HOMEFED CORP
Form 10-Q
August 03, 2018

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-10153

HOMEFED CORPORATION
(Exact name of registrant as specified in its Charter)

Delaware	33-0304982
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1903 Wright Place, Suite 220, Carlsbad, California	92008
(Address of principal executive offices)	(Zip Code)

(760) 918-8200
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On July 27, 2018, there were [15,477,746] outstanding shares of the Registrant's Common Stock, par value $.01 per share.

Part I -FINANCIAL INFORMATION

Item 1. Financial Statements.

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2018 and December 31, 2017
(Dollars in thousands, except par value)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Real estate held for development	$331,706	$311,664
Real estate held for investment, net	38,470	38,022
Cash and cash equivalents	53,035	40,415
Contract assets	24,540	21,816
Restricted cash	18,720	2,685
Equity method investments	39,207	123,296
Accounts receivable, deposits and other assets	17,647	21,565
Intangible assets, net	1,789	3,005
Assets held for sale	—	8,422
Net deferred tax asset	32,885	37,057
TOTAL	$557,999	$607,947
LIABILITIES		
Accounts payable and accrued liabilities	$23,564	$23,671
Below market lease contract intangibles, net	1,586	1,930
Non-refundable option payments	275	255
Liability for environmental remediation	1,452	1,452
Deferred revenue	—	1,230
Accrued interest payable	83	1,262
Other liabilities	2,328	2,564
Long-term debt, net	59,651	118,213
Total liabilities	88,939	150,577
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY		
Common stock, $.01 par value; 25,000,000 shares authorized; 15,477,746 and 15,474,032 shares outstanding after deducting 398,663 and 397,377 shares held in treasury	155	155
Additional paid-in capital	601,303	600,308
Accumulated deficit	(137,525)	(148,199)
Total HomeFed Corporation common shareholders' equity	463,933	452,264
Noncontrolling interest	5,127	5,106
Total equity	469,060	457,370

TOTAL	$557,999	$607,947

The accompanying notes are an integral part of these consolidated financial statements.

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the periods ended June 30, 2018 and 2017
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Sales of real estate	$18,376	$20,178	$52,374	$35,128
Contract service revenues	10,278	8,306	21,784	17,060
Rental income	5,911	6,357	11,800	12,289
Co-op marketing and advertising fees	136	127	266	237
	34,701	34,968	86,224	64,714
EXPENSES				
Cost of sales	16,417	18,248	32,252	30,750
Contract service expenses	10,278	8,306	21,784	17,060
Rental operating expenses	4,366	4,101	8,574	8,219
Farming expenses	—	988	—	1,925
General and administrative expenses	5,989	4,257	11,174	8,068
Depreciation and amortization	638	915	1,495	1,852
Administrative services fees to Jefferies Financial Group Inc.	45	45	90	90
	37,733	36,860	75,369	67,964
Income (loss) from operations before income from equity method investment	(3,032)	(1,892)	10,855	(3,250)
Income from equity method investments	3,942	2,657	2,564	4,410
Income from operations	910	765	13,419	1,160
Interest and other income	161	95	269	193
Income before income taxes and noncontrolling interest	1,071	860	13,688	1,353
Income tax benefit (provision)	(415)	12,817	(4,221)	12,633
Net income	656	13,677	9,467	13,986
Net (income) loss attributable to the noncontrolling interest	(2)	5	(21)	(72)
Net income attributable to HomeFed Corporation common shareholders	$654	$13,682	$9,446	$13,914
Basic earnings per common share attributable to HomeFed Corporation common shareholders	$0.04	$0.89	$0.61	$0.90

Diluted earnings per common share attributable to HomeFed Corporation common shareholders	$0.04	$0.88	$0.61	$0.90

The accompanying notes are an integral part of these consolidated financial statements.

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the periods ended June 30, 2018 and 2017
(In thousands, except par value)
(Unaudited)

	HomeFed Corporation Common Shareholders					
	Common Stock $.01 Par Value	Additional Paid-In Capital	Accumulated Deficit	Subtotal	Noncontrolling Interest	Total
Balance, January 1, 2017	$154	$599,033	$(159,130)	$440,057	$ 6,998	$447,055
Net income			13,914	13,914	72	13,986
Share-based compensation expense		404		404		404
Balance, June 30, 2017	$154	$599,437	$(145,216)	$454,375	$ 7,070	$461,445
Balance January 1, 2018	$155	$600,308	$(148,199)	$452,264	$ 5,106	$457,370
Cumulative effect of the adoption of accounting standards			1,228	1,228		1,228
Balance January 1, 2018, as adjusted	155	600,308	(146,971)	453,492	5,106	458,598
Net income			9,446	9,446	21	9,467
Exercise of options to purchase common shares		97		97		97
Share-based compensation expense		898		898		898
Balance, June 30, 2018	$155	$601,303	$(137,525)	$463,933	$ 5,127	$469,060

The accompanying notes are an integral part of these consolidated financial statements.

