A of our report on Form 10-K for the fiscal year ended December 31, 2013.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant’s Current Report on Form 8-K filed with the SEC on June 19, 2014).
10.1	First Amendment to Amended and Restated 2009 Equity Participation Plan (incorporated by reference to Exhibit 3.1 to the registrant’s Current Report on Form 8-K filed with the SEC on June 19, 2014).
10.2	Form of director restricted stock award agreement pursuant to amended and restated 2009 Equity Participation Plan.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.

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SIGNATURE

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

KENNEDY-WILSON HOLDINGS, INC.

Dated: August 8, 2014

By: /S/ JUSTIN ENBODY
Justin Enbody
Chief Financial Officer
(Principal Financial Officer
and Accounting Officer)

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