SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[x]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 No.)

1903 Wright Place, Suite 220
Carlsbad, California 92008
(760) 918-8200

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act: **None.**

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [x].

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

Large accelerated filer	[ ]	Accelerated filer	[x]
Non-accelerated filer	[ ]	Smaller reporting company	[x]
		Emerging growth 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 12-b of the Exchange Act). Yes [ ] No [x]

Based on the average bid and asked prices of the Registrant's Common Stock as published by the OTC Bulletin Board Service as of June 30, 2018, the aggregate market value of the Registrant's Common Stock held by non-affiliates was approximately $207,559,100 on that date.

As of February 12, 2019, there were 15,500,246 outstanding shares of the Registrant's Common Stock, par value $.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE: NONE
LOCATION OF EXHIBIT INDEX
The index of exhibits is contained in Part IV on page 58.

PART I

Item 1. Business.

Overview

HomeFed Corporation is a developer and owner of residential and mixed-use real estate projects in California, Virginia, South Carolina, Florida, Maine and New York. After many years in the entitlement process, the majority of our assets are now either operating real estate or entitled land ready for sale. We may also from time to time investigate and pursue the acquisition of new real estate projects, both residential and commercial.

This section should be read in conjunction with the consolidated financial statements and related footnote disclosures contained in this report and the information set forth under the heading, "Cautionary Statement for Forward-Looking Information" in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Strategic Priorities

In 2019, our primary strategic priority is to optimize our asset in the Otay Ranch area by focusing on expediting development and maximizing revenue over the coming years. In addition, we intend to continue to focus on lot and home sales to maximize our revenue at our San Elijo Hills, Ashville Park, Market Common and SweetBay projects. We also plan to strategically develop land and continue the entitlement process where these activities are ongoing. We own a portfolio of diverse assets and continue to focus on improving cash flow and value creation at Brooklyn Renaissance Plaza and at our new investment, RedSky JZ Fulton Investors (as described below in "Recent Transactions") and our other properties held for investment purposes.

Company Information

At December 31, 2018, we and our consolidated subsidiaries had 39 full-time employees. We incorporated in 1988, and our executive office is located at 1903 Wright Place, Suite 220, Carlsbad, California 92008. Our primary telephone number is (760) 918-8200 and our website address is www.homefedcorporation.com.

As used herein, the term "Company", "HomeFed", "we", "us", "our" or similar expressions refer to HomeFed Corporation, and our subsidiaries, except as the context otherwise may require.

Recent Announcement

On February 19, 2019, we announced that we received a proposal from our majority shareholder, Jefferies Financial Group Inc. ("Jefferies"), to purchase the remaining common stock of HomeFed not already owned by Jefferies in a transaction that would entail Jefferies issuing two shares of Jefferies common stock for each share of HomeFed's common stock to be acquired by Jefferies.

Consistent with its fiduciary duties and with the stockholders agreement between HomeFed and Jefferies, the HomeFed Board of Directors has appointed a special committee of independent directors (the "special committee") who, in consultation with independent financial and legal advisors, will carefully review and evaluate Jefferies' proposal. Jefferies' proposal is subject to an affirmative recommendation by the special committee and approval by holders of a majority of the outstanding shares of HomeFed common stock not already owned by Jefferies or its affiliates, in addition to any other vote required by applicable law.

Jefferies' proposal is described in an amendment to its Schedule 13D filed with the Securities and Exchange Commission on February 19, 2019, available on the SEC's website at https://www.sec.gov.

Recent Transactions

In December 2018, we formed a joint venture partnership with RedSky JZ Fulton Holdings, LLC, a Delaware limited liability company ("RS JZ"), for the acquisition and possible redevelopment of a development site located on the Fulton Mall corridor in Downtown Brooklyn, New York. The property consists of 15 separate tax lots, divided into two premier development sites which may be redeveloped with buildings consisting of up to 540,000 square feet of floor area development rights. RS JZ is itself a joint venture consisting of RedSky Capital, LLC ("RedSky"), a Brooklyn-based real estate developer, and JZ Capital Partners Limited ("JZ"), a London-based investment company.

Pursuant to that certain Contribution Agreement, dated as of December 10, 2018 (the "Contribution Agreement"), among RS JZ, HF Fulton Street Holdings LLC ("HF Fulton"), a wholly-owned subsidiary of HomeFed, and RedSky JZ Fulton Investors, LLC, a Delaware limited liability company (the "Joint Venture"), HomeFed contributed capital in the amount of $52,500,000 to the Joint Venture. As consideration for the capital contribution, RS JZ caused the Joint Venture to issue to HF Fulton a membership interest in the Joint Venture consisting of 49% of the total membership interests in the Joint Venture. RS JZ holds the remaining 51% membership stake in the Company. The Contribution Agreement includes customary representations and warranties by RS JZ in favor of HF Fulton as to the state of title and other matters affecting title to the property, and as to the assets and liabilities of the Joint Venture. The Contribution Agreement also includes customary representations and warranties as to the assets and liabilities of the two wholly-owned subsidiaries of the Joint Venture which own fee title to the property.

Our Businesses

We operate in two reportable segments—real estate and corporate. Real estate operations consist of a variety of residential land development projects and commercial properties and other unimproved land, all in various stages of development. Real estate also includes contract service revenues, contract service expenses and the equity method investments in BRP Holding, BRP Hotel, RedSky JZ Fulton Investors and the Builder LLCs in the Otay Land project. Corporate primarily consists of investment income and overhead expenses. Our farming segment, which we no longer report, consisted of the Rampage property which included an operating grape vineyard and an almond orchard under development which was sold in January 2018. Revenue from the sale of the Rampage property is included in our real estate segment.

Real Estate

As the owner of development projects, we are responsible for the completion of a wide range of activities, including design engineering, grading raw land, constructing public infrastructure such as streets, utilities and public facilities, and finishing individual lots for home sites or other facilities. Prior to commencement of development, we may engage in incidental activities to maintain the value of the project; such activities are not treated as a separate operating segment. We develop and market our communities in phases to allow ourselves the flexibility to sell finished lots to suit market conditions and to enable us to create stable and attractive neighborhoods. Consequently, at any particular time, the various phases of a project will be in different stages of land development and construction. Given the larger number of entitled lots we now own, rather than holding property for years, it is very possible that we may decide to sell one or more phases of an active project to another developer or consider entering into joint ventures with partners like we have with the Village of Escaya as described below. In addition, from time to time we have received expressions of interest from buyers for multiple phases of a project, or the remaining undeveloped land of an entire project. We evaluate these proposals when we receive them, but no assurance can be given that we will sell all or any portion of our development projects in such a manner.

For any master-planned community, plans must be prepared that provide for infrastructure, neighborhoods, commercial and industrial areas, educational and other institutional or public facilities, adequate water supply, as well as open space, in compliance with regulations regarding reduction in emissions of greenhouse gases, local growth ordinances, affordable housing, storm water permits and in California Title 24 (the "Cal Green" code). Once preliminary plans have been prepared, numerous governmental approvals, licenses, permits and agreements,

referred to as "entitlements," must be obtained before development and construction may commence. These often involve a number of different governmental jurisdictions and agencies, challenges through litigation, considerable risk and expense, and substantial delays. Unless and until the requisite entitlements are received and substantial work has been commenced in reliance upon such entitlements, a developer generally does not have full "vested rights" to develop a project, and as a result, allocation of acreage between developable and non-developable land may change. In addition, as a precondition to receipt of building-related permits, master-planned communities are typically required to pay impact and capacities fees, or to otherwise satisfy mitigation requirements.

The following table summarizes the stages of development of our properties:

Property	Development / Operating Phase			
	Planning and Entitlement Process	Land Development	Active Lot/Home Sales	Operating Asset
Otay Land		■	■	
Brooklyn Renaissance Plaza				■
RedSky JZ Fulton Investors	■	■		
San Elijo Hills			■	
Ashville Park	■		■	
The Market Common		■	■	■
SweetBay		■	■	
Maine			■	
Fanita Ranch	■			
Pacho	■			

Otay Land

Otay Ranch is a master-planned community comprised of 22,900 acres in south San Diego County, California. The General Development Plan ("GDP"), a joint effort between the City of Chula Vista and the County of San Diego, establishes land use goals, objectives and policies within the area, and contemplates home sites, a golf-oriented resort and residential community, commercial retail centers, a university site and a network of infrastructure, including roads and highways, a public transportation system, park systems and schools. Any development within the Otay Ranch master-planned community must be consistent with the GDP. Although there is no specified time within which implementation of the GDP must be completed, it is expected that full development of the larger planning area will take years.

We have owned land in Otay Ranch since our initial purchase in 1998, but recent transactions have significantly increased our holdings. In March 2015, we acquired approximately 64 acres for a cash purchase price of $3,750,000, which added 26 acres for industrial development and entitlements for 62 single family homes. In July 2015, we acquired approximately 1,600 acres for a cash purchase price of $150,000,000. These 1,600 acres are contiguous with the land we already owned and are entitled for approximately 2,640 single family lots, 4,300 multi-family residential units and 40,000 square feet of commercial space. These acres also include approximately 30 acres of land designated for industrial and office space development and 700 acres of land designated for open space and preserve. The purchase was funded in part by our working capital and in part by the proceeds of a $125,000,000 private offering, sale and issuance of the 6.5% Senior Notes due June 30, 2018.

We own approximately 4,450 acres of land within the Otay Ranch community as of December 31, 2018. Approximately 2,800 acres are designated as various qualities of non-developable open space mitigation land. Under the GDP, 1.188 acres of open space mitigation land from within the Otay Ranch area must be dedicated to the government for each 1.0 acre of land that is developed. We have more mitigation land than we need to develop our property at this project. This land could have value to other developers within the larger Otay Ranch development area or elsewhere, should such developers need to acquire additional mitigation land for their projects. We refer to all of our acreage as our "Otay Land" project, which is currently approved for approximately 13,050 residential units and 1.85 million square feet of commercial space.

The Otay Land project is in the early stages of development and additional permits are in process. The development of the overall project is likely to take years and will occur in phases, or by village, as the GDP refers to them. Development began in the first of five villages (village three, now known as the "Village of Escaya" (as further described below)) in early 2016. We negotiated contracts with three homebuilders for approximately 948 homes within the Village of Escaya, and are working with the local school districts regarding their school site needs given the future growth throughout the development project. The grand opening occurred in June 2017 and home closings began in January 2018. The Village of Escaya community has 27 model homes currently available for viewing. We are also developing in the second of five villages (village eight west, now known as Cota Vera). We have commenced infrastructure improvements in Cota Vera. Cota Vera is planned for 2,379 residential units to include 809 single family homes, 246 multi-family homes, 285 market rate apartments and 268 affordable apartments with an additional 771 units earmarked for senior housing. The plans for Cota Vera include community serving retail, a school and a fire station.

There is an issue with title to a small portion of Cota Vera related to a 100-foot strip of land approximately two miles in length containing an inactive water line. To clear title, we filed a lawsuit in San Diego Superior Court during February 2019. We are seeking to quiet title by establishing ownership over portions of the 100-foot strip based upon deeds in the chain of title and also through adverse possession. The 100-foot strip was excepted from the land around it in 1912 when it was used as an active pipeline. That use ceased around the year 2000. Our exposure if we are unsuccessful in this litigation will result in additional costs to revise our plans for Cota Vera, the cost of delay while we revise our plans, and a loss of density caused by eliminating units currently planned within the 100-foot strip. At this time, there are too many variables for us to provide an accurate number quantifying these costs.

In December 2017, we entered into an agreement with a San Diego-based contractor to build the town center portion of the Village of Escaya project, known as The Residences and Shops at Village of Escaya, which is comprised of 272 apartments and approximately 20,000 square feet of retail space. The contractor will also build a 10,000-square foot community facility building adjacent to the town center, which will be used for a youth recreational and after school care facility. The construction commenced in January 2018 and is anticipated to be complete over a two-year period with the first apartments expected to be occupied in the second half of 2019. The improvements will be funded by proceeds from the sale of the Rampage property (described below) as part of a 1031 like-kind exchange, cash on hand, EB-5 financing and a new construction loan.

In April 2016, we formed a limited liability company, HomeFed Village III Master LLC, ("Village III Master") to own and develop an approximate 450-acre community in the Village of Escaya planned for 948 homes. We entered into an operating agreement with three home builders as members of Village III Master. 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.

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 Village of Escaya. We formed three limited liability companies (each, a "Builder LLC") to own and develop 948 homes within Village of 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 mentioned above, and $2,250,000 of capitalizable land improvements made by the builders, 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.

During the course of development, we discovered the presence of underground perched groundwater that was impacted with certain petroleum byproducts while constructing the primary access road to the community. We are working with regulatory agencies to investigate the matter and have developed mitigation measures, which are being mitigated through the construction process. Further investigation disclosed that soil vapor in a portion of the Village of Escaya project where homes and apartments are to be constructed was impacted with methane and certain volatile organic compounds (collectively “compounds”). These types of compounds commonly exist in soil vapor and can be mitigated through the construction process. We are working with local authorities and have developed measures to fully mitigate the effect of the impacted soil vapors where they have been detected. The apartment site has been mitigated and the number of homes that will need mitigation is to be determined as further investigation is conducted while development progresses. Costs associated with mitigation during the homebuilding process will be shared with the builders through our Builder LLCs. For additional information concerning governmental and environmental matters, see “Government Regulations: and “Environmental Compliance” below.

Our maximum exposure to loss is limited to our equity commitment in each Builder LLC. Additionally, we are responsible for the remaining cost of developing the community infrastructure with funding guaranteed by us under the respective operating agreements for which we received a capital credit of $78,600,000 ("Cost Cap"), and we are responsible for any costs in excess of this limit to complete the community infrastructure. During 2018, the cost of infrastructure improvements in the Village of Escaya that is attributable to the Builder LLCs exceeded the Cost Cap by $9,750,000, and we expect to incur additional costs until we complete our infrastructure obligations. The builders are responsible for the construction and the selling of the 948 homes with funding guaranteed by their respective parent entities.

A map indicating the location of the Chula Vista General Plan area in San Diego County, California and a more detailed map showing general information about our land within that General Plan area can be found on our website at www.homefedcorporation.com. In addition, information about the Village of Escaya can be found at www.escayalife.com.

Brooklyn Renaissance Plaza

Brooklyn Renaissance Plaza is comprised of a 665 room hotel operated by Marriott, an approximate 850,000 square foot office building complex and an 888 space parking garage located in Brooklyn, New York. We own a 25.80% equity interest in the hotel and a 61.25% equity interest in the office building and garage.

The office building and garage are owned in partnership with New York City-based Muss Development Corporation and the hotel is owned in partnership with Muss Development Corporation and Marriott. Brooklyn Renaissance Plaza was originally built in 1998; an additional hotel tower was completed in 2005. Tenants in the office building include, among others, the King’s County District Attorney’s Office, New York City Board of Education, the United States General Services Administration and the United Federation of Teachers. Certain tenants were the original anchors of the building and their leases were used to secure construction financing for a significant portion of the office building in the form of self-amortizing New York City Industrial Revenue Bonds, which were fully paid off in

2018. On February 28, 2018, Brooklyn Renaissance Holding ("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 21-year structured lease-back financing. Approximately $157,250,000 of the proceeds was distributed to members of which we received $88,000,000.

Three of our larger tenants in Brooklyn Renaissance Plaza, who currently lease approximately 89,000, 465,000 and 64,000 square feet have agreed to 5-year, 10-year and 15-year lease renewals, respectively, which began in 2018.

In addition to its equity interest, Marriott manages the hotel for an annual fee subject to the achievement of certain performance thresholds. The hotel completed a major renovation of the restaurant, lobby, banquet facilities and rooms during the third quarter of 2016. During the renovation process, revenues were adversely affected across all revenue categories. Brooklyn Renaissance Hotel refinanced their mortgage during the fourth quarter of 2016 and used the proceeds to reimburse each partner for their respective contribution for the hotel renovation. In December 2016, we received $3,400,000 representing our portion of the contributions made for the hotel renovation.

BRP Leasing

BRP Leasing was the indirect obligor under a lease through October 2018 of approximately 286,500 square feet of office space at Brooklyn Renaissance Plaza, substantially all of which had been sublet through October 2018. Beginning on November 1, 2018, leasing activities are directly managed by BRP Holding and we recognize income from the former sublease space through BRP Holding under the equity method of accounting.

San Elijo Hills

San Elijo Hills is a master-planned community located in the City of San Marcos in San Diego County, California, consisting of approximately 3,500 homes and apartments, as well as a commercial and residential town center (the "Towncenter"). We own 85% of the project and since August 1998, we have been the development manager, with responsibility for the overall management of the project, including, among other things, preserving existing entitlements and obtaining any additional entitlements required for the project, arranging financing for the project, coordinating marketing and sales activity, and acting as the construction manager. The development management agreement provides that we receive fees for the field overhead, management and marketing services we provide ("development management fees"), based on the revenues of the project.

As of December 31, 2018, we have sold 3,436 of the 3,463 combined single family lots and multi-family units. We have also substantially completed development of the remaining residential single family lots at the San Elijo Hills project, the remaining lots are "premium" lots which are expected to command premium prices, but typically sell at a slower pace. During June 2015, we entered into an agreement with a local San Diego based luxury homebuilder to construct and sell on our behalf, for a fee, homes on the remaining 58 single family lots at the San Elijo Hills project. The model complex opened in December 2016 and, we sold 24 and 9 of these homes for $38,900,000 and $13,100,000 during 2018 and 2017, respectively.

The Towncenter consists of multi-family residential units and commercial space, which are being constructed in three phases. During 2018, the third phase of the Towncenter, which is a 2.5 acre parcel of land entitled for 12 multi-family units (formerly designated as a church site), sold for $1,600,000. During 2017, the 48,800 square feet of commercial space in phases one and two of the Towncenter and the 12 multi-family units in phase two were sold to a local developer for a cash payment of $5,800,000.

General information about the San Elijo Hills project can be found at www.sanelijohills.com.

Ashville Park

In February 2012, we acquired Ashville Park, a 450-acre master planned community located in Virginia Beach, Virginia, with 451 entitled single family lots, one of which is a visitor's center for $17,350,000. The project is being developed in phases: the first phase is a development of 91 finished lots ("Village A"), and the second phase is a 164 lot development ("Village B"). The project also includes a junior Olympic size pool and a clubhouse that opened in 2016. As of December 31, 2018, all lots in Village A and Village B were sold.

The entitlement effort to re-plan Villages C, D and E was impacted by a delay within the City of Virginia Beach. In 2014 and 2016, severe storm events caused regional flooding, and large portions of the City of Virginia Beach's storm water management system did not perform as expected. In 2016, the City of Virginia Beach hired outside civil engineers to study the system and provide possible solutions. The study is now complete and reveals that significant improvements to the storm water management system within the City of Virginia Beach are needed. In August 2018, the City of Virginia Beach approved our plans for 116 homes in Village C. The approval provides that we dedicate approximately 25 acres of land, which we had planned for 44 homes and open space known as Village D, to the City of Virginia Beach to be used as part of the City of Virginia Beach storm water management solution. We are completing improvement plans for Village C and expect to begin development and marketing of lots in 2019.

General information about the Ashville Park project can be found at www.ashvilleparkva.com.

Market Common

The Market Common is located in Myrtle Beach, South Carolina and was acquired in 2014 as part of our acquisition during 2014 of substantially all of the real estate properties, operations and investments of Leucadia National Corporation, now known as Jefferies Financial Group Inc. ("Jefferies") and approximately $14,000,000 of cash (including cash acquired as part of working capital) in exchange for 7.5 million newly-issued unregistered shares of HomeFed common stock (the "Acquisition"). The project is a mixed-used retail, office and residential lifestyle center, including adjacent land for future commercial and residential development. The 114 acre mixed-use development is part of a larger 3,900 acre redevelopment of the Myrtle Beach Air Force Base that was closed in 1993. The Market Common includes a 346,580 square foot retail center, approximately 40,000 square feet of office space and 195 long term apartment units. The retail and office space, which opened in 2008, are currently 95% leased. The long-term apartments are approximately 98% leased. Tenants in the retail center include: Barnes and Noble, PF Chang's, Gordon Biersch, Anthropology, Chico's, Pottery Barn, 810 Bowling and Grand 14 Cinema.

Since 2014, the balance of the residential land has been redesigned to include 204 single family lots of which 159 have been sold and 176 multi-family lots of which 58 have been sold to date. A 15 acre parcel adjacent to this residential land is expected to include a hotel, additional residential and potential retail uses.

General information about The Market Common can be found at www.marketcommonmb.com.

SweetBay Project

The SweetBay project ("SweetBay") is a 700-acre mixed use master planned community located in Panama City, Florida. The project is a bay front planned community with over five miles of shoreline at the site of the former Panama City-Bay County International Airport. SweetBay is entitled for up to 3,200 single family and multi-family units, 700,000 square feet of commercial space, a marina with approval for 117 wet slips and 240 dry docks, as well as an extensive trail system, neighborhood parks and the new site of University Park Charter Academy. The school opened in 2012 in cooperation with Florida State University-Panama City and has relocated to the renovated former airport terminal building which currently provides space for 330 full-time K thru 5 students, eventually expanding to 536 students. The enrollment of the school is oversubscribed; however future residents of SweetBay will have an enrollment preference for up to 50% of the available seats. For the 2018-2019 school year, 29 student seats have been reserved for residents of SweetBay. We may increase or decrease the number of reserved seats for SweetBay residents in an annual notice to the school prior to commencement of the following school year. The financial contribution for reserved student seats is an amount equal to the state funding per student as determined by the Bay County School District and the State of Florida.

Entitlements include a Development Agreement with a 30-year term that sets forth the obligations between SweetBay and Panama City, the local jurisdiction for project approvals. Panama City and Bay County are considered a recovering housing market, with SweetBay being the first and only entitled master planned community of its size in its market area.

Development has begun in the initial portion of the first phase of the community consisting of 252 single family homes, with 10 models, a welcome center, a community pool and a sport court. Since the opening in 2016, 131 single family homes have been sold as of December 31, 2018.

General information about the SweetBay project can be found at www.sweetbayfl.com.

Maine Project

Northeast Point is located on Isleboro Island and is an entitled 75-acre project subdivided into 12 oceanfront lots and one existing residence. Islesboro Island is a small island community that is accessed by ferry service from Lincolnville, Maine, just north of Camden, Maine and is a seasonal destination. We are evaluating our options for the Northeast Point property while exercising patience in order to maximize shareholder value for this project.

Fanita Ranch

In January 2011, we acquired in a foreclosure sale the Fanita Ranch property, a 2,600-acre parcel of vacant land located in Santee, California for aggregate consideration of $12,350,000. The City of Santee is located at the intersection of SR125 and SR52 in East San Diego County, about a 30 minute drive from downtown San Diego. We acquired the property with the intention of completing the necessary entitlements to develop the property as a master-planned community. Fanita Ranch was approved for approximately 1,400 residential units. The project's Environmental Impact Report ("EIR") and development agreement with the City of Santee were approved in 2007.

We received approval to process an amendment from the City of Santee to amend the General Plan. We are preparing the project and General Plan EIRs and will then prepare a new master development plan which will be the basis for a future plan submittal or development application to the City of Santee. As a prerequisite for development, we are working in cooperation with the City of Santee to complete a habitat preserve plan, which will create an open space preserve required by state and federal regulations for the City of Santee to process and approve our development plans. In addition, we have entered into an agreement with the California Department of Transportation to identify operational improvements to State Highway Route 52 from the City of Santee to Interstate 15, which may enhance access to the City of Santee and our project. There are no assurances that real estate market conditions, or costs of construction, will allow the project to be profitably developed as currently planned. If successful, obtaining all the entitlements is expected to take years.

Pacho Project (Wild Cherry Canyon)

The Pacho Project, a leasehold interest in six separate contiguous parcels totaling 2,369 acres of unentitled property located along the central California coast in San Luis Obispo County, California, was acquired in 2014 as part of the Acquisition. The property is located in the hills above San Luis Obispo Bay and Avila Beach and is near several recreational and tourist attractions including beaches, golf courses and wineries. The city of San Luis Obispo, home of the 18,000 student California Polytechnic State University, is located approximately 10 miles from the site.

We own a 90% controlling interest in the partnerships that are the lessees under a long-term lease entered on December 26, 1968. The lessor is an affiliate of Pacific Gas & Electric Company ("PG&E"), which owns the nearby Diablo Canyon Power Plant. The property is largely open space and features slopes rising above Avila Bay offering spectacular panoramic views in all directions.

We previously reported that we may not develop the Pacho Property unless we are able to obtain fee title from PG&E within a reasonable period of time. The original 99-year lease term to the Pacho Property expires in 2067. The lease includes an option to renew it for an additional 99-year term.

We have made no progress in obtaining the fee title from PG&E. Moreover, because of questions recently raised in the media as to whether the term of our leasehold validly runs until 2166 (including the option term), in August 2018 we notified PG&E that we formally exercised the renewal option and that we intend to commence a declaratory relief proceeding to confirm our leasehold is valid until 2166 and is not rendered shorter by the provisions of California Civil Code section 718. In September 2018, PG&E responded and asserted for the first time that it contends California Civil Code section 717 ends the lease in 2019, which we are disputing.

We concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold), of which $1,750,000 is attributable to the non-controlling interest in the third quarter of 2018.

On February 1, 2019, we filed a Complaint for Declaratory Relief and Quiet Title in the San Francisco Superior Court against the lessor, Eureka Energy Company, asking for a determination that the initial term of the lease is valid and enforceable through December 26, 2067 and that the option to renew the lease for an additional 99 years is valid through December 26, 2166. Eureka Energy Company is a wholly owned subsidiary of PG&E. The following day, PG&E filed for bankruptcy protection. Eureka Energy Company was not identified as a debtor in the PG&E bankruptcy. If we are unsuccessful in obtaining a favorable ruling on our claims for declaratory relief, then we believe that we will have recourse to pursue our unrecognized claims against the insurer of the leasehold title and the real estate counsel that represented us in our 2014 purchase of the leasehold interest. However, there is no assurance that we will be successful in these matters.

Other

In December 2018, we formed a joint venture partnership, Carlsbad Village 80, LLC ("Carlsbad Joint Venture"), with JM Carlsbad Village, L.P., to pursue acquisition and possible development of 1.74 acres of land in Carlsbad, CA. We contributed $700,000 for a 90% equity interest in the joint venture. The proceeds were used for a refundable option deposit to acquire the parcel of land.

Competition

Real estate development and ownership is a highly competitive business. There are numerous residential real estate developers and operators, as well as properties and development projects, operating in the same geographic areas in which we operate. Competition among real estate developers and development projects is determined by the location of the real estate, the market appeal of the development plan, and the developer's ability to build, market and deliver project segments on a timely basis. Many of our competitors may have greater financial resources and/or access to cheaper capital than we may have. Residential developers sell to homebuilders, who compete based on location, price, market segmentation, product design and reputation.

Government Regulation

The residential real estate development industry is subject to substantial environmental, building, construction, zoning and real estate regulations that are imposed by various federal, state and local authorities. In developing a community, we must obtain the approval of numerous government agencies regarding such matters as permitted land uses, housing density, affordable housing, the installation of utility services (such as water, sewer, gas, electric, telephone and cable television) and the dedication of acreage for open space, parks, schools and other community purposes. Regulations affect homebuilding by specifying, among other things, the type and quality of building materials that must be used, certain aspects of land use and building design and the manner in which homebuilders may conduct their sales, operations, and overall relationships with potential home buyers. Furthermore, changes in prevailing local circumstances or applicable laws may require additional approvals, or modifications of approvals previously obtained.

Timing of the initiation and completion of development projects depends upon receipt of necessary authorizations and approvals. Because of the provisional nature of these approvals and the concerns of various environmental and public interest groups, the approval process can be delayed by withdrawals or modifications of preliminary approvals and by litigation and appeals challenging development rights. Our ability to develop projects could be delayed or prevented due to litigation challenging previously obtained governmental approvals. We may also be subject to periodic delays or may be precluded entirely from developing in certain communities due to building moratoriums or "slow-growth" or "no-growth" initiatives that could be implemented in the future. Such delays could adversely affect our ability to complete our projects, significantly increase the costs of doing so, or drive potential customers to purchase competitors' products.

Environmental Compliance

Environmental laws may cause us to incur substantial compliance, mitigation and other costs, may restrict or prohibit development in certain areas and may delay completion of our development projects. Delays arising from compliance with environmental laws and regulations could adversely affect our ability to complete our projects and significantly increase development costs.

Under various federal, state and local environmental laws, an owner or operator of real property may become liable for the costs of the investigation, removal and remediation of hazardous or toxic substances at that property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. In addition to remediation actions brought by federal, state and local agencies, the presence of hazardous substances on a property could result in personal injury, contribution or other claims by private parties. We have not received any claim or notification from any private party or governmental authority concerning environmental conditions at any of our properties.

