

Comstock Holding Companies, Inc.
Form 10-Q
August 14, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

or

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.
(Exact name of registrant as specified in its charter)

Delaware **20-1164345**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
(703) 883-1700

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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 No

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

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 the 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

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of August 14, 2018, 3,690,693 shares of Class A common stock, par value \$0.01 per share, and 220,250 shares of Class B common stock, par value \$0.01 per share, of the registrant were outstanding.

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

FORM 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share and per share data)

| | June 30, 2018 | December 31, 2017 |
|--|--------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 5,725 | \$ 1,806 |
| Restricted cash | 1,237 | 1,141 |
| Trade receivables | 596 | 491 |
| Trade receivables - related parties | 11 | 145 |
| Real estate inventories | 34,915 | 44,711 |
| Fixed assets, net | 262 | 309 |
| Goodwill and intangibles | 1,906 | 1,939 |
| Other assets, net | 1,266 | 616 |
| TOTAL ASSETS | \$ 45,918 | \$ 51,158 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Accounts payable and accrued liabilities | \$ 4,886 | \$ 9,116 |
| Accounts payable - related parties | 687 | |
| Deferred revenue | 2,812 | |
| Notes payable - secured by real estate inventories, net of deferred financing charges | 20,188 | 23,215 |
| Notes payable - due to affiliates, unsecured, net of discount and deferred financing charges | 4,874 | 14,893 |
| Notes payable - unsecured, net of deferred financing charges | 1,096 | 1,285 |
| Income taxes payable | 57 | 39 |
| TOTAL LIABILITIES | 34,600 | 48,548 |
| Commitments and contingencies (Note 13) | | |
| STOCKHOLDERS EQUITY (DEFICIT) | | |
| Series C preferred stock \$0.01 par value, 3,000,000 shares authorized, 2,799,848 and 579,158 shares issued and outstanding and liquidation preference of \$13,999 and \$2,896, at June 30, 2018 and December 31, 2017, respectively | \$ 7,193 | \$ 442 |
| | 37 | 33 |

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| | | |
|---|------------------|------------------|
| Class A common stock, \$0.01 par value, 11,038,071 shares authorized, 3,690,693 and 3,295,518 issued, and outstanding, respectively | | |
| Class B common stock, \$0.01 par value, 220,250 shares authorized, issued, and outstanding, respectively | 2 | 2 |
| Additional paid-in capital | 181,009 | 177,612 |
| Treasury stock, at cost (85,570 shares Class A common stock) | (2,662) | (2,662) |
| Accumulated deficit | (191,528) | (189,803) |
| TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT | (5,949) | (14,376) |
| Non-controlling interests | 17,267 | 16,986 |
| TOTAL EQUITY | 11,318 | 2,610 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 45,918 | \$ 51,158 |

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

Table of Contents**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|---------------|----------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Revenue homebuilding | \$ 10,709 | \$ 10,235 | \$ 16,270 | \$ 20,299 |
| Revenue asset management | 2,960 | | 5,751 | |
| Revenue real estate services | 631 | 285 | 1,078 | 489 |
| Total revenue | 14,300 | 10,520 | 23,099 | 20,788 |
| Expenses | | | | |
| Cost of sales homebuilding | 11,543 | 9,221 | 17,038 | 18,322 |
| Cost of sales asset management | 2,606 | | 5,147 | |
| Cost of sales real estate services | 676 | 296 | 853 | 520 |
| Impairment charges | 216 | | 774 | |
| Sales and marketing | 209 | 340 | 428 | 721 |
| General and administrative | 368 | 1,226 | 728 | 2,472 |
| Interest and real estate taxes | 24 | | 109 | |
| Operating loss | (1,342) | (563) | (1,978) | (1,247) |
| Other income, net | 41 | 28 | 55 | 48 |
| Loss before income tax benefit | (1,301) | (535) | (1,923) | (1,199) |
| Income tax benefit | 484 | | 478 | |
| Net loss | (817) | (535) | (1,445) | (1,199) |
| Net income (loss) attributable to non-controlling interests | 185 | (922) | 280 | (939) |
| Net (loss) income attributable to Comstock Holding Companies, Inc. | (1,002) | 387 | (1,725) | (260) |
| Paid-in-kind dividends on Series B Preferred Stock | | | | 78 |
| Extinguishment of Series B Preferred Stock | | | | (1,011) |
| Net (loss) income attributable to common stockholders | \$ (1,002) | \$ 387 | \$ (1,725) | \$ 673 |
| Basic net (loss) income per share | \$ (0.27) | \$ 0.12 | \$ (0.47) | \$ 0.20 |
| Diluted net (loss) income per share | \$ (0.27) | \$ 0.11 | \$ (0.47) | \$ 0.20 |
| Basic weighted average shares outstanding | 3,759 | 3,359 | 3,684 | 3,351 |
| Diluted weighted average shares outstanding | 3,759 | 3,397 | 3,684 | 3,403 |

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

Table of Contents**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in thousands, except per share data)**

| | Six Months Ended June 30, | |
|---|----------------------------------|-----------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,445) | \$ (1,199) |
| Adjustment to reconcile net loss to net cash provided by operating activities | | |
| Amortization of loan discount, loan commitment and deferred financing fees | 217 | 637 |
| Deferred income tax benefit | (495) | |
| Depreciation expense | 111 | 74 |
| Earnings from unconsolidated joint venture, net of distributions | 26 | 31 |
| Stock compensation | 155 | 122 |
| Impairment charges | 774 | |
| Changes in operating assets and liabilities: | | |
| Trade receivables | 29 | (135) |
| Real estate inventories | 9,189 | 257 |
| Other assets | (694) | 717 |
| Accrued interest | (280) | 271 |
| Accounts payable and accrued liabilities | (658) | 1,285 |
| Income taxes payable | 18 | (19) |
| Net cash provided by operating activities | 6,947 | 2,041 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (64) | (13) |
| Principal received on note receivable | 19 | 18 |
| Net cash (used in) provided by investing activities | (45) | 5 |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 8,276 | 11,768 |
| Payments on notes payable | (11,086) | (13,613) |
| Loan financing costs | (77) | (71) |
| Distributions to non-controlling interests | | (2,908) |
| Repurchase of Series C preferred stock | | (89) |
| Net cash used in financing activities | (2,887) | (4,913) |
| Net increase (decrease) in cash, restricted cash and cash equivalents | 4,015 | (2,867) |
| Cash, restricted cash and cash equivalents, beginning of period | 2,947 | 6,999 |
| Cash, restricted cash and cash equivalents, end of period | \$ 6,962 | \$ 4,132 |