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the periods ended June 30, 2018 and 2017
(In thousands)
(Unaudited)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$9,467	$13,986
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Income from equity method investments	(2,564)	(4,410)
Provision (benefit) for deferred income taxes	3,638	(8,499)
Share-based compensation expense	1,363	624
Depreciation and amortization of property, equipment and leasehold improvements	128	254
Gain on sale of Rampage property	(17,293)	—
Other amortization	2,045	2,253
Distributions from equity method investments	4,667	—
Changes in operating assets and liabilities:		
Real estate, held for development	(20,512)	2,730
Real estate, held for investment	(1,001)	3,183
Contract assets/liabilities	(2,724)	2,940
Accounts receivable, deposits and other assets	4,136	(2,943)
Deferred revenue	—	(2,580)
Accounts payable and accrued liabilities	527	1,325
Accrued interest payable	(1,179)	—
Non-refundable option payments	20	—
Liability for environmental remediation	—	(3)
Income taxes payable	(292)	(3,150)
Other liabilities	(701)	(3,969)
Net cash provided by (used for) operating activities	(20,275)	1,741
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of Rampage property	26,000	—
Investments in equity method investments	(14)	(49)
Capital distributions from equity method investments	82,000	—
Net cash provided by (used for) investing activities	107,986	(49)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	17,724	—
Payment of debt issuance costs	(1,180)	(694)
Repayment of debt	(75,697)	—
Exercise of options to purchase common shares	97	—
Net cash used for financing activities	(59,056)	(694)
Net increase in cash, cash equivalents and restricted cash	28,655	998
Cash, cash equivalents and restricted cash, beginning of period	43,100	55,812
Cash, cash equivalents and restricted cash, end of period	$71,755	$56,810

Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of tax refunds	$1,175	$3,513
Cash paid for interest (net of amounts capitalized)	$—	$—
Non-cash operating activities:		
Project development costs incurred that remain payable at end of period	$15,016	$16,969
Non-cash financing activities:		
Cashless exercise of stock options to purchase common shares	$69	$—

The accompanying notes are an integral part of these consolidated financial statements.

HOMEFED CORPORATION AND SUBSIDIARIES
Notes to Interim Consolidated Financial Statements

1. Accounting Developments

The unaudited interim consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to fairly state results of interim operations, should be read in conjunction with the Notes to Consolidated Financial Statements (including the Summary of Significant Accounting Policies) included in our audited consolidated financial statements for the year ended December 31, 2017, which are included in our Annual Report filed on Form 10-K/A for such year (the “2017 10-K/A”). Results of operations for interim periods are not necessarily indicative of annual results of operations. The consolidated balance sheet at December 31, 2017 was extracted from the audited annual consolidated financial statements and does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for annual financial statements.

There is no other comprehensive income for the three and six months ended June 30, 2018 and 2017.

During the three and six months ended June 30, 2018, other than the following, there were no significant updates made to the Company’s significant accounting policies. The accounting policy changes are attributable to the adoption of the Financial Accounting Standards Board (“FASB”) guidance on Revenue from Contracts with Customers (the "new revenue standard"). These revenue recognition policy updates are applied prospectively in our financial statements from January 1, 2018 forward using the modified retrospective approach. Reported financial information for the historical comparable period was not revised and continues to be reported under the accounting standards in effect during the historical periods.

Revenue Recognition Policies

Real estate sales revenues:

- Real estate sales revenues are recognized at a point in time when the related transaction is completed.
- Variable consideration, such as profit participation, is included in the transaction price for real estate sales at the point in time when the transaction is completed only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved.

Contract service revenues:

- Contract service revenues are recognized over time as performance obligations are met.

Co-op marketing fee income:

- Co-op marketing fee income is recognized over time as performance obligations are met, generally the term of the master marketing program that relates to the selling period of the associated home product being sold by our customer.

See Accounting Developments- Adopted Accounting Standards below and Note 9 for further information.

Accounting Developments - Adopted Accounting Standards

Revenue Recognition. In May 2014, the FASB issued new guidance that defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The core principle of this new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In addition, the FASB issued guidance on gain or loss from the derecognition of nonfinancial assets which would include real estate. We have adopted both of the new standards as of January 1, 2018 using the modified retrospective approach and recorded cumulative earnings to our opening accumulated deficit of

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$1,250,000, which is net of taxes of $550,000. Accordingly, the new revenue standard is applied in our financial statements from January 1, 2018 forward and reported financial information for historical comparable periods is not revised and continues to be reported under the accounting standards in effect during those historical periods. Our implementation efforts included the identification of revenue streams within the scope of the guidance and the evaluation of certain revenue contracts.

The impact of adoption is primarily related to real estate revenues that were deferred on open sales contracts as of December 31, 2017 under the previously existing accounting guidance, which would have been recognized in prior periods under the new revenue standard and costs to complete related to the previously deferred revenue that are not related to performance obligations under the contract with the customer but are costs associated with completion of real estate improvements that would have been expensed in prior periods under the new revenue standard. The impact of the adoption is also related to the timing of recognition of fee income. The new revenue guidance does not apply to revenue associated with leasing activities or interest income. The new revenue standard primarily impacts the following revenue recognition and presentation accounting policies:

- Real estate sales revenues. Revenues from the sales of real estate are recognized at a point in time when the related transaction is completed. The majority of our real estate sales of land, lots, and homes transfer the goods and services to the customer ("buyer") at the close of escrow when title transfers to the buyer and the buyer has the benefit and control of the goods and services. If performance obligations under the contract with the customer related to a parcel of land, lot or home are not yet complete when title transfers to the buyer, revenue associated with the incomplete performance obligation is deferred until the performance obligation is completed.