As more fully discussed in the Annual Report on Form 10-K for the year ended December 31, 2013, upon receipt of required approvals, we commenced remediation activities on approximately 30 acres of undeveloped land owned by Flat Rock Land Company, LLC ("Flat Rock"), a subsidiary of Otay Land Company, LLC ("Otay"). The remediation activities were completed in February 2013. We received final approval of the remediation from the County of San Diego Department of Environmental Health in June 2013. Otay and Flat Rock commenced a lawsuit in California

Superior Court seeking compensation from the parties who Otay and Flat Rock believe are responsible for the contamination of the property. In February 2015, the court denied us any recovery. We filed an appeal of this decision, and the Fourth District Court of Appeals affirmed in part and reversed in part the judgment and remanded the matter to the trial court for further proceedings. See Note 13 to our consolidated financial statements for more information.

Farming

In January 2018, we closed on the sale of the Rampage property for $26,000,000 which is reflected in Sales of real estate. The agreement was assigned to a qualified intermediary under an Exchange Agreement to facilitate a 1031 like-kind exchange for tax purposes. In July 2018, we completed the 1031 like-kind exchange and acquired $13,400,000 of replacement property, primarily consisting of improvements at the Village of Escaya mixed-use retail and apartment project, and the remaining proceeds of $12,600,000 is no longer restricted and can be used for any business operation. We recorded a gain on the sale of approximately $17,300,000. The sale of Rampage property did not meet the GAAP criteria to be classified as a discontinued operation.

Corporate

Corporate primarily consists of investment income and overhead expenses. Corporate amounts are not allocated to the operating units. The principal assets of the corporate segment are cash and cash equivalents.

Financial Information about Segments

Our reportable segments consist of the consolidated operating units identified above other than the farming segment, which we no longer report due to the sale of the Rampage property in January 2018. Equity method investments include equity interests in other entities that we account for under the equity method of accounting and are not consolidated. Financial information regarding our reportable segments is contained in Note 16, Segment Information, in our consolidated financial statements.

Available Information

The Securities Exchange Commission (the "SEC") maintains an internet site that contains reports, proxy, information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The following documents and reports are available on or through our website (www.homefedcorporation.com) as soon as reasonably practicable after we electronically file such material with, or furnish to, the SEC as applicable:

- Code of Business Practice;
- Reportable waivers, if any, from our Code of Business Practice by our executive officers;
- Charter of the Audit Committee of the Board of Directors;
- Annual reports on Form 10-K;
- Quarterly reports on Form 10-Q;
- Current reports on Form 8-K;
- Beneficial ownership reports on Forms 3, 4 and 5; and
- Any amendments to the above-mentioned documents and reports.

Shareholders may also obtain a printed copy of any of these documents or reports free of charge by sending a request to HomeFed Corporation, Investor Relations, 1903 Wright Place, Suite 220, Carlsbad, California 92008 or by calling (760) 918-8200.

Item 1A. Risk Factors.

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this report, before you decide whether to purchase our common stock. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our results of operations and financial condition are greatly affected by the performance of the real estate industry. The real estate development industry has historically been subject to up and down cycles driven by numerous market and economic factors, both national and local, beyond the control of the real estate developer. Because of the effect these factors have on real estate values, it is difficult to predict with certainty when future sales will occur or what the sales price will be.

Changes in mortgage interest rate levels could impact demand for housing. Our business is dependent upon the availability and cost of mortgage financing for potential homebuyers. Any significant increase in the prevailing low mortgage interest rate environment or decrease in available credit could reduce consumer demand for housing, and result in fewer home sales or lower sale prices.

Turmoil in the mortgage lending market has adversely affected our results in the past and could negatively impact our results in the future. The residential real estate development industry is dependent upon the availability of financing for both homebuilders and homebuyers. Turmoil in the credit markets that began in 2008 resulted in a tightening of credit standards for residential and commercial mortgages and significantly reduced liquidity, adversely affecting the ability of homebuilders and homebuyers to obtain financing, which in turn adversely impacted our ability to sell lots. Although available liquidity in the mortgage lending market has improved since 2008, significant reductions in mortgage lending liquidity in the future would adversely affect our business.

Residential property sales volume, prices and new building starts have declined significantly in many U.S. markets, which have negatively affected sales and profits. A worsening of current economic conditions could cause a decline in estimated future cash flows expected to be generated from our real estate projects, potentially resulting in impairment charges for real estate assets. When reviewing real estate assets for impairment, the most significant assumption made to determine estimated future cash flows is the estimated future selling prices of our real estate assets. If current conditions worsen and/or if we lower our estimate of future selling prices, impairment charges could be recorded.

Changes in domestic laws and government regulations or in the implementation and/or enforcement of government rules and regulations may delay our projects or increase our costs. Our plans for development projects require numerous government approvals, licenses, permits and agreements, which we must obtain before we can begin development and construction. Our negotiations with local authorities often result in requirements for us to incur development expenses related to improvements for roads, sewers or other common areas that are both inside and outside of our project area. The approval process can be delayed by withdrawals or modifications of preliminary approvals, by litigation and appeals challenging development rights and by changes in prevailing local circumstances or applicable laws that may require additional approvals. Regulatory requirements may delay the start or completion of our projects and/or increase our costs.

Demographic changes in the U.S. generally and California in particular could reduce the demand for housing. If the current trend of population increases in California were not to continue, or in the event of any significant reductions in employment, demand for real estate in California may decline from current levels.

Increases in real estate taxes and other local government fees could adversely affect our results. Increases in real estate taxes and other government fees may make it more expensive to own the properties that we are currently developing, which would increase our carrying costs of owning the properties.

Recent U.S. tax legislation may have a material adverse effect on our financial condition, results of operations and cash flows. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. This legislation has made significant changes to the U.S. Internal Revenue Code, including the taxation of U.S. corporations by, among other things, limiting interest deductions, limiting deductibility of certain executive compensation, reducing the U.S. corporate income tax rate, disallowing certain deductions that had previously been allowed, altering the expensing of capital expenditures, adopting elements of a territorial tax system, assessing a repatriation tax or "transition tax" on undistributed earnings and profits of U.S. owned foreign corporations, and introducing certain anti-base erosion provisions. The legislation is highly complex and remains unclear in certain respects and will require final interpretations and regulations by the Internal Revenue Service and state tax authorities. Additionally, the legislation could be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. Thus, the impact of certain aspects of the legislation on us could have an adverse impact on our financial condition, results of operations and cash flows. See Note 11, Income Taxes, to our consolidated financial statements for more information.

Significant competition from other real estate developers and homebuilders could adversely affect our results. Many of our competitors may have advantages over us, such as more favorable locations which may provide more desirable schools and easier access to roads and shopping, or amenities that we may not offer, as well as greater financial resources and/or access to cheaper capital. In addition, the downturn in the real estate markets nationwide could result in an influx of lower-priced lots and homes coming onto the market, as competitors need to address their individual liquidity needs. Lower-priced homes and lots would increase the competition we face, and could adversely affect our ability to sell lots and/or pricing.

Delays in construction schedules and cost overruns could adversely affect us. Any material delays could adversely affect our ability to complete our projects, significantly increasing the costs of doing so, or drive potential customers to purchase competitors' products.

Increased costs for and/or scarcity of land, materials and for labor could adversely affect us. If these costs increase, it will increase the costs of completing our projects; if we are not able to recoup these increased costs, our results of operations would be adversely affected.

Imposition of limitations on our ability to develop our properties resulting from condemnations, environmental laws and regulations and developments in or new applications thereof could increase our costs and delay our projects. When we acquire our projects, our estimate of future profits and cash flows is derived from our estimates of future selling prices and development costs, less acquisition costs. Subsequent to acquisition, if environmental laws or other regulations change resulting in additional unanticipated costs, future profitability and cash flows could be reduced, and impairment charges might have to be recorded.

Our properties may be at risk from natural disasters beyond our control. Damage to any of our properties, whether by natural disasters or weather related events, including earthquakes, hurricanes, flooding, drought, extreme heat, other adverse weather events and fires or otherwise, may either delay or preclude our ability to develop and sell our properties, or affect the price at which we may sell such properties.

Under state law we could be liable for some construction defects in structures we build or that are built on land that we develop. State law imposes some liabilities on developers of land on which homes are built as well as on builders. Future construction defect litigation could be based on a strict liability theory based on our involvement in the project or it could be related to infrastructure improvements or grading, even if we are not building homes ourselves.

We may not be able to insure certain risks economically. We may experience economic harm if any damage to our properties is not covered by insurance or if our insurance is insufficient or unavailable. We cannot be certain that we will be able to insure all risks that we desire to insure economically or that all of our insurers will be financially viable if we make a claim.

Shortages of adequate water resources and reliable energy sources in the areas where we own real estate projects could adversely affect the value of our properties or restrict us from commencing development. If we are unable to obtain adequate water resources and reliable energy sources for our development projects, development of the projects might be delayed and/or their value may decrease, resulting in reduced profitability and cash flows.

Opposition from local community, political or environmental groups with respect to construction or development at a particular site could increase development costs. At acquisition, the Fanita Ranch property had an approved EIR and development agreement. However, the project's existing entitlements have been challenged, some of which have been successful, resulting in us incurring legal expenses to defend our entitlements and being required to reimburse legal and other costs incurred by the plaintiffs. Further challenges to our entitlements at any of our projects are possible, which would result in increased legal fees, development costs and/or delays in development.

We own or have economic interests in real estate investments in California, Florida, Maine, New York, South Carolina and Virginia. As a result, our financial results are dependent on the economic strength of various regions within the U.S. Significant adverse changes in local economic conditions in areas where we own or are developing real estate projects could adversely affect the value of our projects and negatively impact our financial results. Significant increases in local unemployment and cost of living, including increases in residential property or other taxes, or concerns about the financial condition of the municipalities in which we have properties, could adversely affect consumer demand for our housing projects and negatively impact our financial results.

We may not be able to renew the ground leases at Brooklyn Renaissance Plaza at rates that are satisfactory to us. The majority of Brooklyn Renaissance Plaza is subject to a 99-year ground lease with the City of New York (the "City"). The first period of the ground lease expires in June 2022, with the base rent at a stated flat rent in addition to a percentage of the garage operating income. The amount of the ground lease payment beyond June of 2022 will be determined every 10 years based on then-market conditions and subject to certain qualifiers specified in the lease. There can be no assurance that we will agree with the City on the what constitutes market rent. Our inability to renew the ground lease at rates that are satisfactory to us or that we view as market could have a negative impact on our cash flow and the valuation of our interest in Brooklyn Renaissance Plaza.

Our business and operations could suffer in the event of system failures or cyber security attacks. Our systems are vulnerable to damage from any number of sources, including energy blackouts, natural disasters, terrorism, war, telecommunication failures and cyber security attacks, including computer viruses or unauthorized access. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions. Any compromise of our security could also result in a violation of applicable privacy and other laws, unauthorized access to information owned by the Company or third parties, significant legal and financial exposure, damage to our reputation, loss or misuse of the information and a loss of confidence in our security measures, which could harm our business. We could also be negatively impacted by similar disruptions to the operations of our vendors or outsourced service providers.

Significant influence over our affairs may be exercised by our principal stockholders who could impact our business. As of February 12, 2019, Jefferies is the beneficial owner of an aggregate of 10,852,123 shares of our common stock or approximately 70% of our common stock outstanding. In addition, our other significant stockholders include our Chairman, Joseph S. Steinberg (approximately 5.0% beneficial ownership, including ownership by trusts for the benefit of his respective family members, but excluding Mr. Steinberg's private charitable foundation) who is also Chairman, a director and a significant stockholder of Jefferies. Pursuant to a stockholders' agreement with the Company, Jefferies has agreed that to the extent its ownership of shares of our common stock exceeds 45% of the outstanding voting securities of the Company, Jefferies will limit its vote to no more than 45% of the total outstanding voting securities voting on any matter, assuming all of the total outstanding voting securities not owned by Jefferies vote on such matter. This concentration of equity ownership may delay or

prevent a change in control of our Company and may make some transactions more difficult without the support of Jefferies. In addition, the interests of our significant stockholders may not always coincide with the interests of other stockholders.

Our common stock is subject to transfer restrictions. We and certain of our subsidiaries have certain tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of the tax attributes, our certificate of incorporation contains provisions that generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of 5% or more of our common stock and the ability of persons or entities now owning 5% or more of our common stock from acquiring additional common stock. The restriction will remain until the earliest of (a) December 31, 2028, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) and (c) the beginning of our taxable year to which these tax attributes may no longer be carried forward. The restriction may be waived by our board of directors. Stockholders are advised to carefully monitor their ownership of our common stock and consult their own legal advisors and/or us to determine whether their ownership of our common stock approaches the proscribed level.

Our common stock is not traded on NASDAQ or listed on any securities exchange. Prices for our common stock are quoted on the Over-the-Counter (OTC) Bulletin Board. Securities whose prices are quoted on the OTC Bulletin Board do not have the same liquidity as securities that trade on a recognized market or securities exchange. As a result, stockholders may find it more difficult to dispose of or obtain accurate quotations as to the market value of the securities.

We may not be able to finance our development projects and related business activities. There is no assurance that if desirable or required we will be able to obtain the financing needed to develop our properties. Financing may depend on our financial condition, the creditworthiness of our projects and the availability of credit based on both market and economic conditions.

Our ability to access our cash may be affected by adverse events relating to our banks that may be beyond our control. Our cash accounts are not insured or otherwise protected. Should the bank holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we could lose the cash on deposit with that particular bank or trust company.

As we enter into the homebuilding market, we will face increased exposure to the fluctuations in the housing market. Reduction in demand may adversely affect our results. Demand for our homes will be subject to fluctuations, often due to factors outside of our control. Cancellations of agreements for the sale of homes or the ability of home buyers to obtain suitable financing to consummate the home purchases could also impact our results. Further, a reduction in home sales may impair our ability to recoup development costs or force us to absorb additional costs in connection with the engagement of the builder and its subcontractors to build homes.

We will rely on builders who will hire subcontractors to construct our homes. The failure of the builders and their subcontractors to properly construct our homes may be costly. The builders will engage subcontractors to perform the actual construction of our homes. Despite the builders' quality control efforts, we may discover that the subcontractors are engaging in improper construction practices. The occurrence of such events could require us to repair the homes in accordance with our standards and as required by law. The cost of satisfying our legal or other obligations in these instances may be significant, and we may be unable to recover the cost of repair from the builders, subcontractors, suppliers and insurers.

Product liability claims and litigation and warranty claims that arise in the ordinary course of business may be costly, which could adversely affect our business. As we enter the homebuilding market, we may be subject to increased exposure to construction defect and home warranty claims that commonly arise in the ordinary course of business and can be costly. In addition, the costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies is currently limited. There can be no assurance that this coverage will not be further restricted and become more costly. If the limits or coverages of our

current and former insurance programs prove inadequate, or we are not able to obtain adequate or reasonably priced, insurance against these types of claims in the future, we may experience losses that could negatively impact our financial results.

Cancellation of the EB-5 Program, significant changes in the program guidelines, or the inability to successfully raise capital under the program may adversely affect our ability to complete capital improvements at our projects and could adversely impact our operations. The current EB-5 Program expires on September 30, 2019. Though the program has been regularly extended since inception, there is no guarantee that it will be approved for future extensions. In addition, the program guidelines may change which may adversely impact our ability to raise capital under the program. We intend to fund the Village of Escaya project in part by raising funds under the program. Delay in extension of the program or changes in the program guidelines may adversely impact our ability to fund the improvements necessary to complete the project.

Our construction loan agreements require us to comply with various covenants and the failure to comply with the covenants and conditions imposed by our loan agreements could restrict future borrowing or cause our debt to become immediately due and payable. Our loan agreements include provisions for timely payment of principal and interest and to comply with various covenants, including covenants regarding financial ratios and limitations on the number of homes that may be under construction during the term of the loan. If we fail to make timely payment of principal and interest when due (subject to grace periods, if any) or fail to comply with covenants, we may be considered in default and the lender may cease future funding and amounts outstanding under the loans could become immediately due and payable, which could have a material adverse impact on our consolidated financial condition.

Increasing the level of our indebtedness may have an adverse effect on our business or limit our ability to take advantage of business, strategic or financing opportunities. Increasing our level of indebtedness may increase the possibility that we may be unable to generate cash sufficient to pay the principal, interest or other amounts due under our loan agreements. In addition, reliance upon debt to finance our construction costs may increase our risks related to adverse economic and/or homebuilding industry conditions and may reduce our flexibility in planning or reacting to changes in our business.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

At December 31, 2018, we are the developer of various real estate properties, all of which are described under Item 1. Business under our Real Estate segment disclosure. Our real estate had an aggregate book value of approximately $366,200,000 at December 31, 2018.

We lease 12,755 square feet for our corporate headquarters which is located at 1903 Wright Place, Suite 220, Carlsbad, California 92008. We rent office space at our corporate headquarters to Jefferies for an annual rent of $15,000, payable in twelve equal monthly installments.

BRP Leasing leased 286,500 square feet of office space at Brooklyn Renaissance Plaza, substantially all of which had been sublet through October 2018.

Item 3. Legal Proceedings.

From time to time, we or our subsidiaries may be parties to legal proceedings that are considered to be either ordinary routine litigation incidental to our business or not material to our business or consolidated financial position or liquidity. We do not believe that the ultimate resolution of any such matters will materially affect our consolidated financial position, consolidated results of operations or liquidity.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock is traded in the over-the-counter market under the symbol "HOFD." Our common stock is not listed on any stock exchange, and price information for the common stock is not regularly quoted on any automated quotation system. We do not currently meet certain requirements for listing on a national securities exchange or inclusion on the Nasdaq Stock Market.

The following table sets forth, for the two most recently completed fiscal years indicated, the high and low bid price of our common stock, as published by the National Association of Securities Dealers OTC Bulletin Board Service.

	High	Low
2017		
First Quarter	$ 48.00	$ 43.00
Second Quarter	44.80	43.00
Third Quarter	45.50	41.52
Fourth Quarter	51.80	43.10
2018		
First Quarter	$ 57.26	$ 49.75
Second Quarter	57.00	52.00
Third Quarter	55.00	49.75
Fourth Quarter	52.00	32.65
2019		
First quarter (through February 12, 2019)	$ 39.25	$ 34.09

The over-the-counter quotations reflect inter-dealer prices, without retail mark up, markdown or commission, and may not represent actual transactions. On February 12, 2019, the closing bid price for our common stock was $34.64 per share. As of that date, there were 341 stockholders of record. No parent company dividends were paid during 2018 or 2017 to HomeFed common shareholders. We do not have a regular dividend policy, and whether or not to pay dividends is subject to the discretion of our Board of Directors.

During the third quarter of 2017, dividends of $13,000,000 were declared and distributed by our subsidiary that owns the San Elijo Hills project, of which $1,950,000 was paid to the noncontrolling interests in the San Elijo Hills project, and the balance was transferred to HomeFed Corporation. The dividends retained by us did not increase the amount of consolidated liquidity reflected on our consolidated balance sheet; however, they did increase the liquidity of the parent company, HomeFed Corporation.

We and certain of our subsidiaries have tax attributes, and the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of our tax attributes, our certificate of incorporation contains provisions which generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of five percent or more of the common stock and the ability of persons or entities now owning five percent or more of the common stock from acquiring additional common stock. The restrictions will remain in effect until the earliest of (a) December 31, 2028, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) and (c) the beginning of our taxable year to which certain tax benefits may no longer be carried forward.

The transfer agent for our common stock is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

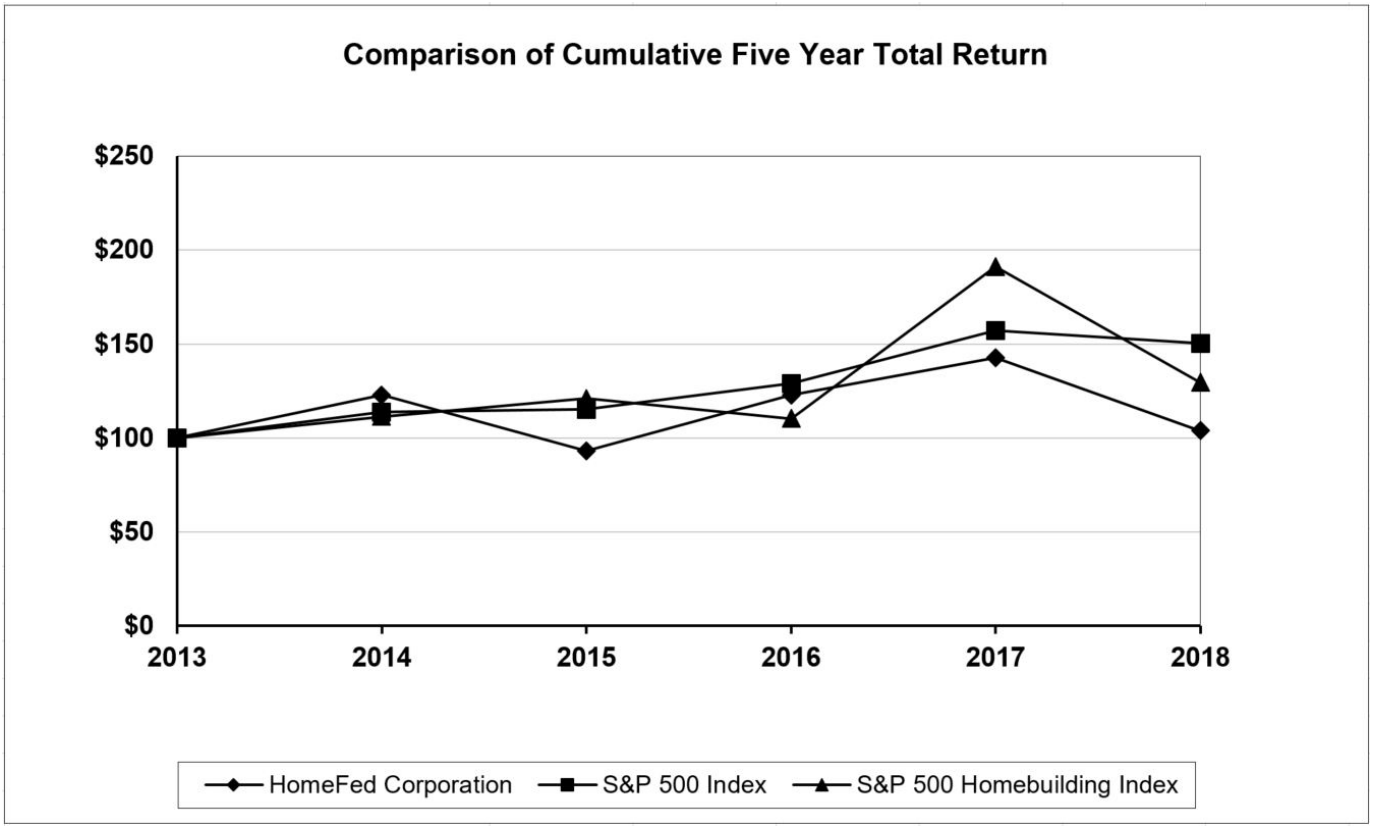
In July 2004, the Board of Directors approved the repurchase of up to 500,000 shares of our common stock. As of December 31, 2018, 104,591 common shares remain available for repurchase under this program. The shares may be purchased from time to time, subject to prevailing market conditions, in the open market, in privately negotiated transactions or otherwise. Any such purchases may be commenced or suspended at any time without prior notice.

We did not purchase any of our common shares during the fourth quarter of 2018.

See "Equity Compensation Plan Information" in Item 12 of Part III below.

Stockholder Return Performance Graph

Set forth below is a graph comparing the cumulative total stockholder return on our common stock against the cumulative total return of the Standard & Poor's 500 Stock Index and the Standard & Poor's Homebuilding-500 Index for the period commencing December 31, 2013 to December 31, 2018. Index data was furnished by Standard & Poor's Capital IQ. The graph assumes that $100 was invested on December 31, 2013 in each of our common stock, the S&P 500 Index and the S&P 500 Homebuilding Index and that all dividends were reinvested.



		INDEXED RETURNS Years Ending				
Company / Index	**Base Period Dec13**	**Dec14**	**Dec15**	**Dec16**	**Dec17**	**Dec18**
HomeFed Corporation	**100**	122.95	93.03	122.95	142.76	103.83
S&P 500 Index	**100**	113.69	115.26	129.05	157.22	150.33
S&P 500 Homebuilding Index	**100**	111.43	120.95	110.32	191.24	129.56

Item 6. Selected Financial Data.

The following selected financial data have been summarized from our consolidated financial statements and are qualified in their entirety by reference to, and should be read in conjunction with, such consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in Item 7 of this Report.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA:					
Revenues	$ 140,571	$ 114,508	$ 86,947	$ 69,538	$ 59,505
Expenses	150,336	122,115	90,084	61,257	54,066
Net income (loss) (a)	(1,505)	10,989	32,844	6,503	4,732
Net income (loss) attributable to HomeFed Corporation common shareholders (a)	(68)	10,931	32,565	5,835	3,886
Basic earnings (loss) per share (a)	$ (0.00)	$ 0.71	$ 2.11	$ 0.38	$ 0.29
Diluted earnings (loss) per share (a)	$ (0.00)	$ 0.71	$ 2.11	$ 0.38	$ 0.29

	At December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
SELECTED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 63,053	$ 40,415	$ 53,140	$ 66,676	$ 61,495
Investments available for sale	—	—	—	—	35,898
Real estate held for development	328,239	311,664	297,665	301,683	143,301
Real estate held for investment, net	37,962	38,022	42,536	43,347	45,184
Total assets	594,008	607,947	578,213	555,311	433,189
HomeFed Corporation shareholders' equity	455,147	452,264	440,057	406,381	399,895
Shares outstanding	15,500	15,474	15,449	15,408	15,388
Book value per share (b)	$ 29.36	$ 29.23	$ 28.48	$ 26.37	$ 25.99

(a) On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act is one of the most comprehensive changes in the U.S. corporate income tax since 1986. The Tax Act revises the U.S. Corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21% and adopting a territorial income tax system. We have evaluated the impact that the Tax Act will have on both our Consolidated Balance Sheets and Consolidated Statements of Operations. At that time, based on information currently available, results for the fourth quarter of 2017 reflect a provisional expense of $2,150,000. In 2018, we completed our determination of the accounting implications of the Tax Act, and no material adjustment was necessary.

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 2014, and with respect to California state income tax returns through 2013. 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.

During 2016, we determined that we had enough positive evidence to conclude that it is more likely than not that we will be able to generate enough future taxable income to fully utilize all of our Federal minimum tax credits. As a result, $31,850,000 of the deferred tax valuation allowance was reduced as a credit to income tax expense during 2016. For the years ended December 31, 2015 and 2014, we decreased our deferred tax valuation allowance by recording a decrease to our income tax provision of $1,550,000 and $900,000, respectively.

(b) Excludes noncontrolling interest.

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

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources, off-balance sheet arrangements and results of operations. This analysis should be read in conjunction with the consolidated financial statements, related footnote disclosures and the following "Cautionary Statements for Forward-Looking Information."

Cautionary Statement for Forward-Looking Information

Statements included in this report may contain forward-looking statements. Such statements may relate, but are not limited, to projections of revenues, income or loss, development expenditures, plans for growth and future operations, competition and regulation, as well as assumptions relating to the foregoing. Such forward-looking statements are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. When used in this report, the words "will," "could," "estimates," "expects," "anticipates," "believes," "plans," "intends" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

Factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted or may materially and adversely affect our actual results include, but are not limited to, those set forth in Item 1A. Risk Factors and elsewhere in this report and in our other public filings with the SEC.

Undue reliance should not be placed on these forward-looking statements, which are applicable only as of the date hereof. We undertake no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report or to reflect the occurrence of unanticipated events.

Results of Operations

We currently have two reportable segments—real estate and corporate. Real estate operations consist of a variety of residential land development projects and commercial properties and other unimproved land, all in various stages of development. Real estate also includes contract service revenues, contract service expenses and the equity method investments in BRP Holding, BRP Hotel, RedSky JZ Fulton Investors and the Builder LLCs in the Otay Land project. Corporate primarily consists of investment income and overhead expenses. Our farming segment, which we no longer report, consisted of the Rampage property which included an operating grape vineyard and an almond orchard under development which was sold in January 2018. Revenue from the sale of the Rampage property is included in our real estate segment.

Revenues were $140,600,000 for 2018 versus $114,500,000 for 2017. The four main drivers for 2018 were home and land sales at the San Elijo Hills project of $40,500,000, the sale of Rampage of property for $26,000,000, home and land sales at the SweetBay project of $19,100,000 and contract service revenues related to the Builder LLCs at the Otay Land project. Loss from operations before income from equity method investments was $9,800,000 for 2018 as compared to $7,600,000 for 2017. Excluding the real estate impairments during 2018 of $20,000,000 (of

which $17,450,000 relates to the Pacho Project), the increase in income from operations before income from equity method investments can be primarily attributed to the gain on the sale of Rampage property of approximately $17,300,000.