Supplemental cash flow information:

| | | |
|--|-------------|----------|
| Interest paid, net of interest capitalized | \$ 922 | \$ 457 |
| Supplemental disclosure for non-cash activity: | | |
| Seller's note payable | \$ | \$ 115 |
| Accrued liability settled through issuance of stock | \$ 71 | \$ 63 |
| Increase in Series B preferred stock value in connection with dividends paid in-kind | \$ | \$ 24 |
| Conversion of Class B common stock to Class A common stock | \$ | \$ 2 |
| Extinguishment of Series B Preferred Stock | \$ | \$ 1,011 |
| Increase in Series C Preferred Stock upon conversion of CGF I & II | \$ 6,751 | |
| Extinguishment of Notes payable-due to affiliates, net of discount | \$ (10,402) | |

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

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are in thousands, except per share data, number of units, or as otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Comstock Holding Companies, Inc. and subsidiaries (Comstock or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the disclosures required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying consolidated financial statements. For further information and a discussion of our significant accounting policies, other than discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Comstock Holding Companies, Inc., incorporated in 2004 as a Delaware corporation, is a multi-faceted real estate development and services company primarily focused in the mid-Atlantic region of the United States. In 2018, the Company has made a strategic decision to transform its operational platform from for sale production homebuilding to asset management, commercial development and complementary real estate related services. Moving forward, along with the buildout of the existing homebuilding pipeline, the Company will operate through two primary real estate focused platforms CDS Asset Management, LC (CAM) and Comstock Real Estate Services, LC (CRES). Concurrently, the Company will wind down its on-balance sheet production homebuilding. References in these consolidated financial statements on Form 10-Q to Comstock, Company, CAM, CRES, we, our and us refer to Comstock Holding Companies, Inc. together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

The Company's Class A common stock is traded on the NASDAQ Capital Market under the symbol CHCI and has no public trading history prior to December 17, 2004.

Throughout this quarterly report on Form 10-Q, amounts are in thousands, except per share data, number of units, or as otherwise noted.

For the three and six months ended June 30, 2018 and 2017, comprehensive loss equaled net loss; therefore, a separate statement of comprehensive loss is not included in the accompanying consolidated financial statements.

Liquidity and Capital Resources

The Company requires capital to operate, manage assets, provide real estate services, develop land, construct homes, and fund carrying costs and overhead. These expenditures include payroll, engineering, entitlement, utilities and interest as well as the construction costs of our projects. Its sources of capital include fees generated from various asset management agreements, private equity and debt placements (which has included significant participation from Company insiders), funds derived from various secured and unsecured borrowings to finance acquisition, development and construction on acquired land, cash flow from operations, which includes fees generated from service agreements and the sale and delivery of constructed homes, and the potential sale of public debt and equity securities. The Company is involved in ongoing discussions with lenders and equity sources in an effort to provide

additional growth capital to fund various new business opportunities.

The Company has outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition of new service business opportunities, as well as acquisition, development and construction of real estate projects. It has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each of our projects or collection of our projects to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders.

As of June 30, 2018, \$8.7 million of the Company's outstanding credit facilities and project related loans mature at various periods through the end of 2018. Active discussions are taking place with our lenders to seek long term extensions and modifications to these loans. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations, and financial covenant compliance. If the Company fails to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan's maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default. Refer to Note 12 *Debt* for further discussion regarding the Company's credit facilities and Note 23 *Subsequent Events* for other subsequent events impacting our credit facilities' extensions.

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Recent Developments

Our business strategy to transition to a full-service asset manager and real estate services company involves the initial integration of our existing homebuilding operating platform with the commercial development operating platform of the Chief Executive Officer's private company and thereafter to grow our assets under management and expand our service based relationships. To anchor our new business focus, on March 30, 2018, the Company entered into an initial Master Asset Management Agreement (AMA) effective January 2, 2018, through its CAM subsidiary, with Comstock Development Services, LC (CDS), an entity wholly owned by the Chief Executive Officer of the Company. Under the AMA, CDS will pay CAM an annual cost-plus fee in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to CDS' private portfolio pursuant to the AMA, (ii) the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, and (iii) a fixed annual payment of \$1,000,000 (the Annual Fee). In connection with the execution of the AMA, CDS paid CAM a deposit in the aggregate amount of \$2,500,000 pursuant to the Agreement that will be credited against the Annual Fee to be paid to CAM in accordance with the Agreement. The initial term of the Agreement will terminate on December 31, 2022 (Initial Term). The Agreement will automatically renew for successive additional one-year terms (each an Extension Term) unless CDS delivers written notice of non-renewal of the Agreement at least 180 days prior to the termination date of the Initial Term or any Extension Term.

Entering into the initial AMA is part of the Company's strategic plan to transform its business model from for-sale homebuilding to asset management and commercial development. In addition to the AMA, CRES continues to organically grow and pursue acquisitions of businesses and assets that provide supply chain services to assets under management pursuant to AMA as well as to unrelated third parties in the areas of environmental consulting, mortgage brokerage, and capital market services.