- Real estate sales revenues- variable. Revenues under real estate contracts with customers that are associated with price or profit participation were historically recognized as participation thresholds were met by the customer. Under the new revenue standard, revenue from these activities is recognized at a point in time when the related transaction is complete, performance obligations by us have been met, and only to the extent it is probable that a significant reversal in the estimated amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved.

- Real estate costs to complete. Costs to complete improvements related to sold real estate was not expensed until the work was complete under the previously existing guidance and revenue associated with the costs to complete was deferred until the work was complete under the percentage of completion method. Under the new revenue standard, costs to complete improvements that are associated with the sold real estate but do not transfer to the customer as performance obligations under the terms of the contract are estimated at the completion of the real estate transaction and expensed as a cost of the sale.

- Co-op marketing and advertising fees. Co-op marketing fees were recognized at the time of sale of a home by our builder customer to a homebuyer under the previously existing accounting guidance. Under the new revenue standard, the co-op fees are recognized over time as performance obligations by us are met, generally the term of the master marketing program that relates to the sales period for the home product being sold by our builder customer.

- Contract service revenues. Under our limited liability company agreements with our builder partners at the Village of Escaya project, we will earn overhead management fees and marketing fees based on a percentage of the retail sales prices under homebuyer contracts. We will also recognize contract service revenues over time as our performance obligations are met, generally the anticipated term of our oversight of the infrastructure improvements for the Village of Escaya. We also earn revenue from the initial land sale together with the performance obligation to complete improvements over time as the performance obligation is satisfied.

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Cash Flow Classifications. In August 2016, the FASB issued new guidance to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 15, 2017. In November 2016, the FASB issued new guidance on restricted cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. We adopted this guidance in the first quarter of 2018. Prior periods were retrospectively adjusted to conform to the current period presentation. The adoption of the guidance did not have a material impact on our Consolidated Statements of Cash Flows. Upon adoption, we recorded a decrease of $2,000 in Net cash used for operating activities for the six months ended June 30, 2017 related to reclassifying the changes in our restricted cash balance from operating activities to the cash, cash equivalents and restricted cash balances within the Consolidated Statements of Cash Flows.

Accounting Developments- Accounting Standards to be Adopted in Future Periods

Leases. In February 2016, the FASB issued new guidance that affects the accounting and disclosure requirements for leases. The new guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. Lessor accounting will remain substantially similar to current accounting guidance for leases. However, leasing costs that are currently eligible to be capitalized as initial direct costs will be immediately expensed under the new guidance. The guidance is effective for annual and interim periods beginning after December 15, 2018. We are currently evaluating the impact this new guidance will have on our consolidated financial statements.

2. Intangibles, Net

As more fully discussed in the Annual Report on Form 10-K for the year ended December 31, 2014, intangible assets include above market leases and leases in place and intangible liabilities include below market leases which were recorded at fair value when we acquired substantially all of the real estate properties and operations of Leucadia National Corporation, now known as Jefferies Financial Group Inc. ("Jefferies"), the membership interests in Brooklyn Renaissance Plaza ("BRP Holding") and Brooklyn Renaissance Hotel LLC ("BRP Hotel") and cash in exchange for 7.5 million of our common shares (the "Acquisition") during 2014.

A summary of intangible assets is as follows (in thousands):

	June 30, 2018	December 31, 2017	Amortization (in years)
Above market lease contracts, net of accumulated amortization of $9,854 and $8,833	$ 1,020	$ 2,041	1 to 24
Lease in place value, net of accumulated amortization of $3,317 and $3,122	769	964	1 to 24
Intangible assets, net	$ 1,789	$ 3,005	
Below market lease contracts, net of accumulated amortization of $4,002 and $3,658	$ 1,586	$ 1,930	1 to 24

The amortization of above and below market lease contracts is recognized in Rental income. Above market lease values are amortized over the remaining terms of the underlying leases, and below market lease values are amortized over the initial terms plus the terms of any below market renewal options of the underlying leases. The estimated future amortization expense recognized in Rental income for the above market lease intangible assets is as follows: remainder of 2018 - $650,000; 2019 - $50,000; 2020 - $50,000; 2021 - $50,000; 2022 - $50,000 and thereafter - $200,000. The estimated future negative amortization expense recognized in Rental income for the below market lease intangible assets is as follows: remainder of 2018 - $(200,000); 2019 - $(250,000); 2020 - $(200,000); 2021 - $(150,000); 2022 - $(150,000) and thereafter - $(600,000).

The amortization of lease in place intangible assets is reflected in Depreciation and amortization expenses and amortized over the life of the related lease. The estimated future amortization expense for the lease in place intangible asset for each of the next five years is as follows: remainder of 2018 - $100,000; 2019 - $100,000; 2020 - $100,000; 2021 - $100,000; 2022 - $50,000 and thereafter - $350,000. Amortization expense on lease in place intangible assets was $70,000 and $100,000 for the three months ended June 30, 2018 and 2017, respectively, and was $200,000 and $250,000 for the six months ended June 30, 2018 and 2017, respectively.