Certain information concerning our segments for the years ended 2018, 2017 and 2016 is presented in the following table.

	2018	2017	2016
		(in thousands)	
Revenues:			
Real estate	$ 140,559	$ 110,989	$ 82,499
Farming	—	3,507	4,436
Corporate	12	12	12
Total consolidated revenues	$ 140,571	$ 114,508	$ 86,947
Income (loss) from continuing operations before income taxes and noncontrolling interest			
Real estate	$ 11,239 [1]	$ 14,497	$ 9,405
Farming	—	(342)	462
Corporate	(13,298)	(12,098)	(9,212)
Total consolidated income (loss) from continuing operations before income taxes and noncontrolling interest	$ (2,059)	$ 2,057	$ 655

[1] Includes $20,000,000 of impairment charges during 2018 of which $17,450,000 relates to the write-down of our Pacho leasehold, $1,800,000 relates to the write-down at the SweetBay project and $750,000 relates to the write-down at our Maine project.

Real Estate

Otay Land Project:

We sold a .88 acre parcel of land at the Otay Ranch project during 2018, which will be used for a gas station, for $1,200,000, of which $1,050,000 was recognized at the time of sale related to delivery of the improved land and of which $150,000 is deferred related to a performance obligation to complete an access road subsequent to closing. Cost of sales of $1,050,000 was recorded related to the delivery of the land.

In October 2018, we received $1,550,000 from a neighboring land owner to complete mitigation improvements on approximately 2 acres of land in the Otay River Valley on their behalf in conjunction with our mitigation improvements associated with our development in Otay. As of December 31, 2018, we recorded $650,000 as contract service revenues and $650,000 as contract service expenses. The remaining $900,000 is deferred as a contract liability and will be recognized as performance obligations are completed over time.

During 2017, we sold seven acres of open space mitigation land for $250,000 to another developer who needed it to satisfy their mitigation land requirement. Cost of sales was $20,000 for 2017. The grand opening at the Village of Escaya occurred in June 2017. As of February 12, 2019, 393 homes were sold, and 83 homes are under contract.

Of the $30,000,000 in cash proceeds we received from the builders at closing of HomeFed Village III Master, LLC, $22,800,000 was recognized as revenue from sales of real estate and cost of sales during 2016. At the time of sale, a contract liability of $7,200,000 was recorded. As development costs were incurred, the contract liability balance was reduced. Profit will be recognized when we have sufficient evidence to reasonably estimate profits on the land sale and ongoing development activities. At that point, cumulative profit to date will be recognized as a change in estimate.

Contract service revenues and expenses were $30,200,000, $35,850,000 and $13,200,000 for 2018, 2017 and 2016, respectively. Under our agreements, we are responsible for the remaining cost of developing the community infrastructure but we also are entitled to receive up to $78,600,000 as reimbursement of development costs through the sale of homes at the Village of Escaya. However, we are also responsible for any costs in excess of this limit to complete the community infrastructure.

During the early course of development while constructing the primary access road to the Village of Escaya, we discovered the presence of underground perched groundwater that was impacted with certain petroleum byproducts. We are working with regulatory agencies to investigate the matter and have developed mitigation measures, which are being mitigated through the construction process. Further investigation disclosed that soil vapor in a portion of the Village of Escaya project where homes and apartments are to be constructed was impacted with methane and certain volatile organic compounds (collectively "compounds"). These types of compounds commonly exist in soil vapor and can be mitigated through the construction process. We are working with local authorities and have developed measures to fully mitigate the effect of the impacted soil vapors where they have been detected. The apartment site has been mitigated, and the number of homes that will need mitigation is to be determined as further investigation is conducted while development progresses. Costs associated with mitigation during the homebuilding process will be shared with the builders through our Builder LLCs.

General and administrative expenses increased by $1,300,000 for 2018 as compared to 2017 due to a $1,100,000 increase in legal expenses, a $200,000 increase in marketing expansion of the EB-5 program to additional countries, and a $200,000 increase in professional fees related to the EB-5 program. Marketing expenses also decreased by $200,000 related to the grand opening in 2017 at the Village of Escaya.

General and administrative expenses increased by $1,200,000 in 2017 as compared to 2016 which includes a $1,250,000 increase in marketing expenses related to the initial launch of the Village of Escaya, a $200,000 increase for the marketing expenses for the EB-5 Program and a $150,000 increase in legal expenses related to the Village of Escaya. It also reflects a decrease of $400,000 for legal fees related to the Flat Rock litigation (see Note 13 for more information).

San Elijo Hills Project:

For the three years ended December 31, we have closed on sales of real estate as follows:

	2018	2017	2016
Number of units sold:			
Single family lots	—	—	27
Single family homes	24	9	—
Sales price, net of closing costs:			
Single family lots	$ —	$ —	$ 14,600,000
Single family homes	$ 38,900,000	$ 13,100,000	$ —
Towncenter	$ 1,600,000	$ 5,800,000	$ —

Revenues recognized at closing were $40,500,000, $18,800,000 and $11,300,000 for 2018, 2017 and 2016, respectively. During 2018, 2017 and 2016, cost of sales of real estate aggregated $33,150,000, $18,500,000 and $6,950,000, respectively.

Prior to the new revenue recognition standard adopted on January 1, 2018, a portion of the revenue from sales of real estate was deferred and was recognized as revenues upon the completion of certain improvements, including costs related to common areas which we were obligated to make to lots sold under the percentage of completion method of accounting. Revenues include previously deferred amounts of $3,150,000 and $800,000 for 2017 and 2016, respectively.

We recorded co-op marketing and advertising fee revenue of approximately $300,000, $450,000 and $300,000 for the years ended December 31, 2018, 2017 and 2016, respectively. We record these fees pursuant to contractual agreements, which was generally when builders sell homes prior to the new revenue recognition standard adopted on January 1, 2018 and over time as performance obligations are satisfied by us under the new revenue recognition standard. The fees are based upon a fixed percentage of the homes' selling price.

General and administrative expenses increased by $400,000 for 2018 as compared to 2017 primarily due to a $250,000 loss on the extinguishment of debt during 2018 and increased marketing efforts of $150,000 during 2018 to promote the homes available for sale.

Depreciation and amortization expenses decreased by $100,000 for 2017 versus 2016 primarily due to the sale of phase one of the Towncenter during the first quarter of 2017.

Ashville Park:

For the years ended December 31, 2018, 2017 and 2016, we have closed on sales of real estate as follows:

	2018	2017	2016
Number of units sold:			
Former visitor center	—	—	1
Sales price, net of closing costs:			
Former visitor center	$ —	$ —	$ 550,000

Revenues recognized at closing were $550,000 for 2016. Since we are obligated to complete certain improvements to the lots sold, a portion of the revenue from sales of real estate is deferred, and is recognized as revenues upon the completion of the required improvements to the property, including costs related to common areas, under the percentage of completion method of accounting. Prior to the new revenue recognition standard adopted on January 1, 2018, revenues also include previously deferred amounts of $30,000 and $500,000 for 2017 and 2016, respectively.

Cost of sales of real estate aggregated $20,000 for 2017 and $450,000 for 2016. Cost of sales was recognized in the same proportion to the amount of revenue recognized under the percentage of completion method of accounting.

Revenues from sales of real estate also include amounts recognized pursuant to revenue or profit sharing with a homebuilder of $10,000, $100,000 and $200,000 for 2018, 2017 and 2016, respectively.

We recorded co-op marketing and advertising fee revenue of approximately $100,000, $150,000 and $250,000, respectively, for the three years ended December 31, 2018, 2017 and 2016. We record these fees pursuant to contractual agreements, which was generally when builders sell homes prior to the new revenue recognition standard adopted on January 1, 2018 and over time as performance obligations are satisfied by us under the new revenue recognition standard. The fees are based upon a fixed percentage of the homes' selling price.

The Market Common:

For the years ended December 31, 2018, 2017 and 2016 the rental activity includes:

	2018	2017	2016
Rental income	$ 10,200,000	$ 10,600,000	$ 9,450,000
Amortization of lease intangibles included in rental income	(300,000)	(400,000)	250,000
Adjustment for straight-line rental income	(200,000)	(100,000)	(50,000)
Rental operating expenses	$ 4,800,000	$ 4,950,000	$ 5,600,000

During the fourth quarter of 2016, Piggly Wiggly closed its supermarket due to economic hardship with several years remaining on its lease. As a result, we had a decline in rental income in 2016 as compared to 2015 because we had to write-off our intangible asset related to their above market lease contract and tenant improvement incentives which aggregated $750,000. Rental income for 2017 includes $400,000 pursuant to a termination payment received from Piggly Wiggly in June 2017. During the fourth quarter of 2017, we signed a new tenant to operate an upscale entertainment facility including bowling alleys with food and bar accommodations. The lease commenced on July 1, 2018 with a 10-year lease term.

For the years ended December 31, 2018, 2017 and 2016 we have closed on sales of real estate as follows:

	2018	2017	2016
Number of units sold:			
Single family lots	17	38	38
Multi-family lots	8	15	10
Sales price, net of closing costs:			
Single family lots	$ 850,000	$ 1,800,000	$ 1,750,000
Multi-family lots	200,000	375,000	250,000

Revenues from sales of real estate at The Market Common also include amounts recognized pursuant to revenue for profit sharing with a homebuilder of $600,000, $1,250,000 and $1,600,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

Cost of sales of real estate were $900,000, $1,900,000 and $1,900,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

General and administrative expenses decreased by $300,000 for 2017 as compared to 2016 primarily due to the reversal of $200,000 of certain fees previously accrued regarding an uncertain tax liability that was successfully resolved during 2017 and decreased by $100,000 due to lower legal activity at the project.

Depreciation and amortization expenses decreased by $650,000 for 2018 periods versus 2017 due to certain depreciable and amortizable assets becoming fully depreciated during 2018.

Depreciation and amortization expenses decreased by $1,300,000 for 2017 versus 2016 primarily due to certain depreciable and amortizable assets being fully depreciated over the course of 2017 and 2016 and the write-off of lease intangibles and other assets related to Piggly Wiggly's lease during 2016.

Maine projects:

There were no sales of real estate for 2018 and 2017. During 2016, we closed on the sale of three lots at Rockport, Maine and one home at Northeast Point, Maine for aggregate cash proceeds of $650,000.

During 2018, we concluded that our real estate in Maine was partially impaired due to a recent weakness in local housing market conditions. We recorded a write-down of $750,000 and thus reducing the carrying value to $3,300,000 which we believe reflects the fair value of the property.

SweetBay project:

We sold 47 single family homes for $17,100,000 for 2018. Cost of sales of real estate was $16,200,000 for 2018. During 2018, we received and recognized an additional $2,000,000 as sales of real estate due to a court determination of the final purchase price of land related to the 2016 sale of seven acres of land to the Florida Department of Transportation to be used for the expansion of State Road 390.

We sold 71 single family homes for $24,850,000 during 2017. Cost of sales of real estate was $24,750,000 for 2017. Pre-tax income for 2017 was weak due to increased home building costs and includes a reserve for a potential loss of $100,000 that was recorded related to home sales under contract which closed during 2018.

General and administrative expenses increased by $650,000 for 2018, respectively as compared to 2017 primarily due to increased marketing efforts related to the release of additional homes available for sale and expanding advertising efforts to a broader market. The 2018 period also includes an increase of $100,000 of professional fees related to advice on product positioning.

General and administrative expenses decreased by $100,000 for 2017 as compared to 2016, primarily due to a reduction in marketing activity which reflects the lower level of inventory available for sale during 2017.

Depreciation and amortization expenses decreased by $100,000 during 2018 versus 2017 primarily due to buildings and other fixed assets becoming fully depreciated during early 2018.

In October 2018, Hurricane Michael passed through Panama City, Florida causing damage to the SweetBay project. The SweetBay project was adversely impacted by the hurricane, and we recorded a write-down of $1,800,000. During the fourth quarter of 2018, one of our insurance carriers assessed the damages and finalized one of our claims for $4,250,000. Accordingly, we accrued the $4,250,000 as other income but did not receive the proceeds until January 2019.

Pacho Project:

We previously reported that we may not develop the Pacho Property unless we are able to obtain fee title from Pacific Gas & Electric ("PG&E") within a reasonable period of time. The original 99-year lease term to the Pacho Property expires in 2067. The lease includes an option to renew it for an additional 99-year term.

We have made no progress in obtaining the fee title from PG&E. Moreover, because of questions recently raised in the media as to whether the term of our leasehold validly runs until 2166 (including the option term), in August we notified PG&E that we formally exercised the renewal option and that we intended to commence a declaratory relief proceeding to confirm our leasehold is valid until 2166 and is not rendered shorter by the provisions of California Civil Code section 718. In September, PG&E responded and asserted for the first time that it contends California Civil Code section 717 ends the lease in 2019, which we are disputing.

We concluded that our Pacho leasehold was impaired (the entire carrying value of the leasehold) and recorded a $17,450,000 pre-tax charge during 2018, of which $1,750,000 is attributable to the non-controlling interest in the third quarter of 2018.

On February 1, 2019, we filed a Complaint for Declaratory Relief and Quiet Title in the San Francisco Superior Court against the lessor, Eureka Energy Company, asking for a determination that the initial term of the lease is valid and enforceable through December 26, 2067 and that the option to renew the lease for an additional 99 years is

valid through December 26, 2166. Eureka Energy Company is a wholly owned subsidiary of PG&E. The following day, PG&E filed for bankruptcy protection. Eureka Energy Company was not identified as a debtor in the PG&E bankruptcy. If we are unsuccessful in obtaining a favorable ruling on our claims for declaratory relief, then we believe that we will have recourse to pursue our unrecognized claims against the insurer of the leasehold title and the real estate counsel that represented us in our 2014 purchase of the leasehold interest. However, there is no assurance that we will be successful in these matters.

General and administrative expenses increased by $200,000 for 2018 as compared to 2017 due to increased legal fees.

General administration expenses decreased by $450,000 during 2017 as compared to 2016 due to decreased legal fees.

BRP Leasing:

For the years ended December 31, 2018, 2017 and 2016 the rental activity is as follows:

	2018	2017	2016
Rental income	$ 11,000,000	$ 12,900,000	$ 12,450,000
Amortization of lease intangibles included in rental income	1,400,000	1,650,000	1,600,000
Adjustment for straight-line rental income	350,000	400,000	(100,000)
Rental operating expenses	$ 10,600,000	$ 12,100,000	$ 11,900,000

During the fourth quarter of 2017, we recorded a benefit in regards to the capital tax on our recently filed New York State and New York City tax returns. In addition, we lowered our projected 2017 capital expense based on our 2016 tax return information. As a result, our general and administrative expenses decreased by $1,350,000 in 2017 compared to 2016. General and administrative expenses increased by $500,000 due to increased capital tax expenses incurred during 2018 as compared to the same period in 2017 due to the adjustments made in 2017 which reduced our capital tax obligation.

Farming

Rampage Property:

In January 2018, we closed on the sale of the Rampage property for $26,000,000 which is reflected in the Real Estate segment as mentioned above.

Farming revenues at the Rampage property aggregated $3,500,000 and $4,450,000 for the years ended December 31, 2017 and 2016, respectively. Farming revenues were generally recognized during the second half of the year when the crop is harvested and sold. The decline in farming revenues during 2017 as compared to 2016 principally due to lower grape yields resulting from an adverse weather event in June 2017.

Farming expenses decreased by $100,000 during 2017 versus 2016 primarily due to lower grape yields resulting in reduced harvesting expenses.

Depreciation and amortization expenses decreased by $300,000 during 2018 versus 2017 due to the sale of the Rampage property in January 2018.

Depreciation and amortization expenses increased by $100,000 during 2017 versus 2016 primarily due to the acquisition of farming equipment related to the almond orchard during 2017.

Interest and other income includes $200,000 for the year ended 2017 from insurance proceeds received under our crop insurance policy for damages incurred from the adverse weather event in June 2017.

Corporate

General and administrative expenses increased by $1,400,000 during 2018 as compared to 2017, primarily due to increases in stock compensation, compensation and benefits expense, professional fees and legal expenses. Compensation and benefits increased by $500,000 related to higher headcount and increased estimated bonus expense. Professional fees increased by $400,000 for additional costs associated with restating prior period financial statements, adopting new accounting standards, and additional tax planning services and increased by $200,000 for investigation of potential new business transactions. Legal fees increased by $400,000 related to the investigation of potential real estate opportunities. Stock compensation increased by $250,000 related to the grant of RSUs to executive officers in March 2017 and the employee stock option grants on August 4, 2017 (see Note 7 for more information). When we extinguished the Old Notes during September 2017, a portion of the capitalized issuance costs of approximately $350,000 were immediately expensed as a loss on extinguishment of debt and did not re-occur in 2018.

General and administrative expenses increased by $2,850,000 during 2017 as compared to 2016, primarily due to an increase in stock compensation, a loss on extinguishment of debt and salary expenses. Stock compensation increased by $1,950,000 related to the grant of RSUs to executive officers in March 2017 and the employee and director stock option grants on August 4, 2017 (see Note 7 for more information). Upon extinguishing the 6.5% Senior Notes due 2018 (the "Old Notes") during 2017, a portion of the capitalized issuance costs of approximately $350,000 were immediately expensed as a loss on extinguishment of debt. Compensation and benefits increased by $550,000 due to higher headcount and higher bonus expense.

On December 22, 2017, the Tax Act was enacted. The Tax Act is one of the most comprehensive changes in the U.S. corporate income tax since 1986 and certain provisions are complex in their application. The Tax Act revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21% and adopting a territorial income tax system. In connection with our initial analysis of the impact of the Tax Act, we recorded a discrete tax expense of $2,150,000 during 2017. This expense primarily related to the revaluation of our deferred tax assets. In 2018, we completed our determination of the accounting implications of the Tax Act, and no material adjustment was necessary.

For 2018, 2017 and 2016, our income tax benefit was $550,000, $8,950,000 and $32,200,000, respectively.

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 2014, and with respect to California state income tax returns through 2013. 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.

During 2016, we were able to conclude that it is more likely than not that we will be able to realize the entire portion of our net deferred tax asset. As a result, $31,850,000 of the deferred tax valuation allowance was released as a credit to income tax expense during 2016.

Liquidity and Capital Resources

On February 19, 2019, we announced that we received a proposal from our majority shareholder, Jefferies, to purchase the remaining common stock of HomeFed not already owned by Jefferies in a transaction that would entail Jefferies issuing two shares of Jefferies common stock for each share of HomeFed's common stock to be acquired by Jefferies.

Consistent with its fiduciary duties and with the stockholders agreement between HomeFed and Jefferies, the HomeFed Board of Directors has appointed a special committee of independent directors (the "special committee") who, in consultation with independent financial and legal advisors, will carefully review and evaluate Jefferies' proposal. Jefferies' proposal is subject to an affirmative recommendation by the special committee and approval by holders of a majority of the outstanding shares of HomeFed common stock not already owned by Jefferies or its affiliates, in addition to any other vote required by applicable law.

Corporate Liquidity

Our principal sources of funds are cash and cash equivalents, proceeds from the sale of real estate, rental income from leased properties, fee income from certain projects, dividends and tax sharing payments from subsidiaries, interest income, distributions from equity method investments, construction loans (as described below) and financing from the EB-5 Program (see below for more information).

Consolidated Statements of Cash Flows:
Net cash of $10,750,000 and $27,450,000 was used for operating activities during 2018 and 2017, respectively. For 2018 and 2017, cash was used for payments of federal and state income taxes and real estate expenditures on held for development properties. Real estate development ramped up during 2018 at the Village of Escaya, the SweetBay project and the San Elijo Hills project as infrastructure improvements progressed and as more homes were under construction and completed for sale. During 2018, we spent $9,750,000 related to costs for infrastructure improvements for the Village of Escaya above the $78,600,000 reimbursement limit per the terms of the Builder LLCs' agreements. We also received $13,200,000 during 2018 from distributions from our equity investments in the Builder LLCs. During 2017, we also collected $5,650,000 less cash from the Builder LLCs between what was earned and what we actually received.

Net cash of $55,450,000 was provided by investing activities during 2018 period consisting of a distribution of $82,000,000 from BRP Holding related to mortgage refinancing that was used to fully satisfy our outstanding preferred equity balances for BRP Holding and BRP Hotel. We received proceeds from the sale of Rampage property of $26,000,000 during 2018. We contributed $52,500,000 into RedSky JZ Fulton Investors (see Note 4 for more information) during 2018.

Net cash of $24,750,000 was used for financing activities during 2018 period related to the reduction of debt of $75,000,000 on the Notes and of $10,800,000 related to the construction loans at the San Elijo Hills project and the payment of debt issuances costs of $8,350,000. Net cash provided by financing activities also include the issuance of $58,500,000 principal amount of debt under the EB-5 program and the proceeds from a construction loan of $10,800,000 at the San Elijo Hills project during 2018. Net cash of $14,800,000 was provided by financing activities during 2017 related to net proceeds received of $18,350,000 from the issuance of the 6.5% Senior Notes due 2019 and the EB-5 Program net of cash payments to redeem the 6.5% Senior Notes due 2018. Cash used in 2017 includes payment of costs of $1,650,000 related to the redemption of the 6.5% Senior Notes due 2018, the issuance of the 6.5% Senior Notes due 2019 and EB-5 Program during 2017 and the $1,950,000 distribution to a non-controlling interest related to the San Elijo Hills project.

Liquidity information:
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.

We expect that our cash and cash equivalents, together with the other sources described above, will be sufficient for both our short and long term liquidity needs. Residential sales at the Otay Land, San Elijo Hills, Ashville Park, The Market Common and the SweetBay projects are expected to be a source of funds to us in the future; however, except as otherwise disclosed, the amount and timing is uncertain. We are not relying on receipt of funds from our other projects for the short and intermediate term, since the timing of development activity and sales of developable and undevelopable property cannot be predicted with any certainty. Except as disclosed herein, we are not committed to acquire any new real estate projects, but we believe we have sufficient liquidity to take advantage of appropriate acquisition opportunities if they are presented.

Option payments are non-refundable if we fulfill our obligations under the real estate sales agreements and will be applied to reduce the amount due from the purchasers at closing. Although these agreements are binding on the purchasers, should we fulfill our obligations under the agreements within the specified timeframes and the purchasers decide not to close, our recourse will be primarily limited to retaining the option payments.

As of December 31, 2018, we had consolidated cash and cash equivalents aggregating $63,050,000.

Subsidiary Liquidity

Information about the Otay Land, RedSky JZ Fulton Investors, San Elijo Hills and Ashville Park projects, The Market Common, SweetBay and our other projects is provided below. Because of the nature of our real estate projects, we do not expect operating cash flows will be consistent from year to year.

Otay Land Project:

In April 2016, through a HomeFed subsidiary, we formed a limited liability company, HomeFed Village III Master, LLC (“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.

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 Village of Escaya. We formed three limited liability companies (each, a "Builder LLC") to own and develop 948 homes within the Village of Escaya and entered into individual operating agreements with each of the three builders as members of the Builder LLCs. Upon admittance of the three builders into their respective Builder LLCs, 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 mentioned above, and $2,250,000 of capitalizable land improvements made by the builders, 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.

In March 2018, we entered construction loan agreements of $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 February 12, 2019, 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.

The grand opening of the Village of Escaya occurred in June 2017, and home sales began in January 2018. As of February 12, 2019, 393 homes were sold, and 83 homes are under contract.

In the fourth quarter of 2018, we entered into an agreement to sell the 10,000 square feet community facility building in the towncenter area of Village of Escaya for $1,900,000, which is expected to close in 2020 upon completion of the building. We have received a $60,000 option deposit, which is non-refundable if we fulfill our obligations under the agreement and will be applied to reduce the amount due from the buyer at closing.

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 of each Builder LLC through a management committee and lack authority over establishing home sales prices and accepting offers. However, since two of our executive officers are members of the four-member management committee at each Builder LLC, designated to consider major decisions for that Builder LLC, we account for them under the equity method of accounting. Our share of the income earned from the sales of built homes in any of these three Builder LLCs will be recorded as income from equity method investments.

Our maximum exposure to loss is limited to our equity commitment in each Builder LLC. Additionally, we are responsible for the remaining cost of developing the community infrastructure with funding guaranteed by us under the respective operating agreements for which we received a capital credit of $78,600,000 ("Cost Cap"), and we are responsible for any costs in excess of this limit to complete the community infrastructure. During 2018, the cost of infrastructure improvements in the Village of Escaya that is attributable to the Builder LLCs exceeded the Cost Cap by $9,750,000, and we expect to incur additional costs until we complete our infrastructure obligations. The builders are responsible for the construction and the selling of the 948 homes with funding guaranteed by their respective parent entities.

During the early course of development while constructing the primary access road to the Village of Escaya, we discovered the presence of underground perched groundwater that was impacted with certain petroleum byproducts. We are working with regulatory agencies to investigate the matter and have developed mitigation measures, which are being mitigated through the construction process. Further investigation disclosed that soil vapor in a portion of the Village of Escaya project where homes and apartments are to be constructed was impacted with methane and certain volatile organic compounds (collectively “compounds”). These types of compounds commonly exist in soil vapor and can be mitigated through the construction process. We are working with local authorities and have developed measures to fully mitigate the effect of the impacted soil vapors where they have been detected. The apartment site has been mitigated, and the number of homes that will need mitigation is to be determined as further investigation is conducted while development progresses. Costs associated with mitigation during the homebuilding process will be shared with the builders through our Builder LLCs.

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

EB-5 Program:
We intend to fund our Otay Land 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, 2019. Various reforms and bills have been proposed and will be considered by Congress in 2019.

EB-5 Program - Village of Escaya:
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 raised $125,000,000 by offering 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 the Village of Escaya project.

EB-5 Program - Village 8 West (Cota Vera):
In July 2018, we formed Otay Village 8 Lender, LLC, which is intended to serve as a NCE under the EB-5 Program. The NCE is managed by Otay Village 8 Manager, LLC, a wholly owned subsidiary of HomeFed. The NCE is seeking to raise up to $134,000,000 by offering up to 268 units in the NCE to qualified accredited EB-5 investors for a subscription price of $500,000 per unit. The proceeds from the offering will be used to repay any outstanding bridge loan provided by HomeFed to its wholly owned subsidiary HomeFed Village 8, LLC, a job creating entity under the EB-5 Program, and to fund infrastructure costs related to the development of Cota Vera.

Each NCE has offered the units to investors primarily located in China, Vietnam, South Korea and India 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. The funds drawn by us under the Village of Escaya EB-5 Program were guaranteed by us until the Village of Escaya project was approved by the USCIS in December 2017 and is collateralized by certain Otay Village property. Each loan term is five years with two one-year options to extend by us. The effective interest rate is approximately 3.5%.

At December 31, 2018, we had a $105,000,000 principal amount outstanding under the EB-5 Program. As of February 12, 2019, we have $1,500,000 and $5,000,000 in escrow for Village of Escaya and Cota Vera, respectively, which cannot be drawn until certain provisions (such as filing of Investor I-526, investor suitability and source of funds) are satisfied.

RedSky JZ Fulton Investors:
We contributed $52,500,000 into RedSky JZ Fulton Investors which is a joint venture partnership consisting of us, RedSky Capital, LLC, a Brooklyn-based real estate developer and JZ Capital Partners Limited, a London-based investment company. The joint venture was formed for the acquisition and possible redevelopment of a development site located on the Fulton Mall corridor in Downtown Brooklyn, New York. The property consists of

15 separate tax lots, divided into two premier development sites which may be redeveloped with buildings consisting of up to 540,000 square feet of floor area development rights.

San Elijo Hills Project:
The Towncenter consists of multi-family residential units and commercial space, which are being constructed in three phases. During 2018, the third phase at the Towncenter, which is a 2.5-acre parcel of land entitled for 12 multi-family units (formerly designated as a church site), sold for $1,600,000. During 2017, the 48,800 square feet of commercial space in phases one and two of the Towncenter and the 12 multi-family units in phase two were sold to a local developer for a cash payment of $5,800,000.

During the third quarter of 2017, dividends of $13,000,000 were declared by our subsidiary that owns the San Elijo Hills project, of which $1,950,000 related to the noncontrolling interest. The dividends were paid during the fourth quarter of 2017. The dividends retained by us did not increase the amount of consolidated liquidity reflected on our consolidated balance sheet; however, they did increase the liquidity of the parent Company.