Use of Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts for the reporting periods. We base these estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. We evaluate these estimates and judgments on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions. Material estimates are utilized in the valuation of real estate inventories, valuation of deferred tax assets, analysis of goodwill impairment, valuation of equity-based compensation, valuation of preferred stock issuances, capitalization of costs, consolidation of variable interest entities, fair value of debt instruments and warranty reserves.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to the current year presentation. The impact of the reclassifications made to prior year amounts is not material and did not affect net loss.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers 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 or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 for one year, which would make the guidance effective for the Company's first fiscal year beginning after December 15, 2017. The Company adopted this standard using the modified retrospective method effective January 1, 2018. There were no material adjustments to the financial statements as a result of this adoption. Refer to Note 9 *Revenue* for further information regarding revenue from contracts with customers.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. Additionally, in November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* (ASU 2016-18). ASU 2016-18 clarifies certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. Both ASU 2016-15 and ASU 2016-18 were adopted for the Company's fiscal year beginning January 1, 2018. The adoption resulted in presentation reclassification of cash and restricted cash for the six months ended June 30, 2018 and 2017 of \$1.2 million and \$1.5 million, respectively, in its consolidated statement of cash flows.

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In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a *set*) is a business. The standard requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in ASU 2017-01 will be applied prospectively beginning January 1, 2018. The adoption of ASU 2017-01 did not have a material effect on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting*. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. The amendments in this update will be applied prospectively to an award modified on or after the adoption date, January 1, 2018. The adoption of ASU 2017-09 did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Standards

In March 2018, the FASB issued ASU 2018-05, *Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The Tax Cuts and Jobs Act (the Act)* changes existing United States tax law and includes numerous provisions that will affect businesses. The Act, for instance, introduces changes that impact U.S. corporate tax rates, business-related exclusions, and deductions and credits. ASC Topic 740 provides accounting and disclosure guidance regarding the recognition of taxes payable or refundable for the current year and the recognition of deferred tax liabilities and deferred tax assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. In accordance with SEC Staff Accounting Bulletin (SAB) 118, entities that elect to record provisional amounts must base them on reasonable estimates and may adjust those amounts for a period of up to a year after the December 22, 2017 enactment date. We do not expect the amendments of ASU 2018-05 to have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which removes Step 2 from the goodwill impairment test and replaces the qualitative assessment. Impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. Under this revised guidance, failing Step 1 will always result in a goodwill impairment. The amendments in this update should be applied prospectively for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The core principle of the standard is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in its statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this new standard will have on our consolidated financial statements.

We assessed other accounting pronouncements issued or effective during the three and six months ended June 30, 2018 and deemed they were not applicable to us and are not anticipated to have a material effect on our consolidated financial statements.

2. TRADE RECEIVABLES

Trade receivables include amounts due from real estate services, asset management, commercial development, home sales transactions and amounts due from related parties with whom we have service arrangements. There is no allowance for doubtful accounts recorded.

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| | June 30, 2018 | December 31, 2017 |
|-------------------------------|--------------------------|------------------------------|
| Trade | \$ 466 | \$ 432 |
| Due from settlement attorneys | | |
| Related parties | 11 | 145 |
| Other | 130 | 59 |
| | \$ 607 | \$ 636 |

3. REAL ESTATE INVENTORIES

After impairments and write-offs, real estate held for development and sale consists of the following:

| | June 30, 2018 | December 31, 2017 |
|---|--------------------------|------------------------------|
| Land and land development costs | \$ 18,484 | \$ 24,304 |
| Cost of construction (including capitalized interest and real estate taxes) | 16,431 | 20,407 |
| | \$ 34,915 | \$ 44,711 |

As a result of our impairment analysis, for the three and six months ended June 30, 2018, the Company expensed \$0.2 and \$0.8 million, respectively, of feasibility, site securing, predevelopment, design, carry costs and related costs for two of its communities in the Washington, D.C. metropolitan area due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three and six months ended June 30, 2017.

4. NOTE RECEIVABLE

The Company originated a note receivable to a third party in the amount of \$180 in September 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest. This note bears a fixed interest rate of 6% per annum. As of June 30, 2018, and December 31, 2017, the outstanding balance of the note was \$47 and \$66, respectively, and is included within Other assets in the accompanying consolidated balance sheets. Interest income, which is included in Other income, net in the consolidated statements of operations, for the three and six months ended June 30, 2018 was \$1 and \$2, respectively. For the three and six months ended June 30, 2017, interest income was \$2 and \$3, respectively.

5. GOODWILL & INTANGIBLES

On July 17, 2017, JK Environmental Services, LLC, (JK) an entity wholly owned by CDS Capital Management, L.C., a subsidiary of Comstock, purchased all of the business assets of Monridge Environmental, LLC for \$2.3 million. JK has its principal office located in Conshohocken, Pennsylvania, and operates in Maryland, Pennsylvania, New Jersey, and Delaware. JK Operates as an environmental services company, providing consulting, remediation, and other environmental services.

Goodwill represents the excess of the acquisition purchase price over the fair value of assets acquired and liabilities assumed, and it is not deductible for income tax purposes. As of the acquisition date, goodwill consisted primarily of

synergies resulting from the combination, expected expanded opportunities for growth and production, and savings in corporate overhead costs.

Intangible assets include customer relationships which has an amortization period of four years.

| | June 30, 2018 | December 31, 2017 |
|---------------------------------|--------------------------|------------------------------|
| Goodwill | \$ 1,702 | \$ 1,702 |
| Intangibles | 268 | 268 |
| | 1,970 | 1,970 |
| Less : accumulated amortization | (64) | (31) |
| | \$ 1,906 | \$ 1,939 |

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As of June 30, 2018, the future estimated amortization expense related to these intangible assets was:

| | Amortization Expense |
|--------------|---------------------------------|
| 2018 | \$ 34 |
| 2019 | 67 |
| 2020 | 67 |
| 2021 | 36 |
| Total | \$ 204 |

6. OTHER ASSETS

Other assets consist of the following:

| | June 30, 2018 | December 31, 2017 |
|---------------------------------|--------------------------|------------------------------|
| Bonds and escrow deposits | \$ 628 | \$ 380 |
| Prepaid Insurance | 579 | 486 |
| Other | 343 | 419 |
| | 1,550 | 1,285 |
| Less : accumulated amortization | (284) | (669) |
| | \$ 1,266 | \$ 616 |

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| | June 30, 2018 | December 31, 2017 |
|------------------------------------|--------------------------|------------------------------|
| Trade and accrued payables | \$ 3,600 | \$ 8,279 |
| Accounts payable - related parties | 687 | |
| Warranty | 206 | 258 |
| Customer deposits | 1,080 | 575 |
| Other | | 4 |
| | \$ 5,573 | \$ 9,116 |

8. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets consist of unbilled receivables, net, which represent the balance of recoverable costs and accrued profit, comprised principally of revenue recognized on contracts for which billings have not been presented to the customer. Progress payment balances in excess of revenue recognized, as well as advance payments received from customers, are classified as deferred contract liabilities on the consolidated balance sheet in the financial statement line item titled Deferred revenue. Homebuilding purchase deposits are classified as deferred contract liabilities on the consolidated balance sheet in the financial statement line item titled Accounts payable and accrued liabilities.