3. Equity Method Investments

Otay project:
In April 2016, through a HomeFed subsidiary, we formed a limited liability company, Village III Master, to own and develop an approximate 450-acre community planned for 992 homes in the Otay Ranch General Plan Area of Chula Vista, California. We entered into an operating agreement with three builders as members of Village III Master to build and sell 948 homes within the community. We made an initial non-cash capital contribution of $20,000,000 which represents the fair market value of the land we contributed to Village III Master after considering proceeds of $30,000,000 we received from the builders at closing, which represents the value of their capital contributions. The historical book value of the land we contributed to Village III Master is $15,150,000, which represents a basis difference of $4,850,000. The basis difference will be amortized as additional income for us as future real estate sales occur. Village III Master is considered a variable interest entity which we do not consolidate since we are not deemed to be the primary beneficiary (all members share joint control through a management committee). Two of our executive officers are members of the eight-member management committee designated to consider major decisions for the Village III Master. As a result of having significant influence, we accounted for it under the equity method of accounting as of December 31, 2016.

In January 2017, we recorded the final map that subdivided the approximately 450-acre parcel of land in the Otay Ranch General Plan Area of Chula Vista, California, which is now known as the community of Escaya. We formed three limited liability companies (each a “Builder LLC”) to own and develop 948 homes within Escaya and entered into individual operating agreements with each of the three builders as members of each Builder LLC. Upon admittance of the three builders into their respective Builder LLC, each of the three builders withdrew as members of Village III Master, which is now a wholly owned subsidiary of HomeFed Corporation. On January 5, 2017, we made an aggregate capital contribution valued at $20,000,000 of unimproved land and $13,200,000 of completed infrastructure improvements to the three Builder LLCs, representing land and completed improvement value. In addition to the $30,000,000 contribution made by the builders, as previously mentioned above, and $2,250,000 of capitalizable land improvements, the builders then made an additional cash contribution of $20,000,000 in January 2017 upon final map subdivision and entry into their respective Builder LLCs, which was used to fund infrastructure costs completed by us. Although each of the three Builder LLCs is considered a variable interest entity, we do not consolidate any of them since we are not deemed to be the primary beneficiary as we share joint control with each Builder LLC through a management committee and we lack authority over establishing home sales prices and accepting offers.

Our maximum exposure to loss is limited to our equity commitment in each Builder LLC and any cost overruns as described below. We are responsible for the remaining cost of developing the community infrastructure for which we have received credit to date as a capital contribution, with funding guaranteed by us under the respective operating agreements which is limited to $78,600,000, and we are responsible for any costs in excess of this limit to complete the community infrastructure. The builders are responsible for the remaining construction and the selling of the 948 homes with funding guaranteed by their respective parent entities.

We are contractually obligated to obtain infrastructure improvement bonds on behalf of each Builder LLC. See Note 13 for more information.

Brooklyn Renaissance Plaza and Hotel:
We own a 61.25% membership interest in BRP Holding. Although we have a majority interest, we concluded that we do not have control but only have the ability to exercise significant influence on this investment. As such, we account for BRP Holding under the equity method of accounting. We also own a 25.8% membership interest in BRP Hotel, which we account for under the equity method of accounting.

Under the equity method of accounting, our share of the investee's underlying net income or loss is recorded as income (loss) from equity method investments. The recognition of our share of the investees' results takes into account any special rights or priorities of investors and book basis differences; accordingly, we employ the hypothetical liquidation at book value model to calculate our share of the investees' profits or losses.

Summarized financial information:
At June 30, 2018 and December 31, 2017, our equity method investments are comprised of the following (in thousands):

	June 30, 2018	December 31, 2017
BRP Holding	$4,582	$86,093
BRP Hotel	18,941	22,651
Builder LLCs	15,684	14,552
Total	$39,207	$123,296

On February 28, 2018, BRP Holding satisfied, in full, the $8,750,000 principal balance of a portion of the self-amortizing New York City Industrial Revenue Bonds, with the proceeds of a new $198,350,000 fully amortizing 23-year structured lease-back financing. Approximately $157,250,000 of the proceeds was distributed to members of which we received $82,000,000 as a BRP Holding distribution that was used, in part, to fully satisfy our outstanding preferred equity balances for BRP Holding and BRP Hotel, and $6,000,000 for the satisfaction of a receivable under the pooling agreement with BRP Leasing.

Income (losses) from equity method investments includes the following for the three and six months ended June 30, 2018 and 2017 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
BRP Holding	$897	$2,825	$(6,824)	$5,465
BRP Hotel	(46)	(94)	3,586	(981)
Builder LLCs	3,091	(74)	5,802	(74)
Total	$3,942	$2,657	$2,564	$4,410

The following table provides summarized data with respect to our equity method investments as of June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Assets	$415,192	$326,494
Liabilities	363,044	201,389

	For the Six Months Ended June 30,	
	2018	2017
Total revenues	$173,864	$59,463
Income from continuing operations before extraordinary items	23,665	9,202
Net income	23,665	9,202

4. Debt

Construction loans:
In March 2018, we entered into construction loan agreements for $58,850,000, the proceeds of which will be used for the construction of the town center portion of the Village of Escaya known as The Residences and Shops at Village of Escaya, which is comprised of 272 apartments, approximately 20,000 square feet of retail space, and a 10,000 square foot community facility building. The outstanding principal amount of the loan will bear interest at 30-day LIBOR plus 3.15%, subject to adjustment on the first of each calendar month, and the loan is collateralized by the property underlying the related project with a guarantee by us. Monthly draws are permitted under the loan agreement once evidence of our investment into the project reaches $35,000,000, including land value. As of July 27, 2018, no amounts have been drawn under the loan. The loan matures on March 1, 2021 with one 12-month extension subject to certain extension conditions as set forth in the loan agreements.