During June 2015, we entered into an agreement with a local San Diego based luxury homebuilder to construct and sell on our behalf, for a fee, up to 58 homes at the San Elijo Hills project. We received a $500,000 deposit during the third quarter of 2015 which is reflected in Other liabilities. This deposit is a builder performance deposit that will be fully refundable to the builder after the builder performs all of its requirements under the agreement. Sales began during the second quarter of 2017, and we sold 24 and 9 homes for $38,900,000 and $13,100,000 during 2018 and 2017, respectively. As of February 12, 2019, we have entered into agreements to sell 18 single family homes at the San Elijo Hills project under this agreement for aggregate cash proceeds of $32,600,000, which are expected to begin closing in the first quarter of 2019.

As of December 31, 2018, the remaining land at the San Elijo Hills project to be sold or leased consists of 25 dwelling units (combined single and multi-family lots).

In April 2018, we entered into a $31,450,000 loan agreement, the proceeds of which were used for homebuilding under the fee builder arrangement at the San Elijo Hills project. The loan was comprised of a $20,200,000 revolving component 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 loan was scheduled to mature on October 5, 2019, with one 6-month extension subject to certain extension conditions as set forth in the loan agreement. In August 2018, the principal balance outstanding of $9,050,000 was paid in full. Unamortized issuance costs of $250,000 were expensed during 2018.

Ashville Park Project:
There were no sales of real estate at the Ashville Park project during 2018 and 2017.

The Market Common:
Cash proceeds from sales of real estate and other real estate activities at The Market Common during 2018 and 2017 is comprised of the following:

	2018		2017	
	Number of units sold	Revenue from contracts with customers	Number of units sold	Cash Proceeds
Single family lots	17	$ 850,000	38	$1,800,000
Multi-family lots	8	200,000	15	375,000
Profit sharing	N/A	600,000	N/A	1,250,000

As of February 12, 2019, we have entered into an agreement to sell 45 single family lots for $2,250,000 and 118 multi-family lots for $3,300,000 at The Market Common to a homebuilder. A non-refundable option deposit of $25,000 was transferred from Jefferies to us as part of the Acquisition.

SweetBay project:
During May 2015, we signed an agreement with a local builder to construct and sell on our behalf, for a fee, up to 127 homes in Phase 1A, which was subsequently amended to add an additional 56 homes in Phase 1B and 69 homes in Phase 1C.

We sold 47 single family homes for $17,100,000 during 2018. As of February 12, 2019, we have entered into agreements to sell 47 single family homes at the SweetBay project for aggregate cash proceeds of $15,700,000 which are expected to close in 2019. During 2018, we received and recognized an additional $2,000,000 as sales of real estate due to a court determination of the final purchase price of land related to the 2016 sale of seven acres of land to the Florida Department of Transportation to be used for the expansion of State Road 390.

In October 2018, Hurricane Michael passed through Panama City, Florida causing damage to the SweetBay project. During the fourth quarter of 2018, one of our insurance carriers assessed the damages and finalized one of our claims for $4,250,000. Accordingly, we accrued the $4,250,000 as income but did not receive the proceeds until January 2019.

Rampage property:
In July 2018, we completed the 1031 like-kind exchange and acquired $13,400,000 of replacement property, primarily consisting of improvements at the mixed-use apartment and retail project at the Village of Escaya, and the remaining proceeds of $12,600,000 is no longer restricted and can be used for any business operation.

Other projects:
In April 2015, we entered into a $15,000,000 revolving line of credit agreement. 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 sale of the Rampage property in January 2018. There was also a $3,000,000 operational line of credit available that was secured by the Rampage property's crops and matured on January 1, 2018. No amounts were drawn under either line of credit.

BRP Leasing was required to keep a minimum of $500,000 on deposit in an escrow account to secure its lease obligations. Our obligation to secure the lease ended in October 2018, and the escrow account has been closed.

As indicated in the table below, at December 31, 2018, our contractual cash obligations consisted of our EB-5 financing, our operating lease and a non-cancellable construction contract for The Residences and Shops at the Village of Escaya.

	Payment Due by Period				
Contractual Obligations	Total	2019	2020-2021	2022-2023	Thereafter
Indebtedness	$ 105,000,000	$ —	$ —	$ 105,000,000	$ —
Operating lease, net of sublease income	$ 2,188,000	$ 302,000	$ 694,000	$ 738,000	$ 454,000
Non-cancellable construction contract	$ 45,546,000	$ 31,817,000	$ 13,729,000	$ —	$ —

Capitalized Interest

We began capitalizing interest when we issued our Old Notes on June 30, 2015. Capitalized interest for the Notes was allocated among all of our projects that are currently under development and capitalized interest for our EB-5 financing was directly allocated to the Village of Escaya. For the years ended December 31, 2018 and 2017, capitalized interest aggregated $4,400,000 and $7,600,000, respectively.

Off-Balance Sheet Arrangements

For real estate development projects, we are generally required to obtain infrastructure improvement bonds at the beginning of construction work and warranty bonds upon completion of such improvements. These bonds are issued by surety companies to guarantee satisfactory completion of a project and provide funds primarily to a municipality in the event we are unable or unwilling to complete certain infrastructure improvements. As we develop the planned area and the municipality accepts the improvements, the bonds are released. Should the respective municipality or others draw on the bonds for any reason, certain of our subsidiaries would be obligated to pay.

Specifically for the San Elijo Hills project, Jefferies is contractually obligated to obtain these bonds on behalf of the project pursuant to the terms of agreements entered into when the project was acquired by us. We are responsible for paying all third-party fees related to obtaining the bonds.

As of December 31, 2018, the amount of outstanding bonds for each project is as follows:

	Amount of outstanding
Otay Land project	$56,200,000
San Elijo Hills project	650,000
Ashville Park project	800,000
The Market Common	400,000

Inflation

We, as well as the real estate development and homebuilding industry in general, may be adversely affected by inflation, primarily because of either reduced rates of savings by consumers during periods of low inflation or higher land and construction costs during periods of high inflation. Low inflation could adversely affect consumer demand by limiting growth of savings for down payments, ultimately adversely affecting demand for real estate and our revenues. High inflation increases our costs of labor and materials. We would attempt to pass through to our customers any increases in our costs through increased selling prices. To date, high or low rates of inflation have not had a material adverse effect on our results of operations. However, there is no assurance that high or low rates of inflation will not have a material adverse impact on our future results of operations.

Interest Rates

Our operations are interest-rate sensitive. We have indirectly benefited from the prevailing low mortgage interest rate environment, since low rates made housing more affordable for the home buyer, thereby increasing demand for homes. We cannot predict whether interest rates will remain low and what impact an increase in interest rates and mortgage rates would have on our operations, although any significant increase in these rates could have a chilling effect on the housing market, which could adversely affect our results of operations.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, we evaluate all of these estimates and assumptions. Actual results could differ from those estimates.

Profit Recognition on Sales of Real Estate – Under the new Revenue Recognition standard adopted on January 1, 2018, 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 as a contract liability until the performance obligation is completed.

Prior to the adoption of the new Revenue Recognition standard on January 1, 2018, when we had an obligation to complete improvements on property subsequent to the date of sale, we utilized the percentage of completion method of accounting to record revenues and cost of sales. Under percentage of completion accounting, we generally recognized revenues and cost of sales based upon the ratio of development costs completed as of the date of sale to an estimate of total development costs which will ultimately be incurred, including an estimate for common areas. Revenues which cannot be recognized as of the date of sale were reported as deferred revenue on the consolidated balance sheets.

We generally believed we could reasonably estimate our future costs and profit allocation in order to determine how much revenue should be deferred. However, such estimates were based on numerous assumptions and required management's judgment. For example, the estimate of future development costs included an assumption about the cost of construction services for which we had no current contractual arrangement. If the estimate of these future costs proved to be too low, then we would have recognized too much profit as of the date of sale resulting in less profit to be reported as the improvements are completed. However, our estimates of future development costs that had been used to determine the amount of revenue to be deferred at the date of sale had subsequently been proven to be reasonably accurate.

Due to the length of the development period and the amount of consideration tied to the homes at the Otay project, we determined that we do not yet have sufficient evidence to reasonably estimate profits on land sales and ongoing development activities. Profit will be deferred until we can reasonably estimate it. At that point, any cumulative profit will be recognized as a change in estimate.

Income Taxes – We record a valuation allowance to reduce our net deferred tax asset to an amount that we expect is more likely than not to be realized. If our estimate of the realizability of our deferred tax asset changes in the future, an adjustment to the valuation allowance would be recorded which would increase income tax expense in such period. The valuation allowance is determined after considering all relevant facts and circumstances, and is based, in significant part, on our projection of taxable income in the future.

During 2016, we determined that we had enough positive evidence to conclude that it is more likely than not that we will be able to generate enough future taxable income to fully utilize all of our Federal minimum tax credits. As a result, approximately $31,850,000 of the deferred tax valuation allowance was released as a credit to income tax expense during 2016.

The projection of future taxable income is based upon numerous assumptions about the future, including future market conditions where our projects are located, regulatory requirements, estimates of future real estate revenues

and development costs, future interest expense, operating and overhead costs and other factors. We evaluate all positive and negative evidence with respect to our realizability of our deferred tax asset. To the extent there is sufficient negative evidence, an increase to the valuation allowance and tax expense would be recorded to reflect the appropriate amount of the change. If the actual taxable income is less than the amounts projected and are thus insufficient to support the deferred tax asset, an addition to the valuation allowance would be recorded that would increase tax expense in the future. Adjustments to the valuation allowance in the future can be expected.

We also record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and if so estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which could be significant to our consolidated balance sheets or results of operations.

We record interest and penalties, if any, with respect to uncertain tax positions as components of income tax expense. 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.

Provision for Environmental Remediation – We record environmental liabilities when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. During 2002, we recorded a charge of $11,150,000 representing our estimate of the cost (including legal fees) to implement the most likely remediation alternative with respect to approximately 30 acres of undeveloped land owned by our subsidiary, Flat Rock. The estimated liability was neither discounted nor reduced for claims for recovery from previous owners and users of the land who may be liable, and may increase or decrease based upon the actual extent and nature of the remediation required, the actual cost of the remediation, the expenses of the regulatory process, the costs of post-remediation monitoring requirements, inflation and other items.

We have periodically examined, and when appropriate, adjusted our liability for environmental remediation to reflect our current best estimate. A change to the current estimate could result from, among other things, that the cost to implement the remediation is different than our current estimate, that the cost of future on-going monitoring efforts is different than our current estimate, and/or requirements imposed by regulatory authorities that we did not anticipate but are nevertheless required to implement.

Provision for Impairment Losses on Real Estate – Our real estate is carried at cost. Whenever events or changes in circumstances suggest that the carrying amount may not be recoverable, management assesses the recoverability of the carrying amount of its real estate in accordance with GAAP.

Some of the events or changes in circumstances that we consider as indicators of potential impairment include: (i) a change in market conditions in the local markets where the Company owns real estate, (ii) a change in the availability of mortgages for retail buyers or a significant change in interest rates for mortgages, (iii) a change in expected use or development plans for properties, (iv) continuing operating or cash flow losses for real estate held for investment purposes, (v) an accumulation of costs in a development property that significantly exceeds its historical basis in property held long-term and (vi) a significant weather event that may have a negative impact on the property value.

We use varying methods to determine if impairment exists, such as considering indicators of potential impairment and analyzing expected future cash flows and comparing the expected future undiscounted cash flows of the property to the carrying value.

The accounting estimate related to the real estate impairment evaluation is susceptible to the use of assumptions about future sales proceeds and future expenditures. For projects under development, an estimate of future cash flows on an undiscounted basis is performed using estimated future expenditures necessary to maintain the existing project and using management's best estimates about future sales prices and planned holding periods.

If a property is considered impaired, the impairment charge is determined by the amount of the property's carrying value exceeds its fair value. During 2018, we concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold), of which $1,750,000 is attributable to the non-controlling interest. See Note 2 for more information. During 2018, we concluded that our real estate in Maine was partially impaired due to a recent weakness in local housing market conditions. We recorded a write-down of $750,000 and thus reducing the carrying value to $3,300,000 which we believe reflects the fair value of the property. During the fourth quarter of 2018, we evaluated the damage caused by Hurricane Michael to our SweetBay project and recorded a write-down of $1,800,000.

We did not record any provisions for impairment losses during the years ended December 31, 2017 and 2016.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk.

Currently, our market risk arises principally from interest rate risk related to our borrowing activities.

	Expected Maturity Date							
	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
Rate Sensitive Liabilities:								
Fixed Interest Rate Borrowings	$ —	$ —	$ —	$105,000,000	$ —	$ —	$105,000,000	$105,000,000
Weighted Average Interest Rate				3.5 %				

Item 8. Financial Statements and Supplementary Data.

Financial Statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 15(a) below.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Our management evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2018. Based on their evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and our expenditures are being made only in accordance with authorizations of our management and directors; and

– Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on our assessment, management concluded that, as of December 31, 2018, our internal control over financial reporting was effective.The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Remediation of Prior Material Weakness

We previously identified a material weakness, which is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. This was due to the inadequate design of the control specific to complex revenue transactions that involve equity method investments of the Company where there is both an obligation to perform further development combined with an unusual development pattern where costs and profits are difficult to reasonably estimate.

We implemented a new control designed to (i) assess ability to estimate costs associated with performance obligations of each transaction considering risks and complexities of the transaction and related development (ii) determine whether or not profit can be reasonably estimated and if not, profit over a particular transaction is not recorded until it can be reasonably estimated.

The new control identified above has operated for a sufficient period of time and management has concluded, through testing, that the control is operatively effectively. The material weakness previously identified has been effectively remediated.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as described above under the caption "Remediation of Prior Material Weakness."

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

As of February 12, 2019, our directors and executive officers, their ages, the positions with us held by each of them, the periods during which they have served in such positions and a summary of their recent business experience is set forth below. Each of the biographies of the current directors listed below also contains information regarding such person's service as a director, business experience, director positions with other public companies held currently or at any time during the past five years, and the experience, qualifications, attributes and skills that our Board of Directors considered in selecting each of them to serve as one of our directors.

Directors

Patrick D. Bienvenue, age 64, has served as a director since August 1998 and was an Executive Vice President of The St. Joe Company from August 2011 to November 2015, a publicly traded company engaged in real estate development, sales and other activities. From January 1996 until April 2011, Mr. Bienvenue served in a variety of executive capacities with real estate related subsidiaries of Jefferies and was responsible for the entitlement, development and management of these entities and their properties. Mr. Bienvenue has senior managerial and development experience in the real estate sector.

Timothy M. Considine, age 78, has served as a director since January 1992, serving as Chairman of the Board from 1992 to December 1999. He is now retired from Considine and Considine, an accounting firm in San Diego, California, where he was a partner from 1965 to 2002. Mr. Considine has accounting and managerial experience. Mr. Considine also has experience serving on the boards of private entities.

Brian P. Friedman, age 63, has served as a director since April 22, 2014. Mr. Friedman has served as a director and as President of Jefferies since March 1, 2013. Since July 2005, Mr. Friedman has been a director and executive officer of Jefferies Group, a wholly-owned subsidiary of Jefferies, and has been Chairman of the Executive Committee of Jefferies since 2002. Since 1997, Mr. Friedman has served as President of Jefferies Capital Partners (formerly known as FS Private Investments), a private equity fund management company controlled by Mr. Friedman in which Jefferies has an ownership interest. Mr. Friedman was previously employed by Furman Selz LLC and its successors, including serving as Head of Investment Banking and a member of its Management and Operating Committees. Prior to his 17 years with Furman Selz and its successors, Mr. Friedman was an attorney with the New York City law firm of Wachtell, Lipton, Rosen & Katz. As a result of his roles at Jefferies and Jefferies Group, as well as his management of various private equity funds and the significant equity positions those funds hold in their portfolio companies, Mr. Friedman serves on several boards of directors of subsidiaries and investee companies of Jefferies Group and Jefferies, and since May 2012 has served on the board of directors of Fiesta Restaurant Group, Inc., a public company that owns and operates two restaurant chains. Mr. Friedman served on the board of directors of Carrols Restaurant Group from June 2009 through May 2012. Mr. Friedman has managerial and investing experience in a broad range of businesses, as well as experience serving on the boards and committees of both public and private companies.

Jimmy Hallac, age 48, has served as a director since March 28, 2017 and is a managing director of Jefferies, where he has been employed since 2002. Mr. Hallac also serves on the boards of certain of Jefferies' portfolio entities, including, FXCM Group LLC, as Chairman, Linkem S.p.A.and Golden Queen Mining Company LLC. Mr. Hallac has managerial and investing experience in a broad range of businesses and has experience serving on the boards of private companies.

Michael A. Lobatz, age 69, has served as a director since February 1995 and has been a practicing physician in San Diego, California since 1981. Dr. Lobatz has managerial experience in both the real estate and healthcare sectors and has experience serving on the boards of private and not-for-profit entities.

Joseph S. Steinberg, age 75, has served as a director since August 1998 and as Chairman of the Board since December 1999. Mr. Steinberg is Chairman of the Board of Directors of Jefferies, and from January 1979 until March 1, 2013 served as President of Jefferies. Mr. Steinberg is also a director of Jefferies. He also serves on the board of directors of Spectrum Brands Holdings, Inc. and Crimson Wine Group, Ltd. Mr. Steinberg had previously served as a director of Mueller and Fortescue. Mr. Steinberg has managerial and investing experience in a broad range of businesses through his more than 30 years as President and a director of Jefferies. He also has experience serving on the boards and committees of both public and private companies.

Executive Officers

Christian E. Foulger, age 44, has served as President since February 2018. He was our Vice President of the Company from April 2011 to February 2018 and has been employed by us as a Special Projects Manager since November 2005. Prior to joining us, Mr. Foulger was a Financial Analyst from 1998 to 2000 and Vice President from 2001 to October 2005 for Cottonwood Partners Management, a real estate development and management company in Salt Lake City, Utah.

Paul J. Borden, age 70, has served as Vice Chairman since February 2018 and as a director since May 1998. He was our President from May 1998 to February 2018. Mr. Borden was a Vice President of Jefferies from August 1988 through October 2000, responsible for overseeing many of Jefferies' real estate investments. Prior to working for Jefferies, he had a 16 year career in commercial lending. Mr. Borden has managerial and development experience in the real estate sector.

John K. Aden, Jr., age 61, has served as Vice President of the Company since May 2012 and has been employed by us as Senior Project Development Manager since May 2012. Prior to joining us, Mr. Aden was an Executive Vice President from 1998 to April 2012 and Vice President from 1994 to 1997 for The Otay Land Company and JPB Development and Vice President of Community Development from 1989 to 1994 for The Eastlake Company, real estate development companies in San Diego, California. Mr. Aden is a licensed architect.

Erin N. Ruhe, age 53, has served as Vice President of the Company since April 2000, Treasurer since March 2004 and has been employed by us as Controller since January 1999. Previously, Ms. Ruhe was Vice President since December 1995 and Controller since November 1994 of HSD Venture, a real estate subsidiary of Jefferies.

Audit Committee

The Board of Directors has a standing Audit Committee, established in accordance with the requirements of the SEC. The Board of Directors has adopted a charter for the Audit Committee, which is available on our website, www.homefedcorporation.com. The Audit Committee consists of Mr. Considine (Chairman) and Dr. Lobatz. The Board of Directors has determined that Mr. Considine is qualified as an audit committee financial expert within the meaning of regulations of the SEC and Mr. Considine and Dr. Lobatz are independent applying the NASDAQ Stock Market's listing standards for independence.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Based solely upon a review of the copies of such forms furnished to us and written representations from our executive officers, directors and greater than 10% beneficial stockholders, we believe that during the year ended December 31, 2018, all persons subject to the reporting requirements of Section 16(a) filed the required reports on a timely basis.

Code of Business Practice

We have a Code of Business Practice, which is applicable to all of our directors, officers and employees, and includes a Code of Practice applicable to our principal executive officers (as listed above) and senior financial officers. Both the Code of Business Practice and the Code of Practice applicable to our principal executive officers and senior financial officers are available on our website. We intend to post amendments to or waivers from our Code of Practice on our website at www.homefedcorporation.com if disclosure is required by applicable law.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

Introduction

The Board of Directors has a Compensation Committee consisting of Joseph S. Steinberg (the "Compensation Committee") that determines and approves the compensation of our executive officers, including those named in the Summary Compensation Table below (the “Named Executive Officers”).

Compensation Objectives and Philosophy

Our compensation philosophy is based upon rewarding current and past contributions, performance and dedication and providing incentives for superior long-term performance. We believe that there should be a strong link between pay and performance of both the Company and the individual. Accordingly, a large percentage of annual compensation consists of discretionary bonus compensation. This ensures that compensation paid to an executive reflects the individual’s specific contributions to our success, the level and degree of complexity involved in his/her contributions to us and our overall performance. We believe our compensation package aligns the interests of executive officers with those of our stockholders.

We believe that our current compensation program fits within our overall compensation philosophy of providing a straight-forward compensation package and strikes the appropriate balance between short and long-term performance objectives.

At our 2018 annual meeting of stockholders, the say-on-pay advisory vote received approval from approximately 99.9% of the shares voted on the matter and the Compensation Committee made no significant changes to our executive compensation program during the year.

Setting Executive Compensation

In determining compensation for our Named Executive Officers, the Compensation Committee does not rely on any specific formula, benchmarking or pre-determined targets. The Compensation Committee focuses primarily on its subjective determination of the performance of the individual executive officer, as well as on our performance. In considering executive compensation, the Compensation Committee takes into account an executive officer’s responsibilities, as well as the services rendered by the executive officer.

Elements of Compensation

Our compensation package for executive officers consists of three basic elements: (1) base salary; (2) annual bonus compensation; and (3) long-term incentives in the form of stock options granted pursuant to our Amended and Restated 1999 Stock Incentive Plan (the “Option Plan”) and the opportunity to be awarded restricted stock units (“RSUs”) pursuant to our RSU Opportunity Plan (the “2014 RSU Plan”) adopted in 2014 and the RSU Opportunity Plan (the "2017 RSU Plan") adopted in 2017.

Other elements of compensation include medical and life insurance benefits available to employees generally. Additionally, certain perquisites may be available to executive officers that are not available to other employees generally.

Each element of compensation serves a different purpose. Salary and bonus payments are designed mainly to reward current and past performance, while stock options and RSUs are designed to provide incentive for strong long-term future performance and are directly linked to stockholders' interests because the value of the awards will increase or decrease based upon the future price of our common stock.

Base Salary

Base salary is consistent with the executive's office and level of responsibility, with annual salary increases which generally amount to a small percentage of the executive's prior base salary, primarily reflecting cost of living increases.

Short-Term Incentives – Annual Bonus Compensation

Annual bonus compensation of executive officers is determined by the Compensation Committee based on its subjective assessment of an executive's and our performance, given the cyclical nature of the real estate development industry. Bonuses are subjective and are not based upon any formula or the application of any mathematical criteria. While there is no agreement to pay annual bonuses, at the time each of the executive officers was employed by us there was a discussion that, in all but exceptional circumstances, annual subjective bonuses would be paid. The Compensation Committee considers our actual and estimated results of operations for the year in question, as well as operating results and bonus compensation for prior years. The Committee also considers self-evaluations completed by each executive officer for the year, which provide the Compensation Committee with each executive's subjective assessment of his or her achievements for the year, as well as identify personal goals for the coming year, and bonus recommendations from our President.

In evaluating each executive's performance, the Compensation Committee takes into account the incremental value to us of obtaining project approvals and entitlements as our development projects progress, and places more emphasis on whether the executive's performance has increased our long-term value, rather than on our earnings for that year. The Compensation Committee also recognizes that, due to the extended length of time that it takes to obtain land entitlements, especially in California where our development business is currently centered, the current efforts of our executive officers may not result in operating profits for many years in the future.

Bonuses, which have varied from year to year, also reflect our profitability and activities for the year in question. For example, in years in which we are actively selling real estate, the Compensation Committee is likely to subjectively consider the executive's contribution to the sales effort and in years in which we are actively engaged in land acquisition, entitlement and land development efforts, the Compensation Committee is likely to consider the executive's contribution to those efforts. The Compensation Committee also subjectively considers the executive's contribution to evaluation of new opportunities, and also places importance upon the executive's critical analysis that can result in avoiding making investments that do not meet our investment criteria and are not consummated, as well as on those opportunities that are consummated.

For Mr. Foulger, the Compensation Committee recognized his leadership role in providing overall direction and oversight to the Company and for focusing on maximizing returns for shareholders. Notable for 2018, Mr. Foulger successfully completed HomeFed's $125,000,000 Village of Escaya EB-5 raise, oversaw the closing of our newest investment in Brooklyn as well as the refinancing of the Kings County District Attorney condominium at Brooklyn Renaissance Plaza, and negotiated an agreement with the City of Virginia Beach which will allow for further development of Ashville Park.

For Mr. Borden, the Compensation Committee recognized his role in directing and implementing a seamless transition as Mr. Foulger became President in early 2018. In addition to many corporate matters, Mr. Borden's focus

in 2018 included providing direction for several high level development project matters, including litigation matters, related to our SweetBay, Pacho, Otay and San Elijo Hills projects; advancing important initiatives in each.

For Mr. Aden, the Compensation Committee recognized his continuing success in providing senior management support to the project managers. Mr. Aden was responsible for insuring that the deadlines for project improvements were satisfied and for prioritizing tasks to keep projects on schedule. For 2018, the Committee also recognized the continued success of the Village of Escaya, the commencement of construction of our second project within Otay Ranch, Cota Vera, as well as the advancement of our entitlement effort at Fanita Ranch.

For Ms. Ruhe, the Committee again considered her continuing leadership role in managing the Company's accounting and financial reporting, the treasury and risk management areas, corporate governance and human resources. Additionally, Ms. Ruhe manages the Company's growing banking and borrowing relationships. She was also recognized for providing continuing managerial support to all of the Company's projects and corporate operations.

Based upon the foregoing, on December 19, 2018, the Compensation Committee approved annual salary increases (effective January 1, 2019) and discretionary 2018 cash bonuses for each of the Named Executive Officers reflected in the Summary Compensation Table below.

Additionally, all of our employees receive a year-end bonus equal to approximately 3% of base salary and a discretionary bonus.

Long-Term Incentives – Stock Options

By means of our Option Plan (described below), we seek to retain the services of persons now holding key positions and to secure the services of persons capable of filling such positions.

Options Awarded to Executive Officers

Occasionally, stock options may be awarded which, under the terms of our Amended and Restated 1999 Stock Incentive Plan (the "Option Plan"), permit the executive officer or other employee to purchase shares of our common stock at not less than the fair market value of the shares of common stock at the date of grant. The extent to which the employee realizes any gain is, therefore, directly related to increases in the price of our common stock and, therefore, stockholder value, during the period of the option. In certain circumstances, options having an exercise price below the fair market value of our common stock on the date of grant may be issued (although none have been granted to date). Options granted to executive officers become exercisable at the rate of 25% per year, commencing one year after the date of grant. As discussed above under "*Short-Term Incentives – Annual Bonus Compensation,*" the number of stock options awarded to an executive officer is not based on any specific formula, but rather on a subjective assessment of the executive's performance and our performance. Options are priced at the closing price on the date of grant and are not granted to precede the announcement of favorable information.

Options Awarded to Directors

Under the terms of our Option Plan, each director, including Paul J. Borden, is automatically granted options to purchase 1,000 shares on the date on which the annual meeting of our stockholders is held each year. As stated above, options are priced at the closing price on the date of grant.

In August 2018, pursuant to this automatic grant, each director, including Paul J. Borden, was granted options to purchase 1,000 shares of our common stock with an exercise price of $50.50 per share, which become exercisable at the rate of 25% per year, commencing one year after the date of grant.

Long-Term Incentives – Restricted Stock Units

2017 RSU Plan:
On August 4, 2017, the Board of Directors adopted an RSU Opportunity Plan (the "2017 RSU Plan") under which 66,000 shares of Common Stock are authorized for issuance to our executive officers. Participants were eligible for RSU awards based on satisfaction of performance criteria established by the Board of Directors in 2017. The restricted stock units ("RSUs") may be granted at the end of the performance period based on the degree to which performance criteria has been satisfied at the sole discretion of the Board of Directors. The performance period ends on December 31, 2019, and RSUs will be issued no later than April 1, 2020.

2014 RSU Plan:
On August 13, 2014, the Board of Directors adopted an RSU Opportunity Plan (the "2014 RSU Plan") under which 100,000 shares of Common Stock were authorized for issuance under the 2014 RSU Plan to our executive officers. Participants were eligible for RSU awards based on satisfaction of performance criteria established by the Board of Directors in 2014. The performance period under the 2014 RSU Plan ended on December 31, 2016. The Board of Directors evaluated the participants' performance against the performance criteria and awarded an aggregate of 75,000 RSUs to the participants on March 15, 2017. Fifty percent of the RSU award under the 2014 RSU Plan vested on December 31, 2017, and the remaining fifty percent vested on December 31, 2018, to those executive officers who were continuously employed by the Company through the applicable vesting date.