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Contract assets and liabilities consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Contract Assets: Accounts Receivable | | |
| Asset Management | \$ 97 | \$ |
| Real Estate Services | 369 | 432 |
| Total Contract Assets | \$ 466 | \$ 432 |
| Contract Liabilities: Customer Deposits and Deferred Revenue | | |
| Homebuilding - Customer deposits | \$ 1,080 | \$ 575 |
| Asset Management - Deferred revenue | 2,812 | |
| Total Contract Liabilities | \$ 3,892 | \$ 575 |

The increases of Accounts Receivable - Asset Management and Deferred Revenue - Asset Management relate to the AMA executed on March 30, 2018 and effective January 2, 2018. See Note 18 *Related Party Transactions* for details regarding this transaction.

The Company's other contract liabilities, that consist of deposits received from customers (Customer deposits) on homes not settled, were \$1.1 million and \$0.6 million as of June 30, 2018 and December 31, 2017, respectively. During the three and six months ended June 30, 2018, the Company recognized in revenue approximately \$0.3 and \$0.4 million, respectively, of the customer deposits held as of December 31, 2017.

Refer to Note 2 *Trade Receivables* and Note 4 *Note Receivable* for complete details regarding amounts due to the Company. Customer deposits are also included in Note 7 *Accounts Payable and Accrued Liabilities*.

9. REVENUE

The Company's revenues consist primarily of 1) buildout of the remaining projects under the homebuilding platform, 2) recurring fees earned under the AMA, and 3) real estate management and consulting services. All of the Company's revenue streams are U.S. based and substantially all are accounted for as short-term contracts. As such, the performance obligations required to complete contracts have an expected duration of less than one year. As a result, the Company does not disclose the value of unsatisfied performance obligations for contracts in accordance with the optional exemptions related to the disclosure of transaction price allocation under ASC 606. Additionally, incremental costs of obtaining a contract are recognized as an expense when incurred because the amortization period of the asset would have been recognized in one year or less. See Note 22 - *Segment Disclosures* for further information on the Company's operating segments and their nature of operations.

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The following table presents the Company's sales from contracts with customers disaggregated by categories which best represents how the nature, amount and timing and uncertainty of sales are affected by economic factors.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|------------------------------------|------------------|----------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue by customer | | | | |
| Individual customers | \$ 10,709 | \$ 10,235 | \$ 16,270 | \$ 20,299 |
| Related party | 2,960 | 285 | 5,751 | 489 |
| Commercial | 631 | | 1,078 | |
| Total Revenue by customer | \$ 14,300 | \$ 10,520 | \$ 23,099 | \$ 20,788 |
| Revenue by contract type | | | | |
| Fixed-price | \$ 10,709 | \$ 10,235 | \$ 16,270 | \$ 20,299 |
| Cost-plus | 2,960 | 285 | 5,751 | 489 |
| Time and Material | 631 | | 1,078 | |
| Total Revenue by contract type | \$ 14,300 | \$ 10,520 | \$ 23,099 | \$ 20,788 |

Revenue and related profits or losses from homebuilding contracts: the sale of residential properties and units, finished lots and land sales is recognized when closing has occurred, full payment has been received by the Company or its settlement attorney, title and possession of the property has transferred to the buyer and we have no significant continuing involvement in the property. These contracts meet the criteria for recognizing revenue at a point in time, when control of the home has been passed to the customer at settlement, cash has been received by the Company or its settlement attorney, and the title of ownership is transferred to the home buyer. As such, these revenues are disaggregated in Individual customers and Fixed-price in the tables above.

Under the recently executed AMA and the Company's real estate services contracts, performance obligations are satisfied over time. For performance obligations satisfied over time, the objective is to measure progress in a manner which depicts the performance of transferring control to the customer. As such, the company recognizes revenue over time using the percentage of completion cost-to-cost revenue recognition model, which includes cost-plus and fixed-prices contracts, as this depicts when control of the promised goods and/or services are transferred to the customer. Sales are recognized as the ratio of actual costs of work performed to the estimated costs at completion of the performance obligation (cost-to-cost). As such, these revenues are disaggregated in Related party and Cost-plus in the tables above.

Other revenue earned from management, consulting and administrative support services provided, which may or may not be covered by a formal contract, are generally time and material based. Revenue from these contracts is recognized as the services are provided. As such, these revenues are disaggregated in Commercial and Time and Material in the tables above.

10. WARRANTY RESERVE

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. Because the Company

typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The Company is following the practical expedient for warranties under ASC 606. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. This reserve is an estimate and actual warranty costs could vary from these estimates. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to this reserve as they arise.

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The following table is a summary of warranty reserve activity which is included in Accounts payable and accrued liabilities within the consolidated balance sheets:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Balance at beginning of period | \$ 227 | \$ 278 | \$ 258 | \$ 288 |
| Additions | 22 | 46 | 38 | 96 |
| Releases and/or charges incurred | (43) | (42) | (90) | (102) |
| Balance at end of period | \$ 206 | \$ 282 | \$ 206 | \$ 282 |

11. CAPITALIZED INTEREST AND REAL ESTATE TAXES

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate inventories during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive. A project becomes inactive when development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate inventories are expensed as a component of cost of sales as related units are sold.