In April 2018, we entered into a $31,450,000 loan agreement, the proceeds of which will be used for homebuilding under the fee builder arrangement at the San Elijo Hills project. The loan is comprised of a $20,200,000 revolving component, of which no amount has been drawn to date, and a $11,200,000 non-revolving component, which was drawn at the close of the loan, proceeds of which were $10,300,000, which is net of fees, costs, and interest reserve. The outstanding principal amount of the loan will bear interest at 30-day LIBOR plus 4.25%, subject to adjustment as set forth in the loan agreement, and the loan is collateralized by the property underlying the related project with a guarantee by us. Monthly draws of the revolving component are permitted under the loan agreement and no amounts have been drawn as of the date of this filing. The loan matures on October 5, 2019, with one 6-month extension subject to certain extension conditions as set forth in the loan agreement. The loan principal will be repaid with release prices, at the time of sale of each home by the purchaser. As of June 30, 2018, the principal balance outstanding was $10,050,000.

Lines of Credit:
In April 2015, we entered into a $15,000,000 revolving line of credit agreement. Loans outstanding under this line of credit bear interest at monthly LIBOR plus 2.6% and were collateralized by the Rampage property. The draw period was set to expire on January 1, 2021, and the loan would have matured on January 1, 2035. The revolving line of credit was terminated upon the closing of the sale of the Rampage property in January 2018. There is also a $3,000,000 operational line of credit available which was secured by the Rampage property's crops and matured on January 1, 2018. No amounts were drawn under either line of credit.

Senior Notes:
On June 30, 2015, we issued $125,000,000 principal amount of 6.5% Senior Notes due 2018 (the "Old Notes") in a private placement. The Old Notes were fully and unconditionally guaranteed by our wholly-owned domestic subsidiaries and any of our future domestic wholly-owned subsidiaries and would have matured on June 30, 2018. The Old Notes were senior unsecured obligations and the guarantees were the senior unsecured obligations of the Guarantors.

On September 27, 2017, we and certain of our domestic wholly-owned subsidiaries as guarantors (the "Guarantors") entered into purchase agreements (collectively, the "Purchase Agreements") with certain investors named therein (the "Purchasers") pursuant to which we agreed to issue to the Purchasers an aggregate of $75,000,000 of 6.5% Senior Notes due 2019 (the "Notes") in a private placement. Pursuant to the terms of the Purchase Agreements, the purchase price for the Notes was 100% of the principal amount. The Notes were issued pursuant to an indenture dated September 27, 2017 among us, the Guarantors, and Wilmington Trust, N.A., as trustee. The maturity date of the Notes was October 1, 2019, and the Notes were fully and unconditionally guaranteed by the Guarantors on the terms provided in the Indenture. The Notes were senior unsecured obligations of the Company and the guarantees were the senior unsecured obligations of the Guarantors. Pursuant to the Placement Agency Agreement, Jefferies Group LLC ("Jefferies Group"), a wholly-owned subsidiary of Jefferies, received a fee of $100,000 for acting as the placement agent and the closing agent.

On September 28, 2017, we used proceeds of the Notes, together with cash on hand, to redeem all of the outstanding Old Notes. After considering the repurchases and redemption, there is no remaining principal due under the Old Notes. In connection with the extinguishment of the Old Notes, issuance costs of approximately $350,000 were recorded as an expense.

On April 20, 2018, we used cash on hand to redeem $37,500,000 aggregate principal amount of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. On April 30, 2018, we used cash on hand to redeem the remaining $37,500,000 aggregate principal amount of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest and satisfied and discharged the Indenture in accordance with its terms.

EB-5 Program:
We intend to fund our Village of Escaya project ("Village 3" or the "Project") in part by raising funds under the Immigrant Investor Program administered by the U.S. Citizenship and Immigration Services ("USCIS") pursuant to the Immigration and Nationality Act ("EB-5 Program"). This program was created to stimulate the U.S. economy through the creation of jobs and capital investments in U.S. companies by foreign investors. The program allocates a limited number of immigrant visas per year to qualified individuals seeking lawful permanent resident status on the basis of their investment in a U.S. commercial enterprise. Regional centers are organizations, either publicly owned by cities, states or regional development agencies or privately owned, which facilitate investment in job-creating economic development projects by pooling capital raised under the EB-5 Program. Geographic areas within regional centers that are rural areas or areas experiencing unemployment numbers higher than the national unemployment average rates are designated as Targeted Employment Areas ("TEA"). The EB-5 program is set to expire on September 30, 2018. Various reforms and bills have been proposed and will be considered by Congress in the coming months.