The 2014 RSU grant consists of two settlement features:

(1) 45,000 RSUs settled through the issuance of shares of Common Stock within 30 days of each vesting date; this component is classified as an equity award. The closing price on March 15, 2017 of $44.20 was used to value this component of the award. On each of December 31, 2017 and 2018, 22,500 RSUs vested and were distributed at the beginning of the following year to our executive officers; stock compensation expense for this component of the award was $1,000,000 for each of 2018 and 2017.

(2) 30,000 RSUs settled in cash based on the average closing price over a period of 10 trading days immediately preceding the date of declaration which must occur within 30 days of the respective vesting date. This component is classified as a liability award, which required us to measure the fair value of the award at the end of each reporting period. On each of December 31, 2017 and 2018, 15,000 RSUs vested and settled in cash during January 2018 and January 2019. Stock compensation expense for this component of the award was $600,000 and $750,000 for 2018 and 2017, respectively.

Other Benefits; Executive Perquisites

Medical and life insurance benefits and matching contributions to our 401(k) plan are available to employees generally.

Mr. Borden maintains his primary residence in New Jersey. We reimburse him for costs of maintaining a temporary residence in California, airfare to and from his primary residence and transportation costs including the personal use of a Company car while in California. Such reimbursements are considered to be taxable compensation reportable by Mr. Borden under federal income tax rules, which results in a net cash cost to him, even though he does not gain any incremental financial benefit from these reimbursements. As a result, beginning in 2005, the Board of Directors (without Mr. Borden's participation) agreed to pay Mr. Borden additional compensation which, after taxes, will provide him with sufficient funds to pay the taxes due on the expense amounts reimbursed by us. In 2018, we paid Mr. Borden $37,468 with respect to additional taxable compensation reported by Mr. Borden for reimbursements made during 2018.

Mr. Aden receives a monthly car allowance.

No other Named Executive Officers receive perquisites.

CEO Pay Ratio

Our 2018 CEO to median employee pay ratio is 13:1. Our CEO had 2018 annual total compensation of $1,048,055, while our median employee had 2018 annual total compensation of $77,895.

Our CEO to median employee pay ratio is calculated in accordance with Item 402(u) of Regulation S-K. We identified the median employee by examining the 2018 W-2 wages for all individuals, excluding our CEO, who were employed by us on December 31, 2018. We included all employees, whether employed on a full-time, part-time, or seasonal basis. We did not make any assumptions or estimates with respect to total compensation, but we did annualize the compensation for any full-time employees that were hired during 2018 so that we could compare data on a similar basis. We believe the use of W-2 wages for all employees is a consistently applied compensation measure that allowed us to efficiently identify the median employee in order to calculate the CEO pay ratio. We define "total compensation" as the aggregate of salary, bonus, stock awards, option awards, and "all other compensation", as applicable, as set forth in the 2018 Summary Compensation Table below. After identifying the median employee based on total W-2 wages, we calculated annual total compensation in 2018 for such employee using the same methodology we use for our named executive officers as set forth in the 2018 Summary Compensation Table below.

Stock Ownership Requirements

We do not have a formal stock ownership requirement, although one of our directors, Mr. Steinberg, beneficially own approximately 5.0% of our outstanding common stock.

Accounting and Tax Matters

The cost of all share-based payments to employees or directors is recognized in the financial statements based on their fair values. The cost is recognized as an expense over the vesting period of the award.

Under Section 162(m) of the Internal Revenue Code of 1986 ("Section 162(m)"), for 2017 and prior years, certain compensation paid by the Company to its Named Executive Officers was subject to a limitation on tax deduction for amounts in excess of $1 million per year, unless the compensation qualified as "performance-based compensation" under Section 162(m). In 2017 and in prior years, the Company's executive compensation program was administered, to the maximum extent deemed appropriate by the Compensation Committee, in a manner intended to comply with the performance-based compensation exception, while maintaining flexibility to pay amounts that may not so qualify. Under the Tax Act, the performance-based compensation exception from the deduction limitation under Section 162(m) has been eliminated, except for certain compensation arrangements that are eligible for a transition rule under the new tax law. Thus, the Company expects that additional amounts paid to its named executive officers in 2018 and future years will not be tax deductible for federal income tax purposes. The Compensation Committee will continue to take into account the impact of Section 162(m) on its executive compensation programs, including the availability of the grandfathering rule for existing qualified arrangements.

Compensation Committee Report

I have reviewed and discussed with our management the above Compensation Discussion and Analysis ("CD&A"). Based upon my review and discussions, I have recommended to the Board of Directors that the CD&A be included in this Form 10-K.

Compensation Committee

Joseph S. Steinberg

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Equity Compensation: Stock Awards (1)	Equity Compensation: Option Award (2)	All Other Compensation (3)		Total
Christian E. Foulger,	2018	$ 350,000	$ 257,519	$ 429,030	$ —	$ 11,506	(4)	$ 1,048,055
President	2017	$ 245,714	$ 257,371	$ 601,313	$ 157,721	$ 11,299		$ 1,273,418
	2016	$ 240,896	$ 207,227	$ —	$ —	$ 11,084		$ 459,207
Paul J. Borden,	2018	$ 398,585	$ 261,958	$ 286,020	$ 13,547	$ 121,672	(5)	$ 1,081,782
Vice Chairman	2017	$ 390,770	$ 261,723	$ 400,875	$ 200,807	$ 143,829		$ 1,398,004
	2016	$ 383,108	$ 211,493	$ —	$ 10,535	$ 133,404		$ 738,540
John K. Aden, Jr.	2018	$ 326,101	$ 259,783	$ 429,030	$ —	$ 17,506	(6)	$ 1,032,420
Vice President	2017	$ 319,707	$ 259,591	$ 601,313	$ 157,721	$ 17,299		$ 1,355,631
	2016	$ 313,438	$ 209,403	$ —	$ —	$ 17,084		$ 539,925
Erin N. Ruhe,	2018	$ 239,152	$ 207,175	$ 286,020	$ —	$ 11,506	(7)	$ 743,853
Vice President,	2017	$ 234,462	$ 207,034	$ 400,875	$ 157,721	$ 11,299		$ 1,011,391
Treasurer and	2016	$ 229,865	$ 206,896	$ —	$ —	$ 11,084		$ 447,845
Controller								

(1) This column represents the aggregate compensation earned in 2018 and 2017 under the 2014 RSU Plan. The fair value of award was based on the average closing price over a period of ten trading days immediately preceding the date of declaration which was January 15, 2019 and January 29, 2018 which was within the thirty day window from the December 31st vesting date. See Note 7 to our consolidated financial statements contained herein.

(2) This column represents the grant date fair value of stock options granted to the named executive, including stock options granted to the Vice Chairman for director services, in accordance with GAAP. Information on the valuation assumptions made when calculating the amounts in this column is found in Note 7 to our consolidated financial statements contained herein.

(3) Certain items included in this column (including personal use of company cars) are currently taxable to the Named Executive Officer. The amount of taxable income for the individual is determined pursuant to Internal Revenue Service rules which may differ from the amounts reflected in this column.

(4) Consists of contributions made by us to a defined contribution 401(k) plan and life insurance benefits on behalf of Mr. Foulger, none of which exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Foulger.

(5) Consists of non-cash compensation of $38,678 for maintaining a temporary residence in California and $10,196 for airfare to and from his primary residence in New Jersey, $37,468 in additional cash compensation which, after taxes, is intended to provide Mr. Borden with sufficient funds to pay the taxes due on the expense amounts reimbursed by us and director fees from the Company of $24,000. This column also includes transportation and the personal use of a company car while in California and related expenses, as well as contributions made by us to a defined contribution 401(k) plan and life insurance benefits on behalf of Mr. Borden, none of which exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Borden.

(6) Consists of a monthly car allowance and contributions made by us to a defined contribution 401(k) plan and life insurance benefits on behalf of Mr. Aden, none of which exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Aden.

(7) Consists of contributions made by us to a defined contribution 401(k) plan, life insurance benefits on behalf of Ms. Ruhe, none of which exceeded the greater of $25,000 or 10% of the total amount of these benefits for Ms. Ruhe.

Grants of Plan-Based Awards in 2018

This table provides information about equity awards granted to our Named Executive Officers in 2018 under our Option Plan. As discussed in the CD&A, in August 2018, Mr. Borden was granted 1,000 options pursuant to the automatic grant to directors under the Option Plan.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options [1]	Exercise or Base Price of Option Awards ($/share) [2]	Grant Date Fair Value of Stock and Option Awards [3]
Paul J. Borden, Vice Chairman	8/8/2018	1,000	$50.50	$13,547

(1) This column shows the number of shares of common stock issuable under options granted in 2018. The options vest and become exercisable in four equal installments beginning one year after the grant date.

(2) This column shows the exercise price for the stock options granted, which was the closing price of our common stock on the date of grant.

(3) This column shows the grant date fair value of stock options awarded in 2018. The fair value was determined in accordance with GAAP on the grant date, and is being recognized as an expense over the vesting period. For information on the valuation assumptions with respect to this grant refer to Note 7 to our consolidated financial statements contained herein.

Outstanding Equity Awards at Fiscal Year-End

This table provides information on the holdings of option awards by our Named Executive Officers at December 31, 2018. This table includes exercisable and unexercisable stock options. Options granted to our Named Executive Officers on August 4, 2017, vest and become exercisable in four equal annual installments, commencing one year from the grant date. Options granted to Mr. Borden as a director also vest and become exercisable in four equal annual installments, commencing one year from the grant date. For additional information about the option awards, see "*Long-Term Incentives – Stock Options – Options Awarded to Executive Officers*" in the CD&A.

		Option Awards			
		Number of Securities Underlying Unexercised Options		Option Exercise Price	Option Expiration Date
Name	Grant Date	Exercisable	Unexercisable		
Christian E. Foulger, President	8/4/2017	3,125	9,375	$ 44.00	8/4/2022
Paul J. Borden, Vice Chairman	6/12/2014	1,000	—	$ 58.00	6/12/2019
	7/15/2015	750	250	$ 47.85	7/15/2020
	7/14/2016	500	500	$ 40.50	7/14/2021
	8/4/2017	250	750	$ 44.00	8/4/2022
	8/4/2017	15,000 [1]	—	$ 44.00	8/4/2022
	8/8/2018	—	1,000	$ 50.50	8/8/2023
John K. Aden, Jr. Vice President	8/4/2017	3,125	9,375	$ 44.00	8/4/2022
Erin N. Ruhe, Vice President, Treasurer and Controller	8/4/2017	3,125	9,375	$ 44.00	8/4/2022

[1] In February 2018, the Board of Directors approved the acceleration of vesting of the 15,000 stock options granted to Mr. Borden on August 4, 2017. The option expiration remains unchanged.

Option Exercises in Fiscal 2018

This table provides information for the Named Executive Officers with respect to stock options exercised during 2018, including the number of shares acquired upon exercise and the value realized, each before payment of any applicable withholding taxes.

	Option Awards	
Name	Number of Shares Acquired on	Value Realized on Exercise
Paul J. Borden [1]	1,000	$23,250

[1] Mr. Borden exercised 1,000 stock options on June 15, 2018 with an exercise price of $32.30 per share and a market price of $55.55 per share.

Potential Payment upon Termination of Employment

Under the terms of our current Option Plan, the time within which to exercise vested options may be extended in accordance with the Option Plan, but not beyond the expiration date of the option, for a period of either three months, one year or three years, depending on the triggering event (which are various forms of termination of employment); these triggering events do not result in any acceleration of any unvested options. For the number of options exercisable by each Named Executive Officer as of December 31, 2018 see the "Outstanding Equity Awards at Fiscal Year-End" table above.

Upon the occurrence of an Extraordinary Event of the Company (as defined in the Option Plan, including a change in control of the Company) all then-outstanding options that have not vested or become exercisable will immediately become exercisable. Had an Extraordinary Event occurred on December 31, 2018, the named executive officers would not have received any cash proceeds (as determined by multiplying (A) the spread between the $38.00 closing price on December 31, 2018 and the per common share exercise price for each option by (B) the number of common shares covered by previously unvested options).

Compensation Policies and Risk Management

We do not have a formal compensation plan for any of our employees. Annually, the Compensation Committee will consider making incentive compensation awards that are purely discretionary, taking into account the employee's individual performance as well as our performance for the particular year. We believe that our compensation policies do not reward employees for imprudent risk taking.

Director Compensation

In 2018, each non-employee director received a retainer of $24,000 for serving on the Board of Directors. In addition, Mr. Considine was paid $26,000 for serving as Chairman of the Audit Committee and Dr. Lobatz was paid $17,000 for serving on the Audit Committee. Under the terms of our Option Plan, each director is automatically granted options to purchase 1,000 shares on the date on which the annual meeting of our stockholders is held each year. The purchase price of the shares covered by such options is the fair market value of such shares on the date of grant. These options become exercisable at the rate of 25% per year commencing one year after the date of grant. As a result, options to purchase 1,000 shares of Common Stock at an exercise price of $50.50 per share were awarded to each of Messrs. Borden, Bienvenue, Considine, Friedman, Hallac, Lobatz and Steinberg on August 8, 2018. We reimburse directors for reasonable travel expenses incurred in attending board and committee meetings. This table sets forth compensation paid to our non-employee directors during 2018.

Name	Fees Earned or Paid in Cash (1)	Option Awards (2)	All Other Compensation	Total (3)
Patrick D. Bienvenue	$ 24,000	$ 13,547	$ 154,762 (4)	$ 192,309
Timothy M. Considine	$ 50,000	$ 13,547	$ —	$ 63,547
Brian P. Friedman (5)	$ —	$ 13,547	$ —	$ 13,547
Jimmy Hallac (5)	$ —	$ 13,547	$ —	$ 13,547
Michael A. Lobatz	$ 41,000	$ 13,547	$ —	$ 54,547
Joseph S. Steinberg (5)	$ —	$ 13,547	$ —	$ 13,547

(1) This column reports the amount of cash compensation earned in 2018 for Board and committee service.

(2) This column represents the fair value of options granted to directors in 2018 calculated in accordance with GAAP. Information on the valuation assumptions made when calculating the amounts in this column is found in Note 7 to our consolidated financial statements contained herein.

(3) This table does not include disclosure for any perquisites or other personal benefits for any non-employee director because such amounts did not exceed $10,000 in the aggregate per director.

(4) Mr. Bienvenue received consulting fees from the Company of $127,500 and travel reimbursement of $27,068. The fees were approved by the Audit Committee in accordance with our Related Person Transaction Policy as defined below.

(5) Mr. Friedman, Mr. Steinberg and Mr. Hallac elected to direct their director fees to Jefferies.

The table below reflects the options which were exercised and the value realized during fiscal 2018 for each of our non-employee directors.

	Option Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise**
Patrick D. Bienvenue	1,000	$22,500
Michael A. Lobatz	1,000	$23,250
Joseph S. Steinberg	1,000	$22,450

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

Equity Compensation Plan Information

The following table summarizes information regarding our equity compensation plans as of December 31, 2018. All outstanding awards relate to our Common Stock.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	193,750 (1)	$39.64 (2)	249,650
Equity compensation plans not approved by security holders	—	—	—
Total	193,750	$39.64	249,650

(1) Includes shares of 22,500 RSUs that vested on December 31, 2018 but were not issued to the executive officers until January 2019 under the RSU Opportunity Plan (the "2014 RSU Plan"). Excludes 15,000 RSUs that settled in cash in January 2019 under the 2014 RSU Plan.

(2) The weighted average exercise price is calculated including RSUs which have an exercise price of zero. If the weighted average exercise price was calculated including only those awards that have a specific exercise price, the weighted average exercise price for plans approved by security holders would be $44.85.

Present Beneficial Ownership

Set forth below is certain information as of February 12, 2019, with respect to the beneficial ownership determined in accordance with Rule 13d-3 under the Securities and Exchange Act of 1934, as amended, of our common stock by (1) each person, who, to our knowledge, is the beneficial owner of more than 5% of our outstanding common stock, which is our only class of voting securities, (2) each director and nominee for director, (3) each of our Named Executive Officers, (4) the trusts for the benefit of Mr. Steinberg's children and charitable foundations established by Mr. Steinberg and (5) all of our executive officers and directors as a group. Unless otherwise stated, the business address of each person listed is c/o HomeFed Corporation, 1903 Wright Place, Suite 220, Carlsbad, California 92008.

Name and Address of Beneficial Owner	Number of Shares and Nature of Beneficial Ownership		Percent of Class	
Jefferies Financial Group Inc. (a)	10,852,123	(b)	70.0 %	(c)
Beck, Mack & Oliver LLC	1,365,881	(d)	8.8 %	
John K. Aden, Jr.	16,625	(e)	0.1 %	
Patrick D. Bienvenue	5,818	(f)	*	
Paul J. Borden	28,700	(g)	0.2 %	
Timothy M. Considine	6,400	(h)	*	
Christian E. Foulger	19,125	(e)	0.1 %	
Brian P. Friedman	2,500	(b)(f)	*	
Jimmy Hallac	1,150	(i)	*	
Michael A. Lobatz	8,408	(f)	*	
Erin N. Ruhe	20,125	(e)	0.1 %	
Joseph S. Steinberg	775,862	(b)(j)	5.0 %	
The Joseph S. and Diane H. Steinberg 1992 Charitable Trust	42,381	(k)	0.3 %	
All Directors and executive officers as a group (10 persons)	857,181	(l)	5.5 %	

* Less than 0.1%.

(a) The business address of this beneficial owner is 520 Madison Avenue, New York, New York 10022.

(b) Messrs. Steinberg and Friedman are executive officers, directors and shareholders of Jefferies Financial Group Inc. Mr. Hallac is also a managing director and shareholder of Jefferies Financial Group Inc.

(c) Pursuant to a stockholders' agreement with us, Jefferies has agreed that to the extent its ownership of our common stock exceeds 45% of our outstanding voting securities, Jefferies will limit its vote to no more than 45% of the total outstanding voting securities on any matters, assuming all of the total outstanding voting securities not owned by Jefferies, vote on such matters.

(d) The business address of the beneficial owner is 565 5th Avenue, New York, New York 10017. Based upon a Schedule 13G filed with the SEC on February 4, 2019, by Beck, Mack & Oliver LLC ("BMO") and discussions with BMO, the securities reported in BMO's Schedule 13G are beneficially owned by separate managed account holders which, pursuant to individual advisory contracts, are advised by BMO. Such advisory contracts grant to BMO all investment and voting power over the securities owned by such advisory clients. Beneficial ownership of these common shares, including all rights to distributions in respect thereof and the proceeds of a sale or disposition, is held by the separate, unrelated account holders, and BMO disclaims beneficial ownership of such common shares.

(e) Includes 3,125 shares that may be acquired upon the exercise of currently exercisable stock options.

(f) Includes 2,500 shares that may be acquired upon the exercise of currently exercisable stock options.

(g) Includes 17,500 shares that may be acquired upon the exercise of currently exercisable stock options.

(h) Includes 500 shares held by the Seeseeanoh Inc. Retirement Plan. Mr. Considine and his wife are the sole owners of Seeseeanoh, a real estate company in San Diego, California. Also includes (i) 3,400 shares held by The Considine Family 1981 Trust, of which Mr. Considine and his wife are trustees and (ii) 2,500 shares that may be acquired upon exercise of currently exercisable stock options.

(i) Includes 250 shares that may be acquired upon the exercise of currently exercisable stock options.

(j) The business address for Mr. Steinberg is c/o Jefferies Financial Group Inc., 520 Madison Avenue, New York, New York 10022. Includes (i) 3,486 shares (less than 0.1%) beneficially owned by Mr. Steinberg's wife as to which Mr. Steinberg may be deemed to be the beneficial owner, (ii) 89,325 shares (0.6%) owned by trusts for the benefit of Mr. Steinberg's children and (iii) 2,500 shares that may be acquired upon the exercise of currently exercisable stock options.

(k) Mr. Steinberg and his wife are trustees of the trust. Mr. Steinberg disclaims beneficial ownership of our common stock held by the trust.

(l) Includes 39,625 shares that may be acquired upon the exercise of currently exercisable stock options.

As of February 12, 2019, Cede & Co. held of record 4,673,230 shares of our common stock (approximately 30.1% of our total common stock outstanding). Cede & Co. held such shares as a nominee for broker-dealer members of The Depository Trust Company, which conducts clearing and settlement operations for securities transactions involving its members.

As described herein, our common stock is subject to transfer restrictions that are designed to reduce the possibility that certain changes in ownership could result in limitations on the use of our tax attributes. Our certificate of incorporation contains provisions that generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of 5% or more of our common shares and the ability of persons or entities now owning 5% or more of our common shares from acquiring additional common shares. Stockholders (and prospective stockholders) are advised that, under the tax law rules incorporated in these provisions, the acquisition of even a single share of common stock may be proscribed under our certificate of incorporation, given (among other things) the tax law ownership attribution rules as well as the tax law rules applicable to acquisitions made in coordination with or in concert with others. The restriction will remain until the earliest of (a) December 31, 2028, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) and (c) the beginning of our taxable year to which these tax attributes may no longer be carried forward. The restriction may be waived by our Board of Directors.

Stockholders are advised to carefully monitor their ownership of our common stock and consult their own legal advisors and/or us to determine whether their ownership of our common shares approaches the proscribed level. Based upon discussions with BMO, we believe that the beneficial ownership (determined in accordance with

Rule 13d-3 under the Securities Exchange Act of 1934) by BMO of our common stock as reflected in the table above is not in violation of the transfer restrictions contained in our certificate of incorporation.

Item 13. Certain Relationships and Related Transactions and Director Independence.

Policies and Procedures with Respect to Transactions with Related Persons

The Board has adopted a written policy for the review, approval and ratification of transactions that involve "related persons" and potential conflicts of interest (the "Related Person Transaction Policy").

The Related Person Transaction Policy applies to each of our directors and executive officers, any nominee for election as a director of our Company, any security holder who is known to own of record or beneficially more than five percent of any class of our voting securities, any immediate family member of any of the foregoing persons, and any corporation, firm, association or other entity in which one or more directors of the Company are directors or officers, or have a substantial financial interest (each a "Related Person").

Under the Related Person Transaction Policy, a Related Person Transaction is defined as a transaction or arrangement involving a Related Person in which the Company is a participant or that would require disclosure in our filings with the SEC.

Under the Related Person Transaction Policy, Related Persons must disclose to the Audit Committee any potential Related Person Transactions and must disclose all material facts with respect to such transaction. All Related Person Transactions will be reviewed by the Audit Committee and, in its discretion, approved or ratified. In determining whether to approve or ratify a Related Person Transaction the Audit Committee considers the relevant facts and circumstances of the Related Person Transaction, which may include factors such as the relationship of the Related Person with us, the materiality or significance of the transaction to the Company and the Related Person, the business purpose and reasonableness of the transaction, whether the transaction is comparable to a transaction that could be available to us on an arms-length basis, and the impact of the transaction on our business and operations.

Related Person Transactions

On February 19, 2019, we announced that we received a proposal from our majority shareholder, Jefferies, to purchase the remaining common stock of HomeFed not already owned by Jefferies in a transaction that would entail Jefferies issuing two shares of Jefferies common stock for each share of HomeFed's common stock to be acquired by Jefferies.

Consistent with its fiduciary duties and with the stockholders agreement between HomeFed and Jefferies, the HomeFed Board of Directors has appointed a special committee of independent directors (the "special committee") who, in consultation with independent financial and legal advisors, will carefully review and evaluate Jefferies' proposal. Jefferies' proposal is subject to an affirmative recommendation by the special committee and approval by holders of a majority of the outstanding shares of HomeFed common stock not already owned by Jefferies or its affiliates, in addition to any other vote required by applicable law.

In 2015, Mr. Steinberg, the chairman of our Board of Directors, entered into a Purchase Agreement with us and our wholly-owned subsidiaries, as guarantors, pursuant to which he purchased Notes with a value of $5,000,000, or 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 $7,000,000, 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 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 the 6.5% Senior Notes due 2019 and the Senior Notes due 2018. Jefferies is a wholly-owned subsidiary of Jefferies Group LLC, a wholly owned subsidiary of Jefferies. Jefferies is our affiliate and a Related Person under the Policy. Accordingly, pursuant to and in accordance with the 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 LLC, 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.

We entered into a consulting agreement between us and Patrick Bienvenue, one of our directors, to consult on various projects, primarily SweetBay. The agreement was approved by the Audit Committee pursuant to the Policy. During 2018, 2017 and 2016, we paid Patrick Bienvenue $155,000, $39,000 and $10,000, respectively, for his services and travel expenses under this agreement.

We are required to obtain infrastructure improvement bonds primarily for the benefit of the City of San Marcos (the "City") prior to the beginning of lot construction work and warranty bonds upon completion of such improvements in the San Elijo Hills project. These bonds provide funds primarily to the City in the event we are unable or unwilling to complete certain infrastructure improvements in the San Elijo Hills project. Jefferies is contractually obligated to obtain these bonds on behalf of the subsidiaries through which the San Elijo Hills project is owned pursuant to the terms of agreements entered into when those subsidiaries were acquired from Jefferies by us. Those subsidiaries are responsible for paying all third party fees related to obtaining the bonds. Should the City or others draw on the bonds for any reason, certain of our subsidiaries would be obligated to reimburse Jefferies for the amount drawn. As of December 31, 2018, the amount of outstanding bonds was approximately $650,000, none of which has been drawn upon.

During the third quarter of 2017, certain of our executive officers and a director sold an aggregate 14,008 shares of our stock from their personal holdings to Jefferies in private transactions at an agreed upon price of $43.00 per share. The transaction was approved by our Audit Committee in accordance with our Related Party Transaction Policy taking into consideration that Jefferies is our majority shareholder, among other factors.

Since 1995, Jefferies has been providing administrative and accounting services to us. Under the current administrative services agreement, Jefferies provides services to us for a monthly fee of $15,000 ($180,000 in the aggregate for all of 2018). Pursuant to this agreement, Jefferies provides the services of Mr. Roland Kelly, our Secretary, in addition to various administrative functions. Mr. Kelly is an officer of subsidiaries of Jefferies. The term of the administrative services agreement automatically renews for successive annual periods unless terminated in accordance with its terms. Jefferies has the right to terminate the agreement by giving us not less than one year's prior notice, in which event the then monthly fee will remain in effect until the end of the notice period. We have the right to terminate the agreement, without restriction or penalty, upon 30 days prior written notice to Jefferies. The agreement has not been terminated by either party.

Jefferies Financial Group Inc., our largest shareholder ("Jefferies"), owns approximately 9.7% of JZ Capital Partners Limited. Joseph Steinberg, our Chairman, may be deemed to own direct or indirect interests in JZ. Combined, Jefferies and Mr. Steinberg own less than 10% of JZ Capital Partners Limited.

The Audit Committee, or the Board or the Independent Committee, as applicable, has approved or ratified each of the foregoing.

Director Independence

The Board of Directors has determined that Messrs. Considine and Bienvenue and Dr. Lobatz are independent applying the NASDAQ Stock Market's listing standards for independence.

Item 14. Principal Accounting Fees and Services.

The Audit Committee has adopted policies and procedures for pre-approving all audit and non-audit work performed by our independent auditor, PricewaterhouseCoopers LLP. The Audit Committee has pre-approved (i) certain general categories of work where no specific case-by-case approval is necessary ("general pre-approvals") and (ii) categories of work which require the specific pre-approval of the Audit Committee ("specific pre-approvals"). For additional services or services in an amount above the annual amount that has been pre-approved, additional authorization from the Audit Committee is required. The Audit Committee has delegated to the Committee chair the ability to pre-approve all of these services. Any pre-approval decisions made by the Committee chair under this delegated authority will be reported to the full Audit Committee. All requests for services to be provided by PricewaterhouseCoopers LLP that do not require specific approval by the Audit Committee must be submitted to our Controller, who determines whether such services are in fact within the scope of those services that have received the general pre-approval of the Audit Committee. The Controller reports to the Audit Committee periodically.

Audit Fees and Tax Fees

In accordance with the SEC's definitions and rules, Audit Fees are fees paid to PricewaterhouseCoopers LLP for professional services for the audit of our consolidated financial statements included in our Form 10-K, the review of financial statements included in our Form 10-Qs, services that are normally provided in connection with statutory and regulatory filings or engagements, assurance and related services that are reasonably related to the performance of the audit or review of our financial statements including compliance with regulatory matters, the Sarbanes-Oxley Act, and consulting with respect to technical accounting and disclosure rules. All such services were approved by the Audit Committee. Audit Fees aggregated $945,000 and $700,000 for the years ended December 31, 2018 and 2017, respectively. Additionally, we incurred tax fees for professional services rendered by PwC for tax compliance, tax advice and tax planning of $110,000 in 2018 and $60,000 in 2017.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements - Restated

(a)(2) Financial Statement Schedules.