The following table is a summary of interest and real estate taxes incurred and capitalized and interest and real estate taxes expensed for units settled:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest incurred and capitalized | \$ 346 | \$ 1,249 | \$ 1,242 | \$ 2,275 |
| Real estate taxes incurred and capitalized | 100 | 139 | 166 | 179 |
| Total interest and real estate taxes incurred and capitalized | \$ 446 | \$ 1,388 | \$ 1,408 | \$ 2,454 |
| Interest expensed as a component of cost of sales | \$ 694 | \$ 558 | \$ 1,212 | \$ 1,009 |
| Real estate taxes expensed as a component of cost of sales | 65 | 57 | 113 | 117 |
| Interest and real estate taxes expensed as a component of cost of sales | \$ 759 | \$ 615 | \$ 1,325 | \$ 1,126 |

The amount of interest from entity level borrowings that we are able to capitalize in accordance with Accounting Standards Codification (ASC) 835 is dependent upon the average accumulated expenditures that exceed project specific borrowings. For the three and six months ended June 30, 2018, the Company expensed \$24 and \$48, respectively, of interest from entity level borrowings. The Company did not expense any interest from entity level borrowings for the three and six months ended June 30, 2017.

Additionally, when a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period they are incurred. For the three and six months ended June 30, 2018, the Company expensed \$0 and \$61, respectively, of interest and real estate taxes related to inactive projects. For the three and six months ended June 30, 2017, there were no inactive projects, therefore, no interest or real estate taxes were expensed.

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Notes payable consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|--------------------------|------------------------------|
| Construction revolvers | \$ 4,288 | \$ 7,237 |
| Development and acquisition notes | 11,053 | 9,533 |
| Mezzanine notes | 2,030 | 3,253 |
| Line of credit | 1,807 | 2,123 |
| Secured - other | 1,010 | 1,069 |
| | | |
| Total secured notes | 20,188 | 23,215 |
| Unsecured financing, net of unamortized deferred financing charges of \$22 and \$55 | 1,096 | 1,285 |
| Notes payable- due to affiliates, unsecured, net of \$0.9 million and \$2.0 million discount and unamortized deferred financing charges, respectively | 4,874 | 14,893 |
| | | |
| Total notes payable | \$ 26,158 | \$ 39,393 |

As of June 30, 2018, maturities and/or curtailment obligations of all borrowings are as follows:

| | |
|---------------------|-----------|
| 2018 | \$ 8,706 |
| 2019 | 15,725 |
| 2020 | 122 |
| 2021 | |
| 2022 and thereafter | 1,605 |
| | |
| Total | \$ 26,158 |

As of June 30, 2018, the Company had \$8.7 million of its credit facilities and project related loans scheduled to mature during the remainder of 2018. As of August 14, 2018, the Company has successfully extended or repaid all obligations with lenders through August 14, 2018, and it is actively engaging its lenders seeking long term extensions and modifications to the loans where necessary. See Note 23 *Subsequent Events* for further discussion on repayments and extensions subsequent to June 30, 2018.

Construction, development and mezzanine debt secured

The Company enters into secured acquisition and development loan agreements from time to time to purchase and develop land parcels. In addition, the Company enters into secured construction loan agreements for the construction of its real estate inventories. The loans are repaid with proceeds from home closings based upon a specific release price, as defined in each respective loan agreement.

As of June 30, 2018, and December 31, 2017, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$24.8 million and \$24.7 million, respectively. The Company may borrow under these facilities to fund its home building activities. The amount the Company may borrow is subject to applicable borrowing base provisions and the number of units under construction, which may also limit the amount available or outstanding under the facilities. The facilities are secured by deeds of trust on the real property and improvements thereon, and the borrowings are repaid with the net proceeds from the closings of homes sold, subject to a minimum release price. As of June 30, 2018, and December 31, 2017, the Company had approximately \$20.5 million and \$17.5 million, respectively, of unused construction loan commitments. The Company had \$4.3 million and \$7.2 million of outstanding construction borrowings as of June 30, 2018 and December 31, 2017, respectively. Interest rates charged under these facilities include the London Interbank Offered Rate (LIBOR) and prime rate pricing options, subject to minimum interest rate floors. At June 30, 2018 and December 31, 2017, the weighted average interest rate on the Company s outstanding construction revolving facilities was 4.7 and 4.6% per annum, respectively. The construction credit facilities have maturity dates ranging from September 2018 to June 2020, including extensions subject to the Company meeting certain conditions.

As of June 30, 2018, and December 31, 2017, the Company had approximately \$34.8 million of aggregate acquisition and development maximum loan commitments of which \$11.1 million and \$9.5 million, respectively, were outstanding. These loans have maturity dates ranging from September 2018 to June 2020, including extensions subject to certain conditions, and bear interest at a rate based on LIBOR and prime rate pricing options, with interest rate floors ranging from 4.5% to 12.0% per annum. As of June 30, 2018 and December 31, 2017, the weighted average interest rate was 7.2% and 7.1% per annum, respectively.

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During 2018, the Company had a mezzanine loan that is being used to finance the development of the Momentum I Shady Grove project. This mezzanine loan was paid in full during the three months ended June 30, 2018. The maximum principal commitment amount of this loan was \$1.1 million, of which \$1.3 million of principal and accrued interest was outstanding at December 31, 2017. This financing carried an annual interest rate of 12%, of which 6% was paid monthly with the remaining 6% being accrued and paid at maturity.

As of June 30, 2018, the Company also had a mezzanine loan that is being used to finance the development of finished lots at its Richmond Station project located in Prince William County, Virginia. The maximum principal commitment amount of this loan is \$2.0 million, of which \$2.0 million of principal and accrued interest was outstanding at June 30, 2018 and December 31, 2017, respectively. This financing carries an annual interest rate of 12% annually. This financing has a maturity date of September 30, 2018, and is guaranteed by the Company and our Chief Executive Officer. Subsequent to June 30, 2018, this financing was refinanced. Refer to Note 23 *Subsequent Events* for further discussion of this refinancing.