In February 2017, we formed Otay Village III Lender, LLC, which is intended to serve as a new commercial enterprise ("NCE") under the EB-5 Program. The NCE is managed by Otay Village III Manager, LLC, a wholly owned subsidiary of HomeFed. The NCE is seeking to raise up to $125,000,000 by offering up to 250 units in the NCE to qualified accredited EB-5 investors for a subscription price of $500,000 per unit, which is the minimum investment that an investor in a TEA project is required to make pursuant to EB-5 Program rules. The proceeds of the offering will be used to repay any outstanding bridge loan provided by HomeFed to its wholly owned subsidiary HomeFed Village III LLC, a job creating entity under the EB-5 Program, and to fund infrastructure costs related to the development of Village 3.

The NCE has offered the units to investors primarily located in China, Vietnam, and South Korea either directly or through relationships with agents qualified in their respective countries, in which case the NCE will pay an agent fee. Once an investor's subscription and funds are accepted by the NCE, the investor must file an I-526 petition with the USCIS seeking approval of the investment's suitability under the EB-5 Program requirements and the investor's suitability and source of funds. All investments are held in an escrow account and will not be released until the investor files their I-526 petition with the USCIS and we have identified and provided collateral to secure the amount of the funds drawn from escrow. Prior to approval by the USCIS, funds may be drawn from the escrow account with a HomeFed guarantee that funds will be returned in the event the Village 3 project is not approved. During 2017, $46,500,000 was drawn from escrow related to EB-5 financing to fund infrastructure costs related to the development of the Project. In December 2017, the project was approved by the USCIS. The loan term is five years with two one-year options to extend by us with principal due in full at maturity. The effective interest rate is approximately 3.5%, payable as certain milestones are achieved according to various agreements with agents and investors.

At June 30, 2018, we have a $53,500,000 principal amount outstanding under the EB-5 Program.

At June 30, 2018, we are in compliance with all debt covenants which include, among other requirements, limitations on incurrence of debt, paydown upon sale of certain assets, collateral requirements and restricted use of proceeds.

Real estate held for development includes capitalized interest, including amortization of issuance costs and debt discount, of $3,000,000 and $3,900,000 for the six months ended June 30, 2018 and 2017, respectively.

Debt is presented on the Balance Sheet net of issuance costs of $3,900,000 and $3,200,000 and debt discount of $0 and $100,000 at June 30, 2018 and December 31, 2017, respectively.

5. Income Taxes

During 2017, we effectively settled our 2014 federal tax examination with the IRS and, as a result, recorded an $8,600,000 reduction to deferred tax liabilities and a $4,700,000 reduction to unrecognized tax benefits. The statute of limitations with respect to the Company's federal income tax returns has expired for all years through 2013, and with respect to California state income tax returns through 2012. We are currently under examination by the City of New York for the year ended 2014. We do not expect that resolution of this examination will have a significant effect on our consolidated financial position, but it could have a significant impact on the consolidated results of operations for the period in which resolution occurs.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the "Tax Act"). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740, Income Taxes ("ASC 740"). While the initial estimated impact of the Tax Act was calculated using all available information, we anticipate modifications based on the procedures set forth under SAB 118. This process is applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) where a reasonable estimate cannot yet be made, taxes are reflected in accordance with the law prior to the enactment of the Tax Act.

Due to the complex nature of the Tax Act, we have not completed our accounting for the income tax effects of certain elements of the Tax Act. If we were able to make reasonable estimates of the effects of certain elements for which our analysis is not yet complete, we recorded a provisional estimate in the financial statements. If we were not yet able to make reasonable estimates of the impact of certain elements, we have not recorded any adjustments related to those elements and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before the Tax Act. The ultimate impact of the Tax Act may differ from this estimate, possibly materially, due to refinement of our calculations based on updated information, changes in interpretations and assumptions, and guidance that may be issued and actions we may take in response to the Tax Act. We note that the Tax Act is complex and we continue to assess the impact that various provisions will have on our business. Since the Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected over the next several quarters, we consider the accounting for the deferred tax asset remeasurements and other items to be incomplete due to the forthcoming guidance and our ongoing analysis of final year-end data and tax positions.

6. Earnings Per Common Share

Basic and diluted earnings per share amounts were calculated by dividing net income by the weighted average number of common shares outstanding. The numerators and denominators used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 are as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator – net income attributable to HomeFed Corporation common shareholders	$654	$13,682	$9,446	$13,914
Denominator for basic earnings per share– weighted average shares	15,475	15,448	15,474	15,448
Restricted stock units	23	45	23	26
Stock options	7	5	4	5
Denominator for diluted earnings per share– weighted average shares	15,505	15,498	15,501	15,479

7. Fair Value Information

The carrying amounts and estimated fair values of our principal financial instruments that are not recognized on a recurring basis are as follows (in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:				
Long-term debt:				
New Notes (a)	$ —	$ —	$74,590	$75,470
EB-5 (b)	49,886	53,500	43,623	46,500
Construction loan (b)	9,765	10,027	—	—

(a) The fair value of the long-term debt was determined by utilizing available market data inputs that are considered level 2 inputs. Quoted prices are available but trading is infrequent. We utilized the available market data based on the quoted market prices to determine an average fair market value over the last 10 business days of the reporting period.