Schedules are omitted because they are not required or are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) See Exhibit Index below for a complete list of Exhibits to this Report.

(b) Exhibits.

We will furnish any exhibit on the Exhibit Index upon request made to our Corporate Secretary, 1903 Wright Place, Suite 220, Carlsbad, CA 92008. We charge $.50 per page to cover expenses of copying and mailing.

All documents referenced below were filed pursuant to the Securities Exchange Act of 1934 by the Company, file number 1-10153, unless otherwise indicated.

Item 16. Form 10-K Summary

None.

EXHIBIT INDEX

2.1 Purchase Agreement, dated February 28, 2014, by and among HomeFed Corporation, Leucadia National Corporation, Baldwin Enterprises, Inc., LUK-REN, Inc., LUK-Myrtle Beach, LLC, Leucadia Financial Corporation, Leucadia LLC, Maine Isles, LLC, Glen Cove TND, LLC and Rockport Properties, LLC (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K dated February 28, 2014).

2.2 Letter Agreement, dated August 29, 2014, by and among HomeFed Corporation, Leucadia National Corporation and certain subsidiaries of Leucadia National Corporation (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K dated September 5, 2014).

2.3 Contribution Agreement, dated December 10, 2018, by and among Redsky JZ Fulton Holdings, LLC, HF Fulton Street Holdings, LLC, and Redsky JZ Fulton Investors, LLC.

3.1 Restated Certificate of Incorporation, as restated July 3, 1995 of the Company (incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q for the quarter ended September 30, 1995).

3.2 Amended and Restated Bylaws of the Company, as amended through December 14, 1999 (incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-K for the year ended December 31, 1999).

3.3 Amendment to Amended and Restated Bylaws of the Company, dated July 10, 2002 (incorporated by reference to Exhibit 3.3 to our quarterly report on Form 10-Q for the quarter ended September 30, 2002 (the "Third Quarter 2002 10-Q")).

3.4 Certificate of Amendment of the Certificate of Incorporation of the Company, dated July 10, 2002 (incorporated by reference to Exhibit 3.4 to the Third Quarter 2002 10-Q).

3.5 Certificate of Amendment of the Restated Certificate of Incorporation of the Company, dated July 10, 2003 (incorporated by reference to Exhibit 3.5 to our Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 10-K")).

3.6 Certificate of Amendment of the Certificate of Incorporation of the Company, dated July 10, 2003 (incorporated by reference to Exhibit 3.6 to the Company's 2003 10-K).

3.7 Certificate of Amendment to the Restated Certificate of Incorporation of the Company, dated August 2, 2010 (incorporated by reference to Exhibit 3.7 to our Annual Report on Form 10-K for the year ended December 31, 2010).

4.1 Stockholders Agreement dated as March 28, 2014, by and between HomeFed Corporation and Leucadia National Corporation (incorporated by reference to Exhibit 4.1 to our current report on Form 8-K dated April 3, 2014).

4.2 Indenture, dated as of September 28, 2017 (the "2017 Indenture"), among HomeFed Corporation, guarantors party thereto from time to time and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 of our current report on Form 8-K dated October 2, 2017).

10.1 Development Management Agreement between the Company and Provence Hills Development Company, LLC, dated as of August 14, 1998 (incorporated by reference to Exhibit 10.3 to our current report on Form 8-K dated August 28, 1998).

10.2 Administrative Services Agreement, dated as of March 1, 2000, between Leucadia Financial Corporation ("LFC"), the Company, HomeFed Resources Corporation and HomeFed Communities, Inc. (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q for the quarter ended June 30, 2000).

10.3 Amendment No. 1 dated as of November 1, 2000 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 10-K")).

10.4 Amendment No. 2 dated as of February 28, 2001 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.22 to our 2000 10-K).

10.5 Amendment No. 3 dated as of December 31, 2001 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2001).

10.6 Registration Rights Agreement dated as of October 21, 2002, by and between HomeFed Corporation and Leucadia National Corporation (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K dated October 22, 2002).

10.7 Form of Grant Letter for the 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K for the year ended December 31, 2004). +

10.8 Amendment No. 4 dated as of May 28, 2002 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.34 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "2002 10-K")).

10.9 Amendment No. 5 dated as of November 15, 2002 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.35 of the 2002 10-K).

10.10 Amendment dated as of October 21, 2002 to the Development Management Agreement dated as of August 14, 1998 (incorporated by reference to Exhibit 10.36 of the 2002 10-K).

10.11 Contribution Agreement between the Company and San Elijo Hills Development Company, LLC, dated as of October 21, 2002 (incorporated by reference to Exhibit 10.37 of the 2002 10-K).

10.12 Agreement and Guaranty, dated as of October 1, 2002, between Leucadia National Corporation and CDS Holding Corporation (incorporated by reference to Exhibit 10.38 of the 2002 10-K).

10.13 Obligation Agreement, dated as of October 1, 2002, between Leucadia National Corporation and San Elijo Ranch, Inc. (incorporated by reference to Exhibit 10.39 of the 2002 10-K).

10.14 Tax Allocation Agreement between the Company and our subsidiaries dated as of November 1, 2002 (incorporated by reference to Exhibit 10.21 to the 2003 10-K).

10.15 Amendment No. 1 to the First Amended and Restated Development Agreement and Owner Participation Agreement between the City of San Marcos, the San Marcos Redevelopment Agency and the San Elijo Hills Development Company, LLC dated as of February 11, 2004 (incorporated by reference to Exhibit 10.22 to the Company's 2003 10-K).

10.16 Amendment No. 6 dated as of December 31, 2003 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.23 to the 2003 10-K).

10.17 Amendment No. 7 dated as of December 31, 2004 to the Administrative Services Agreement dated as of March 1, 2000 (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).

10.18 Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Annex A to our Proxy Statement dated June 18, 2009). +

10.21 RSU Opportunity Plan (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed August 15, 2014).

10.22 Form of RSU Opportunity Notice (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed August 15, 2014).

10.23 Purchase and Sale Agreement and Joint Escrow Instructions, dated June 5, 2015, between HomeFed Otay Land II, LLC and SSBT LCRE V LLC (incorporated by reference to Exhibit 10.1 of our current report on Form 8-K dated July 6, 2015).

10.24 First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated June 26, 2015, between HomeFed Otay Land II, LLC and SSBT LCRE V LLC (incorporated by reference to Exhibit 10.2 of our current report on Form 8-K dated July 6, 2015).

10.25 Non-Affiliate Note Purchase Agreement, among HomeFed Corporation, the guarantors party to the 2017 Indenture from time to time and the non-affiliate investors (incorporated by reference to Exhibit 10.2 of our current report on Form 8-K dated October 2, 2017).

10.26 Affiliate Note Purchase Agreement, among HomeFed Corporation, the guarantors party to the 2017 Indenture from time to time and the affiliate investors (incorporated by reference to Exhibit 10.3 of our current report on Form 8-K dated October 2, 2017).

10.27 Information Concerning Executive Compensation (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on December 21, 2018.

10.28 Employment Agreement dated February 28, 2018 between HomeFed Corporation and Paul J. Borden (incorporated by reference to Exhibit 10.31 to our Form 10-Q for the period ended March 31, 2018).

21 Subsidiaries of the Company.

23.1 Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement on Form S-8 (File No. 333-221471), (File No. 333-198188), (File No. 333-97079) and (File No. 333-175563).

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

101 Financial statements from the Annual Report on Form 10-K of HomeFed Corporation for the year ended December 31, 2018, formatted in Extensible Business Reporting Language (XBRL); (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Shareholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

* Furnished herewith pursuant to Item 601(b)(32) of Regulation S-K.

+ Management Employment Contract or Compensatory Plan/Arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HOMEFED CORPORATION

March 18, 2019 By /s/ Erin N. Ruhe
Erin N. Ruhe, Vice President, Treasurer and Controller
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date	Signature	Title
March 18, 2019	By /s/ Joseph S. Steinberg Joseph S. Steinberg	Chairman of the Board and Director
March 18, 2019	By /s/ Christian E. Foulger Christian E. Foulger	President (Principal Executive Officer)
March 18, 2019	By /s/ Erin N. Ruhe Erin N. Ruhe	Vice President, Treasurer and Controller (Principal Financial and Accounting Officer)
March 18, 2019	By /s/ Paul J. Borden Paul J. Borden	Vice Chairman and Director
March 18, 2019	By /s/ Patrick D. Bienvenue Patrick D. Bienvenue	Director
March 18, 2019	By /s/ Timothy M. Considine Timothy M. Considine	Director
March 18, 2019	By /s/ Jimmy Hallac Jimmy Hallac	Director
March 18, 2019	By /s/ Brian P. Friedman Brian P. Friedman	Director
March 18, 2019	By /s/ Michael A. Lobatz Michael A. Lobatz	Director

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of HomeFed Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), of HomeFed Corporation and its subsidiaries (the "Company") (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP
Denver, Colorado
March 18, 2019

We have served as the Company's auditor since 1995.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

HOMEFED CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and December 31, 2017

(Dollars in thousands, except par value)

	December 31, 2018	December 31, 2017
ASSETS		
Real estate held for development	$ 328,239	$ 311,664
Real estate held for investment, net	37,962	38,022
Cash and cash equivalents	63,053	40,415
Contract assets	11,084	21,816
Restricted cash	—	2,685
Equity method investments	93,170	123,296
Accounts receivable, deposits and other assets	20,790	21,565
Intangible assets, net	1,054	3,005
Assets held for sale	—	8,422
Net deferred tax asset	38,656	37,057
TOTAL	$ 594,008	$ 607,947
LIABILITIES		
Accounts payable and accrued liabilities	$ 38,674	$ 23,671
Below market lease contract intangibles, net	1,377	1,930
Non-refundable option payments	85	255
Liability for environmental remediation	1,452	1,452
Deferred revenue	—	1,230
Other liabilities	4,617	2,564
Accrued interest payable	72	1,262
Long-term debt, net	88,773	118,213
Total liabilities	135,050	150,577
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY		
Common stock, $.01 par value; 25,000,000 shares authorized; 15,500,246 and 15,474,032 shares outstanding after deducting 398,663 and 397,377 shares held in treasury	155	155
Additional paid-in capital	602,031	600,308
Accumulated deficit	(147,039)	(148,199)
Total HomeFed Corporation common shareholders' equity	455,147	452,264
Noncontrolling interest	3,811	5,106
Total equity	458,958	457,370
TOTAL	$ 594,008	$ 607,947

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

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
December 31, 2018, 2017, and 2016
(In thousands, except per share amounts)

	2018	2017	2016
REVENUES			
Sales of real estate	$ 88,324	$ 50,622	$ 46,042
Contract service revenues	30,221	35,865	13,184
Rental income	21,619	23,930	22,717
Farming revenues	—	3,507	4,436
Co-op marketing and advertising fees	407	584	568
	140,571	114,508	86,947
EXPENSES			
Cost of sales	60,056	45,198	35,830
Contract service expenses	30,221	35,865	13,184
Provision for losses on real estate	19,957	—	—
Rental operating expenses	15,416	17,122	17,626
Farming expenses	—	3,510	3,596
General and administrative expenses	21,920	16,555	14,695
Depreciation and amortization	2,586	3,685	4,973
Administrative services fees to Jefferies Financial Group Inc.	180	180	180
	150,336	122,115	90,084
Loss before income (losses) from equity method investments	(9,765)	(7,607)	(3,137)
Income (losses) from equity method investments	2,797	9,046	(947)
Income (losses) from operations	(6,968)	1,439	(4,084)
Interest and other income	4,909	618	4,739
Income (loss) before income taxes and noncontrolling interest	(2,059)	2,057	655
Income tax benefit	554	8,932	32,189
Net income (loss)	(1,505)	10,989	32,844
Net (income) loss attributable to the noncontrolling interest	1,437	(58)	(279)
Net income (loss) attributable to HomeFed Corporation common shareholders	$ (68)	$ 10,931	$ 32,565
Basic and diluted earnings (loss) per common share attributable to HomeFed Corporation common shareholders	$ (0.00)	$ 0.71	$ 2.11

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

HOMEFED CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018, 2017 and 2016

(In thousands, except par value)

	HomeFed Corporation Common Shareholders					
	Common Stock $.01 Par Value	Additional Paid-In Capital	Accumulated Deficit	Subtotal	Noncontrolling Interest	Total
Balance, January 1, 2016	$ 154	$ 597,922	$ (191,695)	$ 406,381	$ 10,019	$ 416,400
Net income			32,565	32,565	279	32,844
Distributions to noncontrolling interest				—	(3,300)	(3,300)
Share-based compensation expense		75		75		75
Exercise of options to purchase common shares, including excess tax benefit		1,036		1,036		1,036
Balance, December 31, 2016	154	599,033	(159,130)	440,057	6,998	447,055
Net income			10,931	10,931	58	10,989
Distributions to noncontrolling interest				—	(1,950)	(1,950)
Share-based compensation expense		1,253		1,253		1,253
Exercise of options to purchase common shares	1	22		23		23
Balance, December 31, 2017	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 loss			(68)	(68)	(1,437)	(1,505)
Contributions from noncontrolling interests				—	142	142
Exercise of options to purchase common shares		97		97		97
Share-based compensation expense		1,626		1,626		1,626
Balance, December 31, 2018	$ 155	$ 602,031	$ (147,039)	$ 455,147	$ 3,811	$ 458,958

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

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (1,505)	$ 10,989	$ 32,844
Adjustments to reconcile net income (loss) to net cash used for operating activities:			
(Income) Losses from equity method investments	(2,797)	(9,046)	947
Provision (benefit) for deferred income taxes	(2,133)	799	(37,238)
Provision for losses on real estate	19,957	—	—
Share-based compensation expense	2,248	2,004	75
Excess tax benefit from exercise of stock options	—	—	(25)
Depreciation and amortization of property, equipment and leasehold improvements	230	515	516
Gain on sale of Rampage property	(17,293)	—	—
Other amortization	3,483	4,485	6,363
Amortization related to issuance costs and debt discount of Senior Notes	—	—	1,241
Amortization related to investments	—	—	(821)
Loss on the extinguishment of debt	235	356	—
Distributions from equity method investments	13,202	—	—
Development costs in excess of Cost Cap	(9,729)	—	—
Changes in operating assets and liabilities:			
Real estate, held for development	(27,954)	(10,799)	(7,443)
Real estate, held for investment	(1,069)	3,180	(393)
Contract assets	10,732	(15,865)	(5,951)
Accounts receivable, deposits and other assets	765	(1,509)	(4,313)
Deferred revenue	—	(3,081)	1,977
Accounts payable and accrued liabilities	1,035	(460)	1,317
Accrued interest payable	(1,190)	1,262	—
Non-refundable option payments	(170)	230	—
Liability for environmental remediation	—	(3)	(11)
Income taxes payable	(237)	(6,524)	(1,659)
Other liabilities	1,431	(3,965)	1,195
Net cash used for operating activities	(10,759)	(27,432)	(11,379)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of Rampage property	26,000	—	—
Proceeds from sales of redeemed investments	—	—	11,424
Investments in equity method investments	(52,550)	(55)	(3,262)
Capital distributions from equity method investments	82,000	—	3,389
Net cash provided by (used for) investing activities	55,450	(55)	11,551
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	69,312	121,500	—
Repayment of debt	(85,812)	(103,145)	(14,581)
Payment of debt issuance costs	(8,335)	(1,653)	(586)
Distributions to noncontrolling interests	—	(1,950)	(3,300)
Exercise of options to purchase common shares	97	23	1,011
Excess tax benefit from exercise of stock options	—	—	25
Net cash provided by (used for) financing activities	(24,738)	14,775	(17,431)
Net increase (decrease) in cash, cash equivalents and restricted cash	19,953	(12,712)	(17,259)
Cash,cash equivalents and restricted cash, beginning of period	43,100	55,812	73,071
Cash,cash equivalents and restricted cash, end of period	$ 63,053	$ 43,100	$ 55,812

(continued)

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

HOMEFED CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the years ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Supplemental disclosures of cash flow information:			
Cash paid for income taxes (net of tax refunds)	$ 1,175	$ 799	$ 6,729
Cash paid for interest (net of amounts capitalized)	$ —	$ —	$ —
Non-cash operating activities:			
Project development costs incurred that remain payable at year end	$ 22,911	$ 16,605	$ 8,214
Non-cash investing activities:			
Land contributed as an investment in Village III Master	$ —	$ —	$ 15,150
Non-cash financing activities:			
Debt issuance costs incurred but not yet paid	$ 9,070	$ 1,748	$ —
Cashless exercise of stock options to purchase common shares	$ 69	$ —	$ —
Contribution from noncontrolling interest for prepaid expenses	$ 142	$ —	$ —

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements include the accounts of HomeFed Corporation (the "Company,") and its consolidated subsidiaries. We also own equity interests in Brooklyn Renaissance Plaza, RedSky JZ Fulton Investors and the Builder LLCs, which are accounted for under the equity method of accounting. We are currently engaged, directly and through our subsidiaries, in the investment in and development of residential and commercial real estate properties in California, Virginia, South Carolina, Florida, Maine and New York. All intercompany balances and transactions have been eliminated in consolidation.

There is no other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

During 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.

Basis of Consolidation – Our policy is to consolidate all entities in which we can vote a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. We consider special allocations of cash flows and preferences, if any, to determine amounts allocable to noncontrolling interests. All intercompany transactions and balances are eliminated in consolidation. In situations where we have significant influence, but not control, of an entity that does not qualify as a variable interest entity, we apply the equity method of accounting.

Provision (Benefit) for Deferred Income Taxes – We provide for income taxes using the balance sheet approach. We record a valuation allowance to reduce our net deferred tax asset to an amount that we expect is more likely than not to be realized. If our estimate of the realizability of our deferred tax asset changes in the future, an adjustment to the valuation allowance would be recorded which would impact income tax expense in such period. The valuation allowance is determined after considering all relevant facts and circumstances, and is based, in significant part, on our projection of taxable income in the future. Since any projection of future profitability is inherently uncertain, changes in the valuation allowance can be expected.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act is one of the most comprehensive changes in the U.S. corporate income tax since 1986 and certain provisions are highly complex in their application. The Tax Act revises the U.S. Corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21% and adopting a territorial income tax system. We have evaluated the impact that the Tax Act will have on both our Consolidated Balance Sheets and Consolidated Statements of Operations. At that time, based on information currently available, results for the fourth quarter of 2017 reflect a provisional expense of $2,150,000. During 2018, the IRS announced that refunds of AMT credits pursuant to the Tax Act would be subject to sequestration. Accordingly, in the third quarter of 2018 we recorded a $1,700,000 increase to our income tax expense related to sequestration on our corporate AMT credits. On January 14, 2019, the Internal Revenue Service announced that refunds of AMT credits will not be subject to sequestration for tax years beginning after December 31, 2017. Consequently, during the fourth quarter of 2018, we reversed $1,700,000 of income tax expense related to our AMT credits. In 2018, we completed our determination of the accounting implications of the Tax Act, and no material adjustment was necessary.

During 2016, we determined that we had enough positive evidence to conclude that it is more likely than not that we will be able to generate enough future taxable income to fully utilize all of our Federal minimum tax credits. The primary positive evidence considered was the formation of Village III Master with three national builders to develop and build homes at the Otay Land project and the projections of taxable income from the Otay Land and other of our projects. In addition, our minimum tax credits have no expiration. As a result, we were able to conclude that it was more likely than not that we will be able to realize the entire portion of our net deferred tax asset; accordingly, approximately $31,850,000 of the deferred tax valuation allowance was released as a credit to income tax expense during 2016.

The projection of future taxable income is based upon numerous assumptions about the future, including future market conditions where our projects are located, regulatory requirements, estimates of future real estate revenues and development costs, future interest expense, operating and overhead costs and other factors. We evaluate all positive and negative evidence with respect to our realizability of our deferred tax asset. To the extent there is sufficient negative evidence, an increase to the valuation allowance and tax expense would be recorded to reflect the appropriate amount of the change.

We also record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and if so estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which could be significant to our Consolidated Balance Sheets or results of operations.

We record interest and penalties, if any, with respect to uncertain tax positions as components of income tax expense. During the third quarter of 2015, resulting from a tax matter related to the acquisition of real estate properties and operations from Leucadia in 2014, we recorded an unrecognized tax benefit of approximately $2,550,000 which is reflected in Other liabilities and a corresponding reduction in our Deferred tax liability. During the fourth quarter of 2015, we increased the unrecognized tax benefit by $400,000 related to this tax matter. In 2016, we increased the unrecognized tax benefit by approximately $1,350,000 related to this tax matter. 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.

Provision for Environmental Remediation – We record environmental liabilities when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. During 2002, we recorded a charge of $11,150,000 representing our estimate of the cost (including legal fees) to implement the most likely remediation alternative with respect to approximately 30 acres of undeveloped land owned by a subsidiary of Otay Land Company. The estimated liability was neither discounted nor reduced for claims for recovery from previous owners and users of the land who may be liable, and may increase or decrease based upon the actual extent and nature of the remediation required, the actual cost of the remediation, the expenses of the regulatory process, the costs of post-remediation monitoring requirements, inflation and other items. At December 31, 2018, we have a remaining balance of $1,450,000.

We have periodically examined, and when appropriate, adjusted our liability for environmental remediation to reflect our current best estimate. A change to the current estimate could result from, among other things, that the cost to implement the remediation is different than our current estimate, that the cost of future on-going monitoring efforts is different than our current estimate, and/or requirements imposed by regulatory authorities that we did not anticipate but is nevertheless required to implement.

Provision for Impairment Losses on Real Estate – Our real estate is carried at cost. Whenever events or changes in circumstances suggest that the carrying amount may not be recoverable, management assesses the recoverability of the carrying amount of its real estate in accordance with GAAP.

Some of the events or changes in circumstances that we consider as indicators of potential impairment include: (i) a change in market conditions in the local markets where we own real estate, (ii) a change in the availability of mortgages for retail buyers or a significant change in interest rates for mortgages, (iii) a change in expected use or development plans for properties, (iv) continuing operating or cash flow losses for real estate held for investment purposes, (v) an accumulation of costs in a development property that significantly exceeds its historical basis in property held long-term and (vi) a significant weather event that may have a negative impact on the property value.

We use varying methods to determine if impairment exists, such as considering indicators of potential impairment and analyzing expected future cash flows and comparing the expected future undiscounted cash flows of the property to the carrying value.

The accounting estimate related to the real estate impairment evaluation is susceptible to the use of assumptions about future sales proceeds and future expenditures. For projects under development, an estimate of future cash flows on an undiscounted basis is performed using estimated future expenditures necessary to maintain the existing project and using management's best estimates about future sales prices and planned holding periods.

If a property is considered impaired, the impairment charge is determined by the amount of the property's carrying value that exceeds its fair value. During 2018, we concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold), of which $1,750,000 is attributable to the non-controlling interest. See Note 2 for more information. During 2018, we concluded that our real estate in Maine was partially impaired due to a recent weakness in local housing market conditions. We recorded a write-down of $750,000 and thus reducing the carrying value to $3,300,000 which we believe reflects the fair value of the property. During the fourth quarter of 2018, we evaluated the damages caused by Hurricane Michael to our SweetBay project and recorded a write-down of $1,800,000.

We did not record any provisions for impairment losses during the years ended December 31, 2017 and 2016.

Purchase Price Allocation – Under current authoritative accounting guidance, we determine whether a transaction or other event is a business combination, which requires that the assets acquired and the liabilities assumed constitute a business. Each business combination is then accounted for by applying the acquisition method of accounting. We record our investments based on the fair value of the identifiable assets acquired, intangible assets acquired, liabilities assumed and any noncontrolling interest in the acquired entity, as well as recognizing and measuring goodwill or a gain from a bargain purchase at the acquisition date. Assets are recorded at fair value using appraisals and valuations performed by management and independent third parties. Fair values are based on the exit

price (i.e. the price that would be received in an orderly transaction to sell an asset or transfer a liability between market participants at the measurement date). We evaluate several factors, including market data for similar assets, expected cash flows discounted at risk adjusted rates and replacement cost for the assets to determine an appropriate exit cost when evaluating the fair value of our assets. We immediately expense acquisition-related costs and fees associated with business combinations.

Asset Acquisitions – When an asset acquisition occurs that is not deemed a business combination, the acquired assets including related transaction costs are recorded at cost when cash consideration is used. If the consideration is non-cash, then the recording of the assets is based on the fair value of the assets acquired.

Real Estate – Real estate includes all expenditures incurred in connection with the acquisition, development and construction of the property, including interest paid to third parties and property taxes. At acquisition, land costs are allocated to individual parcels or lots based on relative fair values or specific identification. Interest, payroll related to construction, property taxes and other professional fees attributable to land and property construction are capitalized and added to the cost of those properties when active development begins and ends when the property development is fully completed and ready for its intended use. Subsequent to acquisition, substantially all development costs are specifically identifiable to individual parcels or lots, or are considered allocated costs that are allocated principally based on relative sales value. Interest, however, is allocated to each property principally based on the percentage of development costs incurred for the property compared to the total development costs incurred for the period.

Capitalized land costs are charged to cost of sales at the time that revenue is recognized. For Real estate held for investment, maintenance costs are expensed when incurred and depreciation is expensed on a straight-line basis over the estimated useful life of the assets or, if less, the term of the underlying lease.

Cash and Cash Equivalents – Cash equivalents are money market accounts and short-term, highly liquid investments that have maturities of less than three months at the time of acquisition.

Restricted Cash – Restricted cash consisted of amounts escrowed pursuant to the terms of our Purchase Agreement related to BRP Leasing's obligation under the master lease with Brooklyn Renaissance Plaza. Restricted cash also consisted of funds held in an interest bearing bank account serving as collateral for a letter of credit for the benefit of the City of Myrtle Beach related to future development improvements planned at The Market Common.

Contract Assets and Liabilities – As we develop the Village of Escaya community infrastructure, we are entitled to receive up to $78,600,000 for our costs incurred from the sale of homes by the Builder LLCs at the Village of Escaya. The Builder LLCs are contractually obligated to pay us an allocated amount of the proceeds of each home closing. As a result, a contract asset is recorded to reflect the amount due to us by the respective builders under these agreements. A contract liability would arise if we received cash in advance of completing the performance obligations related to the development of the project.

Fair Value Hierarchy-- In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments includes cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or

corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Instruments that have little to no pricing observability as of the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The valuation of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, features of the financial instrument such as its complexity, the market in which the financial instrument is traded and risk and uncertainties about market conditions require that an adjustment be made to the value derived from the models. Adjustments from the price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Equity Method Investments – In situations where we have significant influence, but not control, of an entity we apply 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; accordingly, we employ the hypothetical liquidation at book value model to calculate our share of the investees' profits or losses, and additionally, amortizing the difference between the fair value of the assets at the date of acquisition and the historical book basis over the remaining useful life of each asset, to calculate our share of the investment. Our equity interests in Brooklyn Renaissance Plaza, RedSky JZ Fulton Investors and the Builder LLCs are accounted for under the equity method of accounting. We are required to periodically compare an investment's carrying value to its estimated fair value. We would recognize an impairment charge if the carrying value exceeds the estimated fair value and is determined to be other than temporary.

Allowance for Doubtful Accounts - We provide an allowance for doubtful accounts against the portion of accounts receivable, including straight-line rents, which is estimated to be uncollectible. Such allowances are reviewed periodically based upon our recovery experience.

Deferred Leasing Commissions - Deferred leasing commissions represent costs to obtain tenants at retail and office rental properties. We amortize these charges over the original term of the lease and reflect them in Depreciation and amortization expense.

Intangible Assets (Liabilities), Net – Intangibles include above market lease value and lease in place value as assets and below market lease value as a liability, all recorded at fair value at the date of Acquisition. Above market lease value is amortized on a straight-line basis over the remaining term of the underlying leases, and below market lease values are amortized on a straight-line basis over the initial terms plus the terms of any below market renewal options of the underlying leases and is included in Rental income. Lease in place value is amortized over the term of the underlying lease and is included in Depreciation and amortization expense. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist, primarily changes in the underlying lease.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when certain events or circumstances exist indicating an assessment for impairment is necessary.

Impairment exists when the carrying amount exceeds its fair value. Fair value is determined using valuation techniques consistent with what a market participant would use.

Asset Held for Sale - We classify an asset held for sale in the period in which we commit to a plan to sell the asset, are actively seeking a buyer, the asset is being marketed for sale at a price that is reasonable in relation to its fair value, the asset is readily available for sale in its current condition, and the sale of the asset is likely to occur within one year. The sale of the Rampage property is not considered a strategic shift and has therefore not been presented as discontinued operations.