Line of credit secured

At June 30, 2018 and December 31, 2017, the Company utilized a secured revolving line of credit with a maximum capacity of \$3.0 million, of which \$1.8 million was outstanding at June 30, 2018 and December 31, 2017. This line of credit is secured by the first priority security interest in the Company's wholly owned subsidiaries in the Washington, D.C. metropolitan area and guaranteed by our Chief Executive Officer. The Company uses this line of credit to finance the predevelopment related expenses and deposits for current and future projects and bears a variable interest rate tied to a one-month LIBOR plus 3.25% per annum, with an interest rate floor of 5.0%. At June 30, 2018 and December 31, 2017, the interest rate was 5.34% and 5.00%, respectively. This line of credit also calls for the Company to adhere to financial covenants such as, minimum net worth and minimum liquidity, measured quarterly and minimum EBITDA, as defined in the agreement, measured on a twelve-month basis. As of June 30, 2018, the Company was in compliance with all financial covenants dictated by the line of credit agreement. This line of credit is guaranteed by our Chief Executive Officer. Subsequent to June 30, 2018, this financing was repaid in full. Refer to Note 23 *Subsequent Events* for further discussion of this repayment.

Other secured

As of June 30, 2018 and December 31, 2017, the Company had one secured loan related to JK Environmental, LLC (JK). The loan was used to finance the acquisition of JK, and carries a fixed interest rate of 6.0%, with a maturity date of October 17, 2022. At June 30, 2018 and December 31, 2017, this financing had an outstanding balance of \$1.0 million and \$1.1 million, respectively. This financing is secured by the assets of JK and is guaranteed by our Chief Executive Officer.

Unsecured financing

As of June 30, 2018, and December 31, 2017, the Company had \$0.4 million and \$0.6 million, respectively, in outstanding balances under a 10-year unsecured note with a bank. Interest is charged on this financing on an annual basis at the Overnight LIBOR rate plus 2.2%. At June 30, 2018 and December 31, 2017, the interest rate was 4.3% and 3.6% per annum, respectively. The maturity date of this financing is December 28, 2018. The Company is required to make monthly principal and interest payments through maturity.

As of June 30, 2018, and December 31, 2017, the Company had two unsecured seller-financed promissory notes with outstanding balances totaling \$0.7 million. The first note, in the amount of \$0.1 million, carries an annual interest rate of the prime rate plus 5%. At June 30, 2018 and December 31, 2017, the interest rate was 10.0% and 9.5%,

respectively. This financing has a maturity date of February 27, 2020, and is guaranteed by our Chief Executive Officer. The second note has an outstanding balance of \$0.6 million as of June 30, 2018 and December 31, 2017. This financing carries an annual interest rate of LIBOR plus 3% and has a maturity date of July 17, 2022. At June 30, 2018 and December 31, 2017, the interest rate was 5.66% and 4.56%, respectively.

Notes payable to affiliate unsecured

Comstock Growth Fund

On October 17, 2014, CGF entered into a subscription agreement with CDS, pursuant to which CDS purchased membership interests in CGF for a principal amount of \$10.0 million (the "CGF Private Placement"). Other investors who subsequently purchased interests in the CGF Private Placement included members of the Company's management and board of directors and other third party accredited investors for an additional principal amount of \$6.2 million.

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On October 17, 2014, the Company entered into an unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal amount of \$10.0 million and a maximum amount available for borrowing of up to \$20.0 million with a three-year term. On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. On May 23, 2018, Comstock Holding Companies, Inc. (Comstock , CHCI or the Company) entered into a Membership Interest Exchange and Subscription Agreement (the Membership Exchange Agreement), together with a revised promissory note agreement, in which a note (CGF Note) with an outstanding principal and accrued interest balance of \$7.7 million was exchanged for 1,482,300 shares of the Company s Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated liquidation value of \$5.00 per share (the Series C Preferred Stock), issued by the Company to Comstock Development Services, LLC (CDS), a Company wholly owned by our Chief Executive Officer. The Company exchanged the preferred equity for 91.5% of CDS membership interest in the Comstock Growth Fund promissory note. Concurrently, the face amount of the CGF Note was reduced to \$5.7 million as of the Effective Date. The loan bears interest at a fixed rate of 10% per annum. Interest payments will be made monthly in arrears. There is a principal curtailment requirement of 10% annually based on the average outstanding balance for the prior year. The Company is the administrative manager of CGF but does not own any membership interests. The Company had approximately \$4.9 million and \$11.3 million of outstanding borrowings and accrued interest under the CGF loan, net of discounts, as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, and December 31, 2017, the interest rate was 10.0% and 11.9% per annum, respectively. The maturity date for the CGF loan is April 16, 2019.

For the three and six months ended June 30, 2018, the Company made interest payments of \$0.3 million. For the three and six months ended June 30, 2017, the Company made interest payments of \$0.4 million and \$0.8 million, respectively.

During the three and six months ended June 30, 2018, the Company did not make principal payments to CGF. During the three months ended June 30, 2017, the Company made principal payments to CGF of \$1.5 million.