(b) The fair value approximates the principal amount of the EB-5 debt and construction loan utilizing available market data inputs that are considered level 3 inputs.

No assets or liabilities were measured at fair value on a nonrecurring basis as of June 30, 2018 and December 31, 2017.

8. Related Party Transactions

On March 28, 2017, our Board of Directors elected Jimmy Hallac, who is a Managing Director for Jefferies, to fill a vacancy. Jefferies executives now hold three of the seven board of director positions. Our Chairman, Joseph S. Steinberg, is a significant stockholder of Jefferies and Chairman of Jefferies' board, and one of our Directors, Brian P. Friedman, is the President and a director of Jefferies.

In 2015, Mr. Steinberg, the chairman of our Board of Directors, and Mr. Cumming, who then was one of our directors, each entered into a Purchase Agreement with us and the Guarantors, pursuant to which they each purchased the Old Notes with a value of $5 million, or four percent (4%), of the principal amount of the Old Notes issued, which were fully redeemed on September 28, 2017 on the same terms as other redemptions.

On September 27, 2017, Mr. Steinberg entered into a Purchase Agreement with us and our wholly-owned subsidiaries, as guarantors, pursuant to which he purchased Notes with a value of $7 million, or 9.3%, of the principal amount of the Notes issued (such purchases and redemptions, the “Affiliate Note Transactions”). Mr. Steinberg is considered to be a Related Person under our Related Person Transaction Policy. Accordingly, the Audit Committee considered the Affiliate Note Transactions and approved, and recommended to the Board the approval of, the Affiliate Note Purchases, which were unanimously approved by the Board (with Mr. Steinberg abstaining from the vote). Pursuant to Placement Agency Agreements, Jefferies acted as Placement Agent for the Old Notes and for the Notes. Jefferies Group is a wholly-owned subsidiary of Jefferies. Jefferies is our affiliate and a Related Person under our Related Person Transaction Policy (the "Policy"). Accordingly, pursuant to and in accordance with the Related Person Transaction Policy, the Audit Committee considered the Placement Agency Agreements and approved, and recommended to the Board the approval of, the Placement Agency Agreements, which were unanimously approved by the Board (with Mr. Friedman, Chairman of the Executive Committee of Jefferies Group, Mr. Steinberg and Mr. Hallac abstaining from the vote). Pursuant to the Placement Agency Agreements for the Old Notes, Jefferies received a fee equal to 50 basis points from the gross proceeds of the offering, received a fee equal to 50 basis points of the outstanding balance of the Old Notes on the first anniversary of the issue date and received a fee equal to 50 basis points of the outstanding balance on the second anniversary of the issue date. Pursuant to the Placement Agency Agreements for the Notes, Jefferies received a fee of $100,000. Additionally, we and each of the guarantors has agreed to indemnify Jefferies against certain liabilities, including liabilities under the Securities Act, and to reimburse Jefferies all reasonable out-of-pocket expenses incurred in connection with any action or claim for which indemnification has or is reasonably likely to be sought by Jefferies. In April 2018, we fully redeemed these Notes (see Note 4 for more information).

In addition, Mr. Cumming sold 783,889 of our shares for $31,300,000 to Jefferies in a privately negotiated transaction during March 2017. Mr. Cumming was considered to be a “Related Person” under our Policy at the time of the sale. Accordingly, pursuant to and in accordance with the Policy and taking into account all relevant facts and circumstances, the independent Audit Committee of the Board considered the transaction and recommended to the Board the approval of the sales transaction, which was unanimously approved by the Board (with Mr. Cumming abstaining from the vote).

Builder LLCs:

Two of our executive officers are members of the four-member management committee at each Builder LLC and are designated to consider major decisions for each of the three Builder LLCs. Each Builder LLC appointed two members to the management committee, which is controlled jointly by us and the respective builder. HomeFed is contractually obligated to obtain infrastructure improvement bonds on behalf of the Builder LLCs. See Note 13 for more information. HomeFed may also be responsible for the funding of the real estate improvement costs for the infrastructure of the development if our subsidiary that invested in each Builder LLC fails to do so.

Brooklyn Renaissance Plaza:

As more fully discussed in the 2017 10-K/A, BRP Leasing holds a master lease at BRP Holding and subleases the office space to multiple tenants. BRP Leasing is obligated to pay future minimum annual rental expense (exclusive of month-to-month leases, real estate taxes, maintenance and certain other charges) of $2,500,000 to BRP Holding for office space for the remainder of 2018. The master lease ends October 2018 at which time leasing activities will be directly managed and handled by BRP Holding.

In the aggregate, substantially all of the office space has been sublet for amounts in excess of BRP Leasing's contractual commitment in the underlying lease.

Jefferies:

Pursuant to an administrative services agreement, Jefferies provides us certain administrative and accounting services, including providing the services of our Secretary. Administrative services fee expenses were $45,000 and $90,000 for each of the three and six months ended June 30, 2018 and 2017. The administrative services agreement automatically renews for successive annual periods unless terminated in accordance with its terms. We sublease office space to Jefferies under a sublease agreement until October 2018. Amounts reflected in other income pursuant to this agreement were $3,000 and $6,000, respectively, for each of the three and six months ended June 30, 2018 and 2017.