Option Deposits – Option payments received from prospective buyers are recognized as liabilities until the title of the real estate is transferred or the option is forfeited, or in the case of refundable deposits, the prospective buyer decides not to purchase the real estate and the deposit is returned.

Debt discount and issuance costs –We net the debt discount and issuance costs against the carrying value of the debt. These costs are amortized as capitalized expenditures on a straight-line basis, which approximates the effective interest method, over the expected life of the respective debt liability.

Sales of Real Estate – Prior to the adoption of the new Revenue Recognition standard on January 1, 2018, revenues from real estate sales were recognized when a sale closed and title transferred to the buyer, the buyer's initial investment was adequate, any receivables were probable of collection and the usual risks and rewards of ownership had been transferred to the buyer. (See "Recently Adopted Accounting Pronouncements" below for information on the new accounting guidelines for real estate sales revenue recognition.)

Recognition of Fee Income – Prior to the adoption of the new Revenue Recognition standard on January 1, 2018, we may have been contractually entitled to receive co-op marketing and advertising fees that was due when builders sell homes. These fees were generally based upon a fixed percentage of the homes' selling prices and were recorded as revenue when the homes were sold. (See "Recently Adopted Accounting Pronouncements" below for information on the new accounting guidelines for real estate sales revenue recognition - variable.)

Revenue and Profit Sharing Arrangements – Prior to the adoption of the new Revenue Recognition standard on January 1, 2018, certain of our lot purchase agreements with homebuilders included provisions that entitled us to a share of the revenues or profits realized by the homebuilders upon their sale of the homes, after certain thresholds were achieved. The actual amount which could have been received by us was generally based on a formula and other specified criteria contained in the lot purchase agreements, and were generally not payable and could not be determined with reasonable certainty until the builder had completed the sale of a substantial portion of the homes covered by the lot purchase agreement. Our policy was to accrue revenue earned pursuant to these agreements when amounts were fully earned and payable pursuant to the lot purchase agreements, which were recorded as Sales of real estate. Any amounts received from homebuilders prior to then were deferred. (See "Recently Adopted Accounting Pronouncements" below for information on the new accounting guidelines for real estate sales revenue recognition - variable.)

Rental Income – Rental income is recognized on a straight-line basis over the terms of the leases. Any rent payments received in excess of the amounts recognized as revenue are deferred and reflected as Deferred revenue in the consolidated balance sheets. For those leases that provide for billing of common area maintenance, such revenue is recognized in the period that the related estimated expenses are incurred based upon the tenant lease provision.

Contract Service Revenues and Expenses – As we develop the Village of Escaya community infrastructure, we are entitled to receive up to $78,600,000 for costs from sale of homes by the Builder LLCs at the Village of Escaya. The Builder LLCs are contractually obligated to pay us an allocated amount of the proceeds of each home closing. Contract service revenues are recognized and corresponding contract service expenses are incurred as we perform the required infrastructure improvements on the project. At such time as management can estimate profit, the cumulative profit on costs incurred to date will be recognized and deemed as a change in estimate.

Farming Revenues and Expenses – Income from farming related activities were recognized when grapes were sold, and expenses from farming related activities were recognized when incurred.

Share-Based Compensation – The cost of all share-based payments to employees, including grants of employee stock options and warrants, are recognized in the financial statements based on their fair values. The cost is recognized as an expense over the vesting period of the award on the straight-line basis. The fair value of each award is estimated at the date of grant using the Black-Scholes option pricing model.

Recently Adopted Accounting Pronouncements

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 $1,250,000, which is net of taxes of $550,000. The cumulative earnings adjustment was comprised of variable consideration for real estate transactions and recognition of previously deferred revenue offset by costs to complete improvements for closed real estate transactions. 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 our buyers' 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.

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. The adoption of the guidance did not have a material impact on our Consolidated Statements of Cash Flows. 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 $10,000 in Net cash used for operating activities for 2017 and an increase of $3,700,000 in Net cash used for operating activities for 2016 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.

Compensation. In May 2017, the FASB issued new guidance providing clarity and reducing diversity in practice and cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. We adopted this guidance in the first quarter of 2018 and the adoption did not have a material impact on our consolidated financial statements.

Accounting Pronouncements 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 FASB requires the recognition of all leases that are longer than one year onto the balance sheet, which will result in the recognition of a right of use asset and a corresponding lease liability. The right of use asset and lease liability will be measured initially using the present value of the remaining rental payments. Lessor accounting will remain substantially similar to current accounting policies for leases. However, leasing costs that are currently eligible to be capitalized as initial direct costs will be immediately expensed under the new guidance. In July 2018, the FASB issued additional guidance on leases which allows an entity to recognize a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. The guidance is effective for annual and interim periods beginning after December 15, 2018. We plan to adopt the lease standard in the first quarter of 2019 including certain practical expedients with a cumulative-effect adjustment to opening retained earnings.

Fair Value Measurement. In August 2018, the FASB issued new guidance to improve the effectiveness of disclosure requirements on fair value measurement by eliminating certain disclosure requirements for fair value measurements for all entities, requiring public entities to disclose certain new information and modifying some disclosure requirements. The guidance is effective for annual and interim periods beginning after December 15, 2019. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Consolidation. In October 2018, the FASB issued new guidance which requires indirect interests held through related parties under common control arrangements be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The guidance is effective for the Company for fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

2. REAL ESTATE

Real estate carrying values are as follows (in thousands):

	December 31,	
	2018	2017
Real estate held for development:		
Otay Land project	$ 233,131	$ 198,882
San Elijo Hills project	23,284	29,938
Pacho project	—	17,672
Fanita Ranch property	26,378	22,601
SweetBay project	26,635	23,921
Ashville Park project	9,392	8,788
The Market Common	6,289	5,981
Maine projects	3,130	3,881
Total	$ 328,239	$ 311,664
Real estate held for investment, gross		
Land:		
The Market Common	$ 3,744	$ 3,744
Buildings:		
The Market Common	35,783	35,783
Maine projects	209	209
SweetBay project	523	523
Tenant improvements:		
The Market Common	3,128	2,059
	43,387	42,318
Less: Accumulated depreciation	(5,425)	(4,296)
Real estate held for investment, net	$ 37,962	$ 38,022

Real estate held for development includes capitalized interest, including amortization of issuance costs and debt discount, of $4,400,000 and $7,600,000 for 2018 and 2017, respectively.

In January 2018, we closed on the sale of the Rampage property for $26,000,000 which was classified as Assets held for sale. The agreement was assigned to a qualified intermediary under an Exchange Agreement to facilitate a 1031 like-kind exchange for tax purposes. In July 2018, we completed the 1031 like-kind exchange and acquired $13,400,000 of replacement property, primarily consisting of improvements at the mixed-use apartment and retail project at the Village of Escaya, and the remaining proceeds of $12,600,000 is no longer restricted and can be used

for any business operation. We recorded a gain on the sale of approximately $17,300,000 during 2018. The sale of Rampage property did not meet the GAAP criteria to be classified as a discontinued operation.

We previously reported that we may not develop the Pacho Property unless we are able to obtain fee title from Pacific Gas & Electric ("PG&E") within a reasonable period of time. The original 99-year lease term to the Pacho Property expires in 2067. The lease includes an option to renew it for an additional 99-year term.

We have made no progress in obtaining the fee title from PG&E. Moreover, because of questions recently raised in the media as to whether the term of our leasehold validly runs until 2166 (including the option term), in August 2018 we notified PG&E that we formally exercised the option and that we intend to commence a declaratory relief proceeding to confirm our leasehold is valid until 2166 and is not rendered shorter by the provisions of California Civil Code section 718. In September, PG&E responded and asserted for the first time that it contends California Civil Code section 717 ends the lease in 2019, which we will dispute.

We concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold) during 2018, of which $1,750,000 is attributable to the non-controlling interest.

On February 1, 2019, we filed a Complaint for Declaratory Relief and Quiet Title in the San Francisco Superior Court against the lessor, Eureka Energy Company, asking for a determination that the initial term of the lease is valid and enforceable through December 26, 2067 and that the option to renew the lease for an additional 99 years is valid through December 26, 2166. Eureka Energy Company is a wholly owned subsidiary of PG&E. The following day, PG&E filed for bankruptcy protection. Eureka Energy Company was not identified as a debtor in the PG&E bankruptcy. If we are unsuccessful in obtaining a favorable ruling on our claims for declaratory relief, then we believe that we will have recourse to pursue our unrecognized claims against the insurer of the leasehold title and the real estate counsel that represented us in our 2014 purchase of the leasehold interest. However, there is no assurance that we will be successful in these matters.

During 2018, we concluded that our real estate in Maine was partially impaired due to a recent weakness in local housing market conditions. We recorded a write-down of $750,000 and thus reducing the carrying value to $3,300,000 which we believe reflects the fair value of the property.

During the fourth quarter of 2018, we evaluated the damaged caused by Hurricane Michael to our SweetBay project and recorded a write-down of $1,800,000.

The third phase of the Towncenter is a 2.5 acre parcel of land entitled for 12 multi-family units (formerly designated as a church site) and sold for $1,600,000 during 2018.

Buildings classified as Real estate held for investment are depreciated over estimated useful lives ranging from 2 to 43 years.

3. INTANGIBLE ASSETS, NET

A summary of intangible assets, net at December 31, 2018 and 2017 is as follows (in thousands):

	December 31, 2018	December 31, 2017	Amortization (in years)
Above market lease contracts, net of accumulated amortization of $10,513 and $8,833	$ 361	$ 2,041	1 to 24
Lease in place value, net of accumulated amortization of $3,393 and $3,122	693	964	1 to 24
Intangible assets, net	$ 1,054	$ 3,005	
Below market lease contracts, net of accumulated amortization of $4,211 and $3,658	$ 1,377	$ 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. Amortization expense related to above market lease contracts recognized in Rental income was $1,700,000, $2,100,000 and $2,750,000 during 2018, 2017 and 2016, respectively. The estimated future amortization expense recognized in Rental income for the above market lease intangible assets is as follows: 2019 - $50,000; 2020 - $50,000; 2021 - $50,000; 2022 - $50,000 and 2023 - $50,000 and thereafter - $100,000. Negative amortization expense related to below market lease contracts recognized in Rental income was $(550,000), $(800,000) and $(850,000) during 2018, 2017 and 2016, respectively. The estimated future negative amortization expense recognized in Rental income for the below market lease intangible assets is as follows: 2019 - $(250,000); 2020 - $(200,000); 2021 - $(200,000) 2022 - $(100,000); 2023 - $(100,000) and thereafter - $(500,000).

The lease in place intangible is reflected in Depreciation and amortization expenses and amortized over the life of the related lease. Amortization expense on lease in place intangible assets was $250,000, $500,000 and $800,000 during 2018, 2017 and 2016, respectively. The estimated future amortization expense for the lease in place intangible asset for each of the next five years is as follows: 2019 - $100,000; 2020 - $100,000; 2021 - $100,000; 2022 - $50,000; 2023 - $50,000 and thereafter - $300,000.

4. EQUITY METHOD INVESTMENTS

RedSky JZ Fulton Investors:
On December 13, 2018, we formed a joint venture partnership with RedSky JZ Fulton Holdings, LLC, a Delaware limited liability company (“RS JZ”), for the acquisition and possible redevelopment of a development site located on the Fulton Mall corridor in Downtown Brooklyn, New York. The property consists of 15 separate tax lots, divided into two premier development sites which may be redeveloped with buildings consisting of up to 540,000 square feet of floor area development rights. RS JZ is itself a joint venture consisting of RedSky Capital, LLC (“RedSky”), a Brooklyn-based real estate developer, and JZ Capital Partners Limited (“JZ”), a London-based investment company.

Pursuant to that certain Contribution Agreement, dated as of December 10, 2018 (the "Contribution Agreement"), among RS JZ, HF Fulton Street Holdings LLC (“HF Fulton”), a wholly-owned subsidiary of HomeFed, and RedSky JZ Fulton Investors, LLC, a Delaware limited liability company (the “Joint Venture”), HomeFed contributed capital in the amount of $52,500,000 to the Joint Venture. As consideration for the capital contribution, RS JZ caused the Joint Venture to issue to HF Fulton a membership interest in the Joint Venture consisting of 49% of the total membership interests in the Joint Venture. RS JZ holds the remaining 51% membership stake in the Company. The Contribution Agreement includes customary representations and warranties by RS JZ in favor of HF Fulton as to the state of title and other matters affecting title to the Real Property, and as to the assets and liabilities of the Joint Venture. The Contribution Agreement also includes customary representations and warranties as to the assets and liabilities of the two wholly-owned subsidiaries of the Joint Venture which own fee title to the Real Property.

At the December 10, 2018 closing under the Contribution Agreement, RS JZ and HF Fulton executed and delivered to each other a Sixth Amended and Restated Limited Liability Company Agreement of the Joint Venture (the

“Operating Agreement”). RedSky Fulton Tier II LLC (“Manager”), an affiliate of RedSky, is also a party to the Operating Agreement, in its capacity as the “Manager” of the Joint Venture. Pursuant to the Operating Agreement, Manager is responsible for the day to day management of the Joint Venture. However, neither Manager nor the Joint Venture may undertake, without the consent of the Joint Venture’s “Executive Committee”, any decision designated as a “Major Decision” by the Operating Agreement. “Major Decisions” include, without limitation, the acquisition of additional real property, adoption of a business plan by the Joint Venture, the adoption of operating and construction budgets, decisions to call for additional capital contributions, decisions to redevelop the Real Property with new buildings and improvements, decisions to sell or finance the Real Property and decisions to enter into space leases with third-party tenants. The Executive Committee of the Joint Venture is comprised of three representatives, one appointed by RedSky, a second appointed by JZ and a third appointed by HomeFed.

RedSky JZ Fulton Investors is considered a variable interest entity ("VIE"). We have determined that we are not the primary beneficiary of RedSky JZ Fulton Investors because our economic interest is 49%, the assets are managed by RedSky, and major decisions are decided by an executive committee of which we share joint control. Therefore, we do not consolidate RedSky JZ Fulton Investor and we account for our equity interest under the equity method of accounting as of December 31, 2018. Our maximum exposure to loss as a result of our involvement with RedSky JZ Fulton Investors is limited to our capital contribution of $52,500,000.

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. 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 account for it under the equity method of accounting beginning on 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. Additionally, we are responsible for the remaining cost of developing the community infrastructure with funding guaranteed by us under the respective operating agreements for which we received a capital credit of $78,600,000 ("Cost Cap"), and we are responsible for any costs in excess of this limit to complete the community infrastructure. During 2018, the cost of infrastructure improvements in the Village of Escaya that is attributable to the Builder LLCs exceeded the Cost Cap by $9,750,000, and we expect to incur additional costs until we complete our infrastructure obligations. The builders are responsible for the 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:
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.

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. Additionally, we amortize the difference between the fair value of the assets at the date of acquisition and the historical book basis over the remaining useful life of each asset, to calculate our share of the investment. Since we employ a balance sheet approach and our assets and liabilities were assigned fair values at time of acquisition as a result of purchase accounting, our equity pick up can vastly differ from the investee's statements of income. At the date of the Acquisition, our interest in BRP Holding and BRP Hotel were fair valued at $77,950,000 and $24,800,000, respectively, while the historical cost basis was ($15,250,000) and $7,150,000 in BRP Holding and BRP Hotel, respectively. At December 31, 2018 and 2017, the basis difference for BRP Holding of $75,200,000 and $79,600,000, respectively, and for BRP Hotel of $13,800,000 and $14,450,000, respectively, is being amortized over the estimated useful lives of the respective underlying assets and liabilities acquired.

Under the equity method of accounting related to the Builder LLCs, we also consider any costs in excess of the Cost Cap since we don't receive an incremental claim to additional capital for the Builder LLCs.

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

	December 31, 2018	December 31, 2017
RedSky JZ Fulton Investors	$ 52,522	$ —
BRP Holding	8,136	86,093
BRP Hotel	17,963	22,651
Builder LLCs	14,549	14,552
Total	$ 93,170	$ 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 21-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 (loss) related to equity investment companies for the years ending December 31, 2018, 2017 and 2016 is as follows (in thousands):

	2018	2017	2016
RedSky JZ Fulton Investors	$ (11)	$ —	$ —
BRP Holding	(3,270)	11,121	219
BRP Hotel	2,609	(1,369)	(1166)
Builder LLCs	3,469	(706)	—
Total	$ 2,797	$ 9,046	$ (947)

The following table provides summarized data with respect to our equity method investments for 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Assets	$ 626,967	$ 385,189	
Liabilities	$ 504,478	$ 197,727	
Total revenues	$ 349,479	$ 122,245	$ 98,017
Income from continuing operations before extraordinary items	$ 50,188	$ 20,035	$ 4,050
Net income	$ 50,188	$ 20,035	$ 4,050
Our income (losses) related to equity investment companies	$ 2,797	$ 9,046	$ (947)

We have not provided any guarantees, nor are we contingently liable for any of the liabilities incurred by BRP Holding, BRP Hotel and RedSky JZ Fulton Investors. All such liabilities are non-recourse to us. Our exposure to adverse events at the investee companies is limited to our investment in BRP Holding, BRP Hotel and RedSky JZ Fulton Investors.

5. 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 December 31, 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 were used for homebuilding under the fee builder arrangement at the San Elijo Hills project. The loan was comprised of a $20,200,000 revolving component 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 loan was scheduled to mature on October 5, 2019, with one 6-month extension subject to certain extension conditions as set forth in the loan agreement. In August 2018, the principal balance outstanding of $9,050,000 was paid in full. Unamortized issuance costs of $250,000 were expensed during 2018.

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 bore interest at monthly LIBOR plus 2.6% and were secured 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 was also a $3,000,000 operational line of credit available that was collateralized 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 matured on June 30, 2018. The Old Notes were senior unsecured obligations and the guarantees are 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, the remaining capitalized issuance costs of approximately $350,000 were expensed.

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 Otay Land 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 in an effort to stimulate the U.S. economy through planned 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, 2019. Various reforms and bills have been proposed and are expected to be considered by Congress in 2019.

EB-5 Program - The Village of Escaya:
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 raised $125,000,000 by offering 250 units 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 the Village of Escaya.

EB-5 Program - The Village 8 West (Cota Vera):
In July 2018, we formed Otay Village 8 Lender, LLC, which is intended to serve as a NCE under the EB-5 Program. The NCE is managed by Otay Village 8 Manager, LLC, a wholly owned subsidiary of HomeFed. The NCE is seeking to raise up to $134,000,000 by offering up to 268 units in the NCE to qualified accredited EB-5 investors for a subscription price of $500,000 per unit. Any proceeds from the offering will be used to repay any outstanding bridge loan provided by HomeFed to its wholly owned subsidiary HomeFed Village 8, LLC, a job-creating entity under the EB-5 Program, and to fund infrastructure costs related to the development of Cota Vera.

Each NCE has offered the units to investors primarily located in China, Vietnam, South Korea and India 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 EB-5 projects are not approved. In December 2017, the Village of Escaya project was approved by the USCIS. The Cota Vera project has been submitted for approval by the USCIS. Each loan term is 5 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 December 31, 2018, we have a $105,000,000 principal amount outstanding under the Village of Escaya EB-5 Program. There are no amounts outstanding under the Cota Vera EB-5 Program.

The aggregate annual mandatory redemptions of all long-term debt during the five year period ending December 31, 2023 are as follows: 2019 $—; 2020 $—; 2021 $—; 2022 $105,000,000 and 2023 $—.

At December 31, 2018, we are in compliance with all debt covenants which include, among other requirements, limitations on incurrence of debt, collateral requirements and restricted use of proceeds.

Real estate held for development includes capitalized interest, including amortization of issuance costs and debt discount, of $4,400,000 and $7,600,000 for 2018 and 2017, respectively.

Debt is presented on the Balance Sheet net of issuance costs of $16,200,000 and $3,200,000 and debt discount of $0 and $100,000 at December 31, 2018 and 2017, respectively.

6. NONCONTROLLING INTEREST

Our ownership of San Elijo Hills project is through our indirect 85% owned subsidiary, San Elijo Ranch, Inc. ("SERI"). Pursuant to a stockholders' agreement with the holders of the noncontrolling interests in SERI, we loan funds to SERI and charge a 12% annual interest rate. Once this loan is fully repaid, the noncontrolling shareholders of SERI are entitled to 15% of any future cash flows distributed to shareholders. For the years ended 2018 and 2017, approximately $4,050,000 and $3,650,000, respectively has been recognized for the SERI noncontrolling interests. Amounts recorded for the noncontrolling interests have been reduced for income taxes calculated pursuant to tax sharing agreements.

During the third quarter of 2017, dividends of $13,000,000 were declared by our subsidiary that owns the San Elijo Hills project, of which $1,950,000 was paid to the noncontrolling interests in the San Elijo Hills project during the fourth quarter of 2017, and the balance was distributed to the parent Company. During the third quarter of 2016, dividends of $22,000,000 were declared and distributed by our subsidiary that owns the San Elijo Hills project, of which $3,300,000 was paid to the noncontrolling interests in the San Elijo Hills project, and the balance was transferred to the parent Company. The dividends retained by us did not increase the amount of consolidated liquidity reflected on our consolidated balance sheet; however, they did increase the liquidity of the parent Company.

In December 2018, we formed a joint venture partnership, Carlsbad Village 80, LLC ("Carlsbad Joint Venture"), with JM Carlsbad Village, L.P., to pursue acquisition and possible development of 1.74 acres of land in Carlsbad, CA. We contributed $600,000 for a 90% equity interest in the joint venture. The proceeds were used for a refundable option deposit to acquire the land. As of December 31, 2018, noncontrolling interest includes $150,000 for the 10% minority shareholder in Carlsbad Village 80, LLC related to their initial contribution to the Carlsbad Joint Venture.

As previously mentioned in Note 2, we concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold), of which $1,750,000 is attributable to the non-controlling interest during 2018.

7. STOCK INCENTIVE PLANS

2017 RSU Plan:
On August 4, 2017, the Board of Directors adopted an RSU Opportunity Plan (the "2017 RSU Plan") under which 66,000 shares of Common Stock are authorized for issuance to our executive officers. The restricted stock units ("RSUs") may be granted at the end of the performance period based on the degree to which performance criteria has been satisfied at the sole discretion of the Board of Directors. The performance period ends on December 31, 2019, and awards will be issued no later than April 1, 2020.

2014 RSU Plan:
On August 13, 2014, the Board of Directors adopted an RSU Opportunity Plan (the "2014 RSU Plan") under which 100,000 shares of Common Stock are authorized for issuance under the 2014 RSU Plan to our executive officers. Participants were eligible for RSU awards based on satisfaction of performance criteria established by the Board of Directors in 2014. The performance period under the 2014 RSU Plan ended on December 31, 2016. The Board of Directors evaluated the participants' performance against the performance criteria and awarded an aggregate of 75,000 RSUs to the participants on March 15, 2017. Fifty percent of the RSU award under the 2014 RSU Plan vested on December 31, 2017, and the remaining fifty percent vested on December 31, 2018.

The 2014 RSU grant consists of two settlement features:

(1) 45,000 RSUs settled through the issuance of shares of Common Stock within 30 days of each vesting date; this component is classified as an equity award. The closing price on March 15, 2017 of $44.20 was used to value this component of the award. On each of December 31, 2017 and 2018, 22,500 RSUs vested and were distributed at the beginning of the following year to our executive officers; stock compensation expense for this component of the award was $1,000,000 for each of 2018 and 2017.

(2) 30,000 RSUs settled in cash based on the average closing price over a period of 10 trading days immediately preceding the date of declaration which must occur within 30 days of the respective vesting date. This component is classified as a liability award, which required us to measure the fair value of the award at the end of each reporting period. On each of December 31, 2017 and 2018, 15,000 RSUs vested and settled in cash during January 2018 and January 2019. Stock compensation expense for this component of the award was $600,000 and $750,000 for 2018 and 2017, respectively.

1999 Stock Incentive Plan:
Under our Amended and Restated 1999 Stock Incentive Plan (the "Plan"), we may grant options, stock appreciation rights and restricted stock to non-employee directors, certain non-employees and employees up to a maximum grant of 30,000 shares to any individual in a given taxable year. Pursuant to the Plan, each director of the Company is automatically granted options to purchase 1,000 shares on the date on which the annual meeting of stockholders is held. On August 8, 2018, options to purchase an aggregate of 7,000 shares of Common Stock were granted to the members of the Board of Directors under the Plan at an exercise price of $50.50 per share, the market price per share on the grant date. Options granted become exercisable in four equal installments starting one year from date of grant and must be exercised within five years from date of grant and will be expensed equally over the four year vesting period.

In August 2004, following shareholder approval, the Plan was amended to, among other things, increase the number of shares of common stock available for issuance by 300,000 shares. The Plan provides for the issuance of options and rights at not less than 100% of the fair market value of the underlying stock at the date of grant. Options granted to employees and directors generally become exercisable in 4 equal instalments starting one year from the date of grant and must be exercised within five years from the date of grant. As of December 31, 2018, 249,650 shares were available for grant under the Plan.

A summary of activity with respect to the Plan for 2018, 2017 and 2016 is as follows:

	Common Shares Subject to Option	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2016	79,500	$ 30.00		
Granted	7,000	$ 40.50		
Exercised	(41,000)	$ 24.66		$ 694,830
Cancelled	(12,500)	$ 24.36		
Balance at December 31, 2016	33,000	$ 40.98		
Granted	143,500	$ 44.00		
Exercised	(5,000)	$ 22.35		$ 115,250
Cancelled	(1,000)	$ 22.35		
Balance at December 31, 2017	170,500	$ 44.18		
Granted	7,000	$ 50.50		
Exercised	(5,000)	$ 33.08		$ 107,710
Cancelled	(1,250)	$ 32.30		
Balance at December 31, 2018	171,250	$ 44.85	3.4 years	$ —
Exercisable at December 31, 2018	62,750	$ 45.69	1.4 years	$ —

The following summary presents the weighted-average assumptions used for the Black-Scholes option pricing model to determine the fair value for each of the stock option grants made during each of the three years in the period ended December 31:

	2018	2017	2016
Risk free rate	2.71 %	1.82 %	1.06 %
Expected volatility	27.24 %	28.86 %	29.97 %
Expected dividend yield	— %	— %	— %
Expected life	4.3 years	5.0 years	4.3 years
Fair value per grant	$ 13.55	$ 12.57	$ 10.53

The expected life assumptions were based on historical behavior for the awards identified. The expected volatility was based on the historical behavior of our stock price.

Total Share-based compensation expense - Stock options:
We recorded compensation cost related to stock incentive plans of $650,000, $2,000,000 and $70,000 for the years ended December 31, 2018, 2017 and 2016, respectively, and the total tax benefit related to this expense was $150,000, $800,000 and $30,000 for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, total unrecognized compensation cost related to nonvested share-based compensation plans was $1,100,000; this cost is expected to be recognized over a weighted-average period of 1.4 years.

Share Repurchase Plan:

In July 2004, the Board of Directors approved the repurchase of up to 500,000 shares of our common stock. In 2008, we purchased 394,931 shares of our common stock for approximately $5,900,000 in a private transaction with an unrelated party. During 2009, we purchased 478 shares of our common stock in an open market transaction in accordance with our repurchase plan. After considering these transactions, we can repurchase up to 104,591 shares of common stock without additional board approval. Repurchased shares would be available for, among other

things, use in connection with our stock option plan. The shares may be purchased from time to time, subject to prevailing market conditions, in the open market, in privately negotiated transactions or otherwise. Any such purchases may be commenced or suspended at any time without prior notice, and our ability to make such purchases remains subject to the covenants and restrictions in our Indenture governing our outstanding Notes (as defined herein).

8. SALES OF REAL ESTATE

Revenues from sales of real estate for each of the three years in the period ended December 31, is comprised of the following (in thousands):

	2018	2017	2016
Otay Land:			
Undeveloped land	$ —	$ 245	$ 22,767
Developed land	1,047	—	—
San Elijo Hills project:			
Developed lots	1,600	3,167	12,143
Single family homes	38,898	13,088	—
Towncenter Phase One & Two	—	5,800	—
Rampage Property:			
Undeveloped land	26,000	—	—
Ashville Park project:			
Developed lots	—	31	485
Single family homes	—	—	568
Revenues from profit sharing agreements	12	120	214
The Market Common:			
Developed lots	1,050	2,181	2,042
Revenues from profit sharing agreements	623	1,261	1,582
SweetBay project:			
Single family homes	17,097	24,729	4,168
Undeveloped land	1,997	—	1,283
Maine:			
Developed lots	—	—	—
Buildings	—	—	790
Total	$ 88,324	$ 50,622	$ 46,042

Prior to the adoption of the new Revenue Recognition standard, at the time we closed on sales of real estate, a portion of the revenue was initially deferred if we were required to make significant improvements to the property. For the years ended December 31, 2018 and 2017, the activity in the deferred revenue account is as follows (in thousands):

	2018	2017
Deferred revenue balance at January 1,	$ 1,230	$ 4,311
Cumulative effect of the adoption of accounting standard	(1,230)	—
Adjusted deferred revenue balance at January 1,	$ —	$ 4,311
Revenue deferred on the date of sale	—	433
Deferred revenue recognized in operations	—	(3,514)
Deferred revenue balance at December 31,	$ —	$ 1,230

Upon adoption of the new Revenue Recognition standard beginning on January 1, 2018, performance obligations not yet complete under a contract with the customer related to a parcel of land, lot or home when title transfers to the buyer are recorded as a contract liability (which is reflected in Other liabilities on the Consolidated Balance Sheet), and revenue associated with the incomplete performance obligation is deferred until the performance obligation is completed (see Note 9 for more information).