Comstock Growth Fund II

On December 29, 2015, the Company entered into a revolving line of credit promissory note with Comstock Growth Fund II (CGF II) whereby CGF II made a loan to the Company in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two-year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. The funds obtained from the loan are being used by the Company (i) to capitalize the Company s current and future development pipeline, (ii) to repay all or a portion of the Company s prior private placements, and (iii) for general corporate purposes. Effective December 31, 2017, the CGF II loan was extended one year to December 31, 2018. On May 23, 2018, Comstock Holding Companies, Inc. (Comstock , CHCI or the Company) entered into a Note Exchange and Subscription Agreement (the Note Exchange Agreement) in which a note (CGF2 Note) with an outstanding principal and accrued interest balance of \$3.7 million was exchanged for 738,390 shares of the Company s Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated liquidation value of \$5.00 per share (the Series C Preferred Stock), issued by the Company to Comstock Growth Fund II, L.C. (CGF2), a Company wholly owned by our Chief Executive Officer. The CGF2 Note was cancelled in its entirety effective as of the Effective Date. As a result of the conversion of CGF & CGF2, the Company recognized a gain of \$3.7 million, which was recorded in Additional paid-in capital in the consolidated balance sheet and an income tax benefit of \$0.5 million, which was recorded in the consolidated statement of operations for the three and six months ended June 30, 2018. Refer to Note 14 *Fair Value Disclosure* for further information regarding the assumptions and methods utilized in determining the fair value of the Preferred Stock issued. As of December 31, 2017, \$3.6 million, was outstanding in principal and accrued interest under the CGF II loan.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Currently, we are not subject to any material legal proceedings. From time to time, however, we are named as a defendant in legal actions arising from our normal business activities. Although we cannot accurately predict the amount of our liability, if any, that could arise with respect to legal actions pending against us; we do not expect that any such liability will have a material adverse effect on our financial position, operating results and cash flows. We believe that we have obtained adequate insurance coverage, rights to indemnification, or where appropriate, have established appropriate reserves in connection with any such legal proceedings.

Letters of credit, performance bonds and compensating balances

The Company has commitments as a result of contracts with certain third parties, primarily local governmental authorities, to meet certain performance criteria outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that the commitments entered into are met. These letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. In some circumstances, we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds. We cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds. At June 30, 2018, and 2017, the Company had \$1.1 million in outstanding letters of credit. At June 30, 2018, and 2017, the Company had \$4.4 million and \$4.2 million in outstanding performance bonds, respectively. No amounts have been drawn against the outstanding letters of credit or performance bonds.

We are required to maintain compensating balances in escrow accounts as collateral for certain letters of credit, which are funded upon settlement and release of units. The cash contained within these escrow accounts is subject to withdrawal and usage restrictions. As of June 30, 2018, and December 31, 2017, we had approximately \$1.0 million in these escrow accounts, which are included in Restricted cash in the accompanying consolidated balance sheets.

Table of Contents**14. FAIR VALUE DISCLOSURES**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of their fair values based on their short maturities. The fair value of fixed and floating rate debt is based on unobservable market rates (Level 3 inputs). The fair value of the fixed and floating rate debt was estimated using a discounted cash flow analysis on the blended borrower rates currently available to the Company for loans with similar terms. The following table summarizes the carrying amount and the corresponding fair value of fixed and floating rate debt.

| | June 30, 2018 | December 31, 2017 |
|-----------------|--------------------------|------------------------------|
| Carrying amount | \$ 26,158 | \$ 39,393 |
| Fair value | \$ 25,714 | \$ 38,899 |

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In connection with the CGF I & II conversions discussed in Note 12 *Debt* and Note 18 *Related Party Transactions*, we issued 2,220,690 shares of Series C Non-Convertible Preferred Stock with a liquidation preference of \$5.00 per share. The Series C Preferred Stock has a discretionary dividend feature, as opposed to the mandatory dividend feature in the Series B Preferred Stock. The Company recorded these shares based on the fair value calculation on the effective date of the agreement. The Company used various assumptions and inputs such as current market condition and financial position in calculating the fair value of the Series C Preferred Stock by back solving from the Company's equity value using the option pricing and the probability-weighted expected return models, adjusted for marketability of the Series C Preferred Stock.

The Company may also value its non-financial assets and liabilities, including items such as real estate inventories and long-lived assets, at fair value on a non-recurring basis if it is determined that impairment has occurred. Such fair value measurements use significant unobservable inputs and are classified as Level 3.

Resulting from impairment analysis conducted during the three and six months ended June 30, 2018, the Company expensed \$0.2 million and \$0.8 million, respectively, of feasibility, site securing, predevelopment, design, carry costs and related costs for two of its communities in the Washington, D.C. metropolitan area due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three and six months ended June 30, 2017.

15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

For the three and six months ended June 30, 2018, the Company issued 60,000 stock options to employees. No restricted stock awards were issued during the three and six months ended June 30, 2018.

During the three months ended June 30, 2017, the Company issued 45,000 restricted stock awards. During the six months ended June 30, 2017, the Company issued 157,000 stock options and 245,000 restricted stock awards to employees.

Stock-based compensation expense associated with restricted stock and stock options is recognized based on the grant date fair value of the award over its vesting period. The following table reflects the consolidated balance sheets and statements of operations line items for stock-based compensation for the periods presented:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Assets - Real Estate Inventories | \$ 4 | \$ 19 | \$ 18 | \$ 24 |
| Cost of sales - Asset Management and Real Estate Services | | 34 | 86 | 43 |
| Expense - General and administrative | 69 | 56 | 69 | 79 |
| | \$ 73 | \$ 109 | \$ 173 | \$ 146 |

Under net settlement procedures currently applicable to our outstanding restricted stock awards for employees, upon each settlement date and election by the employees, restricted stock awards are withheld to cover the required withholding tax, which is based on the value of the restricted stock award on the settlement date as determined by the closing price of our Class A common stock on the trading day immediately preceding the applicable settlement date. The remaining amounts are delivered to the recipient as shares of our Class A common stock.

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As of June 30, 2018, the weighted-average remaining contractual term of unexercised stock options was 8 years. As of June 30, 2018, and December 31, 2017, there was \$0.5 million and \$0.6 million, respectively, of unrecognized compensation cost related to stock grants. As of June 30, 2017, the weighted-average remaining contractual term of unexercised stock options was 7 years. As of June 30, 2017, there was \$0.7 million of unrecognized compensation cost related to stock grants.

The Company intends to issue new shares of its common stock upon vesting of restricted stock grants or the exercise of stock options.

16. LOSS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three and six months ended June 30, 2018 and 2017 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the periods, unless their inclusion would be anti-dilutive.

As a result of the net loss attributable to common stockholders for the three months ended June 30, 2018, approximately 122 restricted stock awards, 30 stock options, and 65 warrants were excluded from the computation of dilutive earnings per share. As a result of the net loss attributable to common stockholders for the six months ended June 30, 2018, approximately 105 restricted stock awards, 4 stock options, and 34 warrants were excluded from the computation of dilutive earnings per share.