Jefferies is contractually obligated to obtain infrastructure improvement bonds on behalf of the San Elijo Hills project. See Note 13 for more information.

Berkadia:

Berkadia Commercial Mortgage LLC ("Berkadia") is a commercial mortgage banking and servicing joint venture formed in 2009 with Jefferies and Berkshire Hathaway Inc. During the first quarter of 2018, Berkadia was paid a brokerage advisory fee of $100,000 related to the new construction loan for Village of Escaya and a $400,000 advisory fee related to the refinance of a loan at BRP Holding. Both transactions were approved by the Audit Committee under the Related Party Transaction Policy.

9. Revenues from Contracts with Customers

The following table presents our total revenues separated for our revenues from contracts with customers and our other sources of revenues (in thousands):

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Revenues from contracts with customers:		
Sales of real estate	$18,376	$52,374
Contract service revenues	10,278	21,784
Co-op marketing and advertising fees	136	266
Total revenues from contracts with customers	28,790	74,424
Other revenues:		
Rental income	5,911	11,800
Total revenue from other sources	5,911	11,800
Total revenues	$34,701	$86,224

Revenue from contracts with customers is recognized when, or as, we satisfy our performance obligations by transferring the promised goods or services to the customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring our progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that we determine the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those promised goods or services (the “transaction price”). In determining the transaction price, we consider multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, we consider the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of our influence, such as market volatility or the judgment and actions of third parties.

Revenues generated through the sales of real estate are our primary source of revenues from contracts with customers. Agreements with customers for these sales typically consist of the type and quantity of real estate to be sold and delivered to the customer, the transaction price for the real estate to be delivered, the closing date when the customer takes control of the real estate, deposit and final payment terms related to the real estate transaction price, performance obligations related to improvements, if any, that will be completed by us, the consideration of any price or profit participation revenue related to the contract, and fee income related to marketing and advertising services. The transaction price associated with the real estate is generally fixed and revenue is recognized at a point in time when the customer takes control of the real estate. The transaction price related to profit or price participation is a variable component of the transaction price and is recognized at the time the customer takes control of the real estate if it can be reasonably estimated and it is probable that a significant reversal in the amount of revenue recognized will not occur.

Co-op marketing and advertising fee income is calculated based on a percentage of the retail home price for the homes sold by our customers to homebuyers. We record co-op marketing and advertising fee income over time as performance obligations are met, generally the term of the master marketing program that relates to the sales period of the home product being sold by our customer.

Under our limited liability company agreements with builders at the Village of Escaya project, we earn contract service revenues based on a percentage of the retail home price of the homes sold by the builders to homebuyers. We record the contract service revenues over time as performance obligations are met, generally our obligation of completing the improvements and providing management oversight related to the completion of the infrastructure improvements for Village of Escaya.

Disaggregation of Revenue

The following presents our revenues from contracts with customers disaggregated by project for the three months ended June 30, 2018 (in thousands):

	Real Estate Segment										
	Otay	San Elijo	Ashville Park	The Market Common	SweetBay	Rampage	BRP Leasing	Pacho	Total Real Estate Segment	Total Corporate Segment	Total
Revenues from contracts with customers:											
Sales of real estate	$—	$12,550	$ —	$ 450	$ 5,055	$ —	$ —	$ —	$ 18,055	$ —	$ 18,055
Profit participation from real estate sales	—	—	—	321	—	—	—	—	321	—	321
Contract service revenues	10,278	—	—	—	—	—	—	—	10,278	—	10,278
Co-op marketing and advertising fees	—	106	30	—	—	—	—	—	136	—	136
Total revenues from contracts with customers	10,278	12,656	30	771	5,055	—	—	—	28,790	—	28,790
Other revenues:											
Rental income	—	—	—	2,556	63	—	3,282	7	5,908	3	5,911
Total revenue from other sources:	—	—	—	2,556	63	—	3,282	7	5,908	3	5,911
Total revenues:	$ 10,278	$ 12,656	$ 30	$ 3,327	$ 5,118	$ —	$ 3,282	$ 7	$ 34,698	$ 3	$ 34,701

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The following presents our revenues from contracts with customers disaggregated by project for the six months ended June 30, 2018 (in thousands):

	Real Estate Segment										
	San Elijo	Otay	Ashville Park	The Market Common	SweetBay	Rampage	BRP Leasing	Pacho	Total Real Estate Segment	Total Corporate Segment	Total
Revenues from contracts with customers:											
Sales of real estate	—	$17,354	—	$ 700	$ 7,886	$ 26,000	—	—	$ 51,940	—	$ 51,940
Profit participation from real estate sales	—	—	—	434	—	—	—	—	434	—	434
Contract service revenues	21,784	—	—	—	—	—	—	—	21,784	—	21,784
Co-op marketing and advertising fees	—	206	60	—	—	—	—	—	266	—	266
Total revenues from contracts with customers	21,784	17,560	60	1,134	7,886	26,000	—	—	74,424	—	74,424
Other revenues:											
Rental income	—	—	—	5,087	130	—	6,563	14	11,794	6	11,800
Total revenue from other sources:	—										