During June 2015, we entered into an agreement with a local San Diego based luxury homebuilder to construct and sell on our behalf, for a fee, up to 58 homes at the San Elijo Hills project. We received a $500,000 deposit during the third quarter of 2015 which is reflected in Other liabilities. This deposit is a builder performance deposit that will be fully refundable to the builder after the builder performs all of its requirements under the agreement. During 2018 and 2017, we sold 24 and nine of these homes for $38,900,000 and $13,100,000, respectively. At time of closing, we recognized real estate revenues of $38,900,000 and $13,000,000, respectively, and cost of sales of $32,550,000 and $12,200,000, respectively, for 2018 and 2017.

Advertising costs included in general and administrative expenses were $3,050,000, $2,350,000 and $1,000,000, respectively, for 2018, 2017 and 2016.

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):

	2018
Revenues from contracts with customers:	
Sales of real estate	$ 88,324
Contract service revenues	30,221
Co-op marketing and advertising fees	407
Total revenues from contracts with	118,952
Other revenues:	
Rental income	21,619
Total revenue from other sources	21,619
Total revenues	$ 140,571

Since January 1, 2018, 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.

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.

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.

Disaggregation of Revenue

The following presents our revenues from contracts with customers disaggregated by project for the year ended December 31, 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	$ 1,047	$ 40,498	$ —	$ 1,050	$ 19,092	$ 26,000	$ —	$ —	$ 87,687	$ —	$ 87,687
Profit participation from real estate sales	—	—	13	624	—	—	—	—	637	—	637
Contract service revenues	30,221	—	—	—	—	—	—	—	30,221	—	30,221
Co-op marketing and advertising fees	—	307	100	—	—	—	—	—	407	—	407
Total revenues from contracts with customers	31,268	40,805	113	1,674	19,092	26,000	—	—	118,952	—	118,952
Other revenues:											
Rental income	—	—	—	10,220	345	—	11,013	29	21,607	12	21,619
Total revenue from other sources:	—	—	—	10,220	345	—	11,013	29	21,607	12	21,619
Total revenues:	$ 31,268	$ 40,805	$ 113	$ 11,894	$ 19,437	$ 26,000	$ 11,013	$ 29	$ 140,559	$ 12	$ 140,571

Information on Remaining Performance Obligations and Revenue Recognized from Past Performance

We do not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less.

During the year ended December 31, 2018, revenues related to performance obligations satisfied (or partially satisfied) in previous periods that were recognized were insignificant.

Upon adoption of the new Revenue Recognition standard beginning on January 1, 2018, performance obligations not yet complete under a contract with the customer related to a parcel of land, lot or home when title transfers to the buyer are recorded as a contract liability (which is reflected in Other liabilities on the Consolidated Balance Sheet), and revenue associated with the incomplete performance obligation is deferred until the performance obligation is completed. For the year ended December 31, 2018, the activity in the contract liability account is as follows (in thousands):

	2018
Contract liability balance at January 1,	$ —
Performance obligations not yet complete on the date of sale	1,008
Performance obligations satisfied	—
Contract liability balance at December 31,	$ 1,008

As of December 31, 2018, we estimate that we will spend approximately $700,000 to complete the required improvements related to completion of our performance obligations. We estimate these improvements will be substantially complete by the end of 2019.

Contract Balances
The timing of revenue recognition may differ from the timing of payment by customers. We record a receivable when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied.

We had receivables related to revenues from contracts with customers of $500,000 and $1,300,000 at December 31, 2018 and January 1, 2018, respectively. There were no recorded impairment charges related to those receivables during the year ended December 31, 2018.

10. OTHER RESULTS OF OPERATIONS

Interest and other income for each of the three years in the period ended December 31, consists of the following (in thousands):

	2018	2017	2016
Interest income	$ 174	$ 36	$ 876
Insurance proceeds from Hurricane Michael damages	4,268	—	—
Income from utility service agreement	384	353	300
Gain on settlement of a lawsuit	—	—	1,000
Gain on redeemed investments	—	—	1,914
Gain on settlement of BP claim	—	—	556
Insurance proceeds from weather related damages to grapes	—	200	—
Other	83	29	93
Total	$ 4,909	$ 618	$ 4,739

In October 2018, Hurricane Michael passed through Panama City, Florida causing damage to the SweetBay project. During the fourth quarter of 2018, one of our insurance carriers assessed the damages and finalized one of our claims for $4,250,000. Accordingly, we accrued the $4,250,000 as income but did not receive the proceeds until January 2019.

Other income includes service income related to a utility bundling service agreement with the homeowners at the Ashville Park project. Income of $400,000, $350,000 and $300,000, respectively, was recognized during 2018, 2017 and 2016.

In 2016, we fully redeemed our investment in the Myrtle Beach Tax Increment Series 2006B Bonds and recorded a gain of $1,900,000.

During 2016, we recovered $1,000,000 from a judgment against certain defendants in the Flat Rock Litigation.

During 2016, our subsidiary at the SweetBay project received $550,000 related to the settlement of a claim against British Petroleum ("BP") arising from the damages caused by the Deepwater Horizon incident in April 2010 and the resulting BP oil spill in the Gulf of Mexico and recognized this amount as other income.

11. INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code that will impact many areas of taxation, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate from 35% to 21%; (2) elimination of the corporate alternative minimum tax ("AMT"); (3) the introduction of the base erosion anti-abuse tax ("BEAT"), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to tax global intangible low-taxed income ("GILTI"); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of foreign tax credits to reduce U.S. income tax liability; (10) limitations on net operating losses ("NOLs") generated after December 31, 2017, to 80% of taxable income; (11) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years; and (12) bonus depreciation that will allow for full expensing of qualified property.

In connection with our analysis of the Tax Act, we recorded a discrete tax expense of $2,150,000 during 2017 increasing our effective tax rate by 104.0%. This expense was primarily related to the revaluation of our deferred tax asset. In 2018, we completed our determination of the accounting implications of the Tax Act, and no material adjustment was necessary.

The (benefit) provision for income taxes for each of the three years in the period ended December 31, was as follows (in thousands):

	2018	2017	2016
Current taxes:			
Federal	$ —	$ (5,427)	$ 3,720
State and local	(125)	309	1,329
Total current income taxes (benefit)	(125)	(5,118)	5,049
Deferred taxes:			
Federal	(355)	(1,885)	(35,181)
State and local	(74)	(1,929)	(2,057)
Total deferred income taxes	(429)	(3,814)	(37,238)
Benefit for income taxes	$ (554)	$ (8,932)	$ (32,189)

Income tax expense differed from the amounts computed by applying the U.S. Federal statutory rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 to income (loss) before income taxes as a result of the following (in thousands):

	2018	2017	2016
Expected federal income tax provision (benefit)	$ (433)	$ 720	$ 229
State and local income taxes, net of federal income tax benefit	(175)	1,607	(472)
Increase (decrease) in valuation allowance	230	—	(31,846)
Decrease in unrecognized tax benefit	—	(13,212)	—
Impact of tax reform	—	2,133	—
Excess of stock detriment (benefit)	(297)	(109)	—
Employee incentive stock options	—	(88)	—
Permanent difference on tax exempt municipal bond interest	—	—	(198)
Noncontrolling interest	506	25	40
Meals and entertainment	32	43	37
Prior year adjustment	(423)	(53)	18
Other	6	2	3
Actual income tax benefit	$ (554)	$ (8,932)	$ (32,189)

At December 31, 2018 and 2017, the net deferred tax asset (liability) consisted of the following (in thousands):

	2018	2017
Deferred Tax Asset:		
Minimum tax credit carryovers	$ 30,899	$ 31,559
Pacho leasehold impairment	4,393	—
Equity method investments	5,390	5,908
Other, net	2,231	2,136
	42,913	39,603
Valuation allowance	(230)	—
	42,683	39,603
Deferred Tax Liability:		
Depreciation	(2,458)	(2,462)
Other, net	(1,569)	(84)
	(4,027)	(2,546)
Net deferred tax asset	$ 38,656	$ 37,057

The Tax Act repeals the corporate AMT effective for tax years beginning after December 31, 2017. Any AMT credit carryovers to tax years after that date generally may be utilized to the extent of the taxpayer's regular tax liability (as reduced by certain other credits). In addition, for tax years beginning in 2018, 2019, and 2020, to the extent that AMT credit carryovers exceed regular tax liability (as reduced by certain other credits), 50% of the excess AMT credit carryovers are refundable. Any remaining AMT credits will be fully refundable in 2021.

During 2018, the IRS announced that refunds of AMT credits pursuant to the Tax Act would be subject to sequestration. Accordingly, in the third quarter of 2018 we recorded a $1,700,000 increase to our income tax expense related to sequestration on our corporate AMT credits. On January 14, 2019, the Internal Revenue Service announced that refunds of AMT credits will not be subject to sequestration for tax years beginning after December

31, 2017. Consequently, during the fourth quarter of 2018, we reversed $1,700,000 of income tax expense related to our AMT credits.

During 2016, we determined that we had enough positive evidence to conclude that it is more likely than not that we will be able to generate enough future taxable income to fully utilize all of our Federal minimum tax credits. As a result, approximately $31,850,000 of the deferred tax valuation allowance was released as a credit to income tax expense during 2016.

The following table reconciles the total amount of unrecognized tax benefits as of the beginning and end of the period presented (in thousands):

	Unrecognized Tax Benefits	Interest	Total
Balance, January 1, 2016	$ 2,936	$ 40	$ 2,976
Increases based on tax positions related to current period	1,360		1,360
Interest expense recognized		110	110
Balance, December 31, 2016	4,296	150	4,446
Increases based on tax positions related to current period	382		382
Decreases based on tax positions related to current period	(4,678)		(4,678)
Interest expense reversed		(150)	(150)
Balance, December 31, 2017	—	—	—
Increases based on tax positions related to prior period	692		692
Interest expense recognized		248	248
Balance, December 31, 2018	$ 692	$ 248	$ 940

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 2014, and with respect to California state income tax returns through 2013. 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.

12. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share of common stock was calculated by dividing net income (loss) by the sum of the weighted average number of common shares outstanding, and for diluted earnings per share, the incremental weighted average number of shares issuable upon exercise of outstanding options for the periods they were outstanding. The treasury stock method is used for these calculations. The numerators and denominators used to calculate basic and diluted earnings (loss) per share for 2018, 2017 and 2016 are as follows (in thousands):

	2018	2017	2016
Numerator – net income (loss) attributable to HomeFed Corporation common shareholders	$ (68)	$ 10,931	$ 32,565
Denominator for basic earnings (loss) per share – weighted average shares	15,476	15,450	15,435
Restricted stock units	—	36	—
Stock options	—	3	10
Denominator for diluted earnings (loss) per share – weighted average shares	15,476	15,489	15,445

For 2018, 22,000 RSUs and options to purchase 170,000 weighted-average shares were not included in the computation of diluted loss per share as the result was anti-dilutive.

Options to purchase 74,800 and 16,600 weighted-average shares of common stock were outstanding during the years ended December 31, 2017 and 2016, respectively, but were not included in the computation of diluted per share amounts as the effect was antidilutive.

13. COMMITMENTS AND CONTINGENCIES

In December 2017, we entered into an agreement with a San Diego-based contractor to build the towncenter portion of the Village of Escaya project, known as The Residences and Shops at Village of Escaya, which is comprised of 272 apartments and approximately 20,000 square feet of retail space. The construction commenced in January 2018 and is anticipated to be completed in two years. In the fourth quarter of 2018, the contract became non-cancellable without cause upon completion of the foundations for each of the buildings within the project. As of December 31, 2018, the remaining cost to complete the contract is $45,550,000.

Future minimum annual rental income (exclusive of month-to-month leases, real estate taxes, maintenance and certain other charges) from real estate held for investment are aggregated as follows at December 31, 2018 (in thousands):

2019	$	5,065
2020		4,570
2021		4,239
2022		3,584
2023		2,909
Thereafter		8,255
	$	28,622

We agreed to indemnify Jefferies for certain lease obligations of BRP Leasing that were assumed from a former subsidiary of Jefferies that was sold to a third party prior to the Acquisition. The former subsidiary of Jefferies remains the primary obligor under the lease obligations and Jefferies agreed to indemnify the third party buyer. Our obligations under the primary lease expired in October 2018 and BRP Leasing will no longer have any indemnity obligations.

Our corporate office space lease was amended during 2018 to add 2,240 square feet of office space and extend the non-cancellable lease through February 28, 2025. Rental expense (net of sublease income) was $300,000 for 2018 and $250,000 for each of the years ended 2017 and 2016. Under the new lease, we are subject to a 3% escalator each year commencing on December 1, 2018. A portion of this space is leased to Jefferies through January 31, 2025; see Note 14 for more information. Future minimum annual rental (exclusive of real estate taxes, maintenance and certain other charges) under this lease is as follows (in thousands):

2019	$	317
2020		357
2021		367
2022		378
2023		390
Thereafter		470
		2,279
Less: sublease income		(91)
	$	2,188

For real estate development projects, we are generally required to obtain infrastructure improvement bonds at the beginning of construction work and warranty bonds upon completion of such improvements. These bonds are issued by surety companies to guarantee satisfactory completion of a project and provide funds primarily to a municipality in the event we are unable or unwilling to complete certain infrastructure improvements. As we develop the planned area and the municipality accepts the improvements, the bonds are released. Should the respective municipality or others draw on the bonds for any reason, certain of our subsidiaries would be obligated to pay.

Specifically for the San Elijo Hills project, Jefferies is contractually obligated to obtain these bonds on behalf of the project pursuant to the terms of agreements entered into when the project was acquired by us. We are responsible for paying all third party fees related to obtaining the bonds.

As of December 31, 2018, the amount of outstanding bonds for each project is as follows:

	Amount of outstanding
Otay Land project	$56,200,000
San Elijo Hills project	650,000
Ashville Park project	800,000
The Market Common	400,000

We have purchased insurance policies for general liability coverage including completed operations for the Otay Land, San Elijo Hills, Ashville Park and SweetBay projects with limits ranging from $2,000,000 to $22,000,000. No claims have ever been made under these policies. In addition, we are indemnified by our homebuilders and we are named as an additional insured party under the policies of contractors who work on the property.

The Market Common is required to provide a letter of credit for the benefit of the City of Myrtle Beach to secure the completion of certain infrastructure improvements in the amount of $1,250,000. We placed $1,250,000 on deposit with a qualified financial institution to obtain the replacement letter of credit. In July 2018, the letter of credit expired and was released by the City of Myrtle Beach based on substantial completion of the infrastructure improvements.

We completed environmental remediation activities on approximately 30 acres of undeveloped land owned by Flat Rock Land Company, LLC ("Flat Rock"), a subsidiary of Otay in February 2013, and received final approval of the remediation from the County of San Diego Department of Environmental Health in June 2013.

In 2014, Otay and Flat Rock commenced a lawsuit in California Superior Court seeking compensation from the parties who they believed were responsible for the contamination of the property. In February 2015, the trial court denied us any recovery and entered judgment in favor of the defendants as to all causes of action. In post-trial proceedings, the defendants sought, and the trial court allowed, reimbursement for court costs, of $350,000. Although our appeal of the judgment stayed the defendants' right to collect court costs pending resolution of the appeal, we accrued $350,000 during the first quarter of 2016 as we believed at the time that such loss was probable and reasonably estimable. The defendants also sought, but were denied, recovery of attorney's fees in the amount of approximately $13,500,000, which the defendants appealed.

On September 26, 2017, the Fourth District Court of Appeals (the "Appellate Court") affirmed in part and reversed in part the judgment and remanded the matter to the trial court for further proceedings. The Appellate Court determined that Otay and Flat Rock were the prevailing parties and awarded their costs on appeal, the $350,000 cost award in favor of the defendants was reversed by operation of law, and the defendants' appeal of the trial court's denial of the defendants' claim for attorneys' fees was dismissed as being moot. The defendants' requests for rehearing with the Appellate Court were summarily denied.

The decision of the Appellate Court became final on October 27, 2017 and was upheld by the California Supreme Court in January 2018. The matter will be remanded to the Superior Court for further proceedings consistent with

the Appellate Court's decision. In the fourth quarter of 2017, we reversed the accrual of the cost award plus accrued interest totaling $400,000. No assurances can be given as to the ultimate outcome of this matter.

We are subject to litigation which arises in the course of our business. We do not believe that the ultimate resolution of any such matters will materially affect our consolidated financial position, our consolidated results of operations or liquidity.

14. RELATED PARTY TRANSACTIONS

In 2015, Mr. Steinberg, the chairman of our Board of Directors, entered into a Purchase Agreement with us and our wholly-owned subsidiaries, as guarantors, pursuant to which he purchased Notes with a value of $5,000,000, or 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 $7,000,000, or 9.3%, of the principal amount of the Notes issued (such purchases and the redemption of the Old Notes, collectively, the "Affiliate Note Transactions"). Mr. Steinberg is considered to be a Related Person under our Related Person Transaction Policy (the "Policy"). Accordingly, the Audit Committee considered the Affiliate Note Transactions and approved, and recommended to the Board the approval of, the Affiliate Note Transactions, 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 the Policy. Accordingly, pursuant to and in accordance with the 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 of 1933, as amended, 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 the Notes (see Note 5 for more information).

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:

BRP Holding is the developer and owner of an 850,000-square foot office tower and parking garage located in Brooklyn, NY. We own a non-controlling 61.25% interest in the office tower and garage; the remaining interest in the office tower and garage is held by MWR L.L.C. ("MWR").

Prior to the construction of the project, Empire Insurance Company ("Empire"), a former subsidiary of Jefferies, entered into a twenty year master lease for nine floors in the office tower (approximately 286,000 square feet) that

expired in October 2018. Empire immediately subleased four of the floors to Jefferies under the same terms and rates Empire committed to under the master lease. During 2000 and 2001, Empire subleased the remaining five floors to third party tenants for a term concurrent with the end of the master lease at amounts in excess of the rent Empire was obligated to pay under the master lease.

MWR Associates ("Associates"), an affiliate of MWR, had the right to sublease two floors of the office tower. Jefferies and Associates entered into a pooling agreement, pursuant to which the subleasing of Jefferies' four floors and Associates two floors would be jointly managed; sublease income and related expenses were shared pro rata between the parties based on the floors contributed to the pooling agreement. In connection with the sale of Empire to a third party, all of Empire's and Jefferies' rights and obligations under the master lease and subleases were assigned to and assumed by BRP Leasing. In connection with the Acquisition, Jefferies assigned its interest in the pooling agreement to HomeFed. The pooling agreement expired October 31, 2018, and the leasing activities are now directly managed by BRP Holding. Beginning November 1, 2018, we are recognizing income from the former sublease space and former lease pooling space through BRP Holding under the equity method of accounting.

Included in accounts receivable, deposits and other assets is $1,700,000 representing BRP Leasing's share of undistributed amounts under the pooling agreement at December 31, 2018. For the year ended December 31, 2018, rental income includes BRP Leasing's share of the pooling agreement of $4,950,000, and rental income includes $7,400,000 of sublease income for the five floors originally sublet by Empire. Rental income includes a non-cash reduction of $1,400,000 for amortization related to purchase price accounting. For the year ended December 31, 2018, rental operating expenses includes rent paid to BRP Holding (for all nine floors) of $10,600,000.

Jefferies:

Pursuant to administrative services agreements, Jefferies provides administrative and accounting services to us, including providing the services of the Company's Secretary. Administrative fees paid to Jefferies were $180,000 in each of 2018, 2017 and 2016. The administrative services agreement automatically renews for successive annual periods unless terminated in accordance with its terms. Jefferies has the right to terminate the agreement by giving the Company not less than one year's prior notice, in which event the then monthly fee will remain in effect until the end of the notice period. We have the right to terminate the agreement, without restriction or penalty, upon 30 days prior written notice to Jefferies. The agreement has not been terminated by either party.

A portion of our corporate office space is sublet to Jefferies. Sublease payments from Jefferies reflected in Rental income were $12,000 for each of 2018, 2017 and 2016. In November 2018, the sublease was extended to January 31, 2025.

During the third quarter of 2017, certain of our executive officers and a director sold an aggregate 14,008 shares of our stock from their personal holdings to Jefferies in private transactions at an agreed upon price of $43.00 per share. The transaction was approved by our Audit Committee in accordance with our Related Party Transaction Policy taking into consideration that Jefferies is our majority shareholder, among other factors.

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

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.

Jefferies, our largest shareholder, owns approximately 9.7% of JZ Capital Partners Limited. Joseph Steinberg, our Chairman, may be deemed to own direct or indirect interests in JZ. Combined, Jefferies and Mr. Steinberg own less than 10% of JZ Capital Partners Limited (see Note 4 for more information regarding our recent investment in RedSky JZ Fulton Investors).

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 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.

Patrick Bienvenue:

During 2016, we entered into a consulting agreement between us and Patrick Bienvenue, one of our directors, to consult on various projects, primarily SweetBay. The agreement was approved by the Audit Committee pursuant to the Policy. During 2018, 2017 and 2016, we paid Patrick Bienvenue $155,000, $39,000 and $10,000, respectively, for his services and travel expenses under this agreement.

15. FAIR VALUE

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):

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:				
Long-term debt: Notes (a)	$ —	$ —	$ 74,590	$ 75,470
Long-term debt: EB-5 (b)	88,773	105,000	43,623	46,500

(a) The fair value of the Notes 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 utilizing available market data inputs that are considered level 3 inputs.

During 2018, we concluded that our Pacho leasehold was impaired and recorded a $17,450,000 pre-tax charge (the entire carrying value of the leasehold), of which $1,750,000 is attributable to the non-controlling interest. See Note 2 for more information.

During 2018, we concluded that our real estate in Maine was partially impaired due to a recent weakness in local housing market conditions. We recorded a write-down of $750,000 and thus reducing the carrying value to $3,300,000 which we believe reflects the fair value of the property using level 3 inputs from a local real estate brokerage firm.

During the fourth quarter of 2018, we evaluated the damaged caused by Hurricane Michael to our SweetBay project and recorded a write-down of $1,800,000.

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

16. SEGMENT INFORMATION

We have two reportable segments—real estate and corporate. Real estate operations consist of a variety of residential land development projects and commercial properties and other unimproved land, all in various stages of development. Real estate also includes contract service revenues, contract service expenses and the equity method investments in BRP Holding, BRP Hotel, RedSky JZ Fulton Investors and the Builder LLCs in the Otay Land project. Corporate primarily consists of investment income and overhead expenses. Our farming segment, which we no longer report, consisted of the Rampage property which included an operating grape vineyard and an almond orchard under development which was sold in January 2018. Revenue from the sale of the Rampage property is included in our real estate segment.

Certain information concerning our segments for the years ended 2018, 2017 and 2016 is presented in the following table.

	2018	2017	2016
	(in thousands)		
Revenues:			
Real estate	$ 140,559	$ 110,989	$ 82,499
Farming	—	3,507	4,436
Corporate	12	12	12
Total consolidated revenues	$ 140,571	$ 114,508	$ 86,947
Income (loss) from continuing operations before income taxes and noncontrolling interest			
Real estate	$ 11,239	$ 14,497	$ 9,405
Farming	—	(342)	462
Corporate	(13,298)	(12,098)	(9,212)
Total consolidated income from continuing operations before income taxes and noncontrolling interest	$ (2,059)	$ 2,057	$ 655
Depreciation and amortization expenses:			
Real estate	$ 2,514	$ 3,284	$ 4,670
Farming	—	341	257
Corporate	72	60	46
Total consolidated depreciation and amortization expenses	$ 2,586	$ 3,685	$ 4,973
Identifiable assets employed:			
Real estate	$ 531,005	$ 538,636	
Farming	—	9,925	
Corporate	63,003	59,386	
Total consolidated assets	$ 594,008	$ 607,947	

17. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
2018				
Sales of real estate	$ 33,998	$ 18,376	$ 21,400	$ 14,550
Rental income	$ 5,889	$ 5,911	$ 5,996	$ 3,823
Contract service revenues	$ 11,506	$ 10,278	$ 7,768	$ 669
Farming revenues	$ —	$ —	$ —	$ —
Co-op marketing and advertising fees	$ 130	$ 136	$ 119	$ 22
Cost of sales	$ 15,835	$ 16,417	$ 16,255	$ 11,549
Contract service expenses	$ 11,506	$ 10,278	$ 7,768	$ 669
Farming expenses	$ —	$ —	$ —	$ —
Income (loss) from operations	$ 12,509	$ 910	$ (17,034)	$ (3,353)
Net income (loss) attributable to HomeFed Corporation common shareholders	$ 8,792	$ 654	$ (12,430)	$ 2,916
Basic earnings (loss) per common share attributable to HomeFed Corporation shareholders	$ 0.57	$ 0.04	$ (0.80)	$ 0.19
Diluted earnings (loss) per common share attributable to HomeFed Corporation shareholders	$ 0.57	$ 0.04	$ (0.80)	$ 0.19
2017				
Sales of real estate	$ 14,950	$ 20,178	$ 7,980	$ 7,514
Rental income	$ 5,932	$ 6,357	$ 5,877	$ 5,764
Contract service revenues	$ 8,754	$ 8,306	$ 8,584	$ 10,221
Farming revenues	$ —	$ —	$ 3,411	$ 96
Co-op marketing and advertising fees	$ 110	$ 127	$ 157	$ 190
Cost of sales	$ 12,502	$ 18,248	$ 7,609	$ 6,839
Contract service expenses	$ 8,754	$ 8,306	$ 8,584	$ 10,221
Farming expenses	$ 937	$ 988	$ 1,179	$ 406
Income (loss) from operations	$ 395	$ 765	$ 988	$ (709)
Net income (loss) attributable to HomeFed Corporation common shareholders	$ 232	$ 13,682	$ 470	$ (3,453)
Basic earnings (loss) per common share attributable to HomeFed Corporation shareholders	$ 0.02	$ 0.89	$ 0.03	$ (0.22)
Diluted earnings (loss) per common share attributable to HomeFed Corporation shareholders	$ 0.02	$ 0.88	$ 0.03	$ (0.22)

During the fourth quarter of 2018, net income (loss) attributable to HomeFed Corporation common shareholders includes provision for losses on real estate of $(1,800,000) consisting of a write-down of our SweetBay assets due to damage caused by Hurricane Michael.

During the third quarter of 2018, net income (loss) attributable to HomeFed Corporation common shareholders includes provision for losses on real estate of $(18,200,000) consisting of a write-down of $(17,450,000) on our Pacho leasehold and a write-down of $(750,000) on our real estate in Maine.

During the second quarter of 2017, net income attributable to HomeFed Corporation common shareholders includes a credit to income tax expense of $13,200,000 resulting from settling our 2014 federal tax examination where we were allowed to reverse a portion of our deferred tax liability and our unrecognized tax benefits.

18. SUBSEQUENT EVENTS

On February 19, 2019, we announced that we received a proposal from our majority shareholder, Jefferies Financial Group Inc. (“Jefferies”), to purchase the remaining common stock of HomeFed not already owned by Jefferies in a transaction that would entail Jefferies issuing two shares of Jefferies common stock for each share of HomeFed’s common stock to be acquired by Jefferies.

Consistent with its fiduciary duties and with the stockholders agreement between HomeFed and Jefferies, the HomeFed Board of Directors has appointed a special committee of independent directors (the "special committee") who, in consultation with independent financial and legal advisors, will carefully review and evaluate Jefferies’ proposal. Jefferies’ proposal is subject to an affirmative recommendation by the special committee and approval by holders of a majority of the outstanding shares of HomeFed common stock not already owned by Jefferies or its affiliates, in addition to any other vote required by applicable law.

In January 2019, we withdrew $18,500,000 from escrow under the Village Escaya EB-5 program which increased our total obligation outstanding to $123,500,000. There is $1,500,000 in escrow for Village of Escaya and $5,000,000 in escrow for Cota Vera.

During February 2019, dividends of $6,000,000 were declared by our subsidiary that owns the San Elijo Hills project, of which $900,000 was paid to the noncontrolling interests in the San Elijo Hills project, and the balance was distributed to the parent Company.