As a result of the net income attributable to common stockholders for the three months ended June 30, 2017, approximately 23 restricted stock awards and 15 warrants were included in the computation of dilutive earnings per share. As a result of the net income attributable to common stockholders for the six months ended June 30, 2017, approximately 32 restricted stock awards and 20 warrants were included in the computation of dilutive earnings per share.

17. VARIABLE INTEREST ENTITIES

Consolidated Real Estate Inventories

Included within the Company's real estate inventories at June 30, 2018 and December 31, 2017 are several projects that are determined to be variable interest entities (VIEs). These entities have been established to own and operate real estate property and were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. Because of the Company's majority voting rights and complete operational control of these entities, the Company determined that it was the primary beneficiary of these VIEs.

In December 2013, Comstock Investors VIII, L.C. (Comstock VIII) entered into subscription agreements with certain accredited investors (Comstock VIII Class B Members), pursuant to which Comstock VIII Class B Members purchased membership interests in Comstock VIII for an aggregate amount of \$4.0 million (the Comstock VIII Private Placement). In connection with the Comstock VIII Private Placement, the Company issued 14,573 warrants for the purchase of shares of the Company's Class A common stock to the non-affiliated accredited investors, having an aggregate fair value of \$131. Comstock VIII Class B Members included unrelated third-party accredited investors along with members of the Company's board of directors and the Company's former Chief Operating Officer and the former Chief Financial Officer. The Comstock VIII Class B Members are entitled to a cumulative, preferred return of

20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock VIII Class B Members at any time, provided that (i) all of the Comstock VIII Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VIII Class B Members' capital accounts plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The proceeds from the Comstock VIII Private Placement have been used for the construction of the following projects: The Townes at HallCrest in Sterling, Virginia consisting of 42 townhome units, and Townes at Maxwell Square Condominium in Frederick, Maryland consisting of 45 townhome condominium units (collectively, the Investor VIII Projects). The Company evaluated Comstock VIII and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits accordingly, the Company consolidates this entity. In January 2017, the Company fully redeemed the remaining equity interest of Class B Members in Comstock VIII after paying \$1.9 million in distributions.

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In June 2015, Comstock Investors IX, L.C. (Comstock IX) entered into subscription agreements with third-party accredited investors (Comstock IX Class B Members), pursuant to which Comstock IX Class B Members purchased membership interests in Comstock IX for an aggregate amount of \$2.5 million (the Comstock IX Private Placement). The Comstock IX Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock IX Class B Members at any time, provided that (i) all of the Comstock IX Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock IX Class B Members' capital accounts plus any amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Company evaluated Comstock IX and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses or receive benefits. Accordingly, the Company consolidates this entity. No distributions were made during the three and six months ended June 30, 2018 and 2017.

In August 2016, Comstock Investors X, L.C. (Comstock X) entered into a subscription agreement with an accredited investor (Comstock X Class B Member), pursuant to which the Comstock X Class B Member purchased membership interests in Comstock X for an initial amount of \$5.0 million, which is part of an aggregate capital raise of \$14.5 million (the Comstock X Private Placement). The Comstock X Class B Member is Comstock Development Services, LC (CDS), an entity wholly owned by Christopher Clemente, our Chief Executive Officer. In October 2016, the Comstock X Class B Member purchased additional interests in the Comstock X Private Placement in an amount of \$9.5 million resulting in an aggregate subscription amount of \$14.5 million. In connection with the Comstock X Private Placement, the Company issued a total of 150,000 warrants for the purchase of shares of the Company's Class A common stock, having an aggregate fair value of \$258. The Comstock X Member is entitled to a cumulative, preferred return of 6% per annum, compounded annually on the capital account balance. The Company has the right to repurchase the interest of the Comstock X Class B Member at any time, provided that (i) all of the Comstock X Class B Members' interest is acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock X Class B Members' capital account plus accrued priority return. In October 2017, the Operating Agreement for Comstock X was amended to increase the maximum capital raise to \$19.5 million. Additionally, in October 2017, Comstock X received proceeds of \$5.0 million under the amended Operating Agreement to be used for the planned construction of the Company's Totten Mews, Towns at 1333, Richmond Station, and Marwood East projects. As part of this additional contribution, 50,000 warrants for the purchase of the Company's Class A common stock, having an aggregate fair value of \$81. The Company evaluated Comstock X and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits. Accordingly, the Company consolidates this entity. No distributions were made during the three and six months ended June 30, 2018. During the six months ended June 30, 2017, the Company paid distributions of \$1.0 million to its non-controlling interest member.

At June 30, 2018 and December 31, 2017, the distributions and contributions for the VIEs discussed above are included within the Non-controlling interest classification in the consolidated balance sheets.

At June 30, 2018 and December 31, 2017, total assets of these VIEs were approximately \$27.6 million and \$30.6 million, respectively, and total liabilities were approximately \$15.5 million and \$15.9 million, respectively. The classification of these assets is primarily within Real estate inventories and the classification of liabilities are primarily within Accounts payable and accrued liabilities and Notes payable secured by real estate inventories in the accompanying consolidated balance sheets.

18. RELATED PARTY TRANSACTIONS

The Company leases its corporate headquarters from an affiliated entity that is wholly-owned by our Chief Executive Officer. Future minimum lease payments under this lease, which expires in 2018, is \$0.1 million. For the three months ended June 30, 2018 and 2017, total payments made under this lease agreement were \$53 and \$52, respectively. For the six months ended June 30, 2018 and 2017, total payments were \$107 and \$104, respectively.

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by our Chief Executive Officer, to provide services related to real estate development and improvements, including legal, accounting, marketing, information technology and other additional support services. For the three months ended June 30, 2018 and 2017, the Company billed Comstock Asset Management, L.C. \$12 and \$285, respectively, for services and out-of-pocket expenses. For the six months ended June 30, 2018 and 2017, Comstock Asset Management, L.C. was billed \$12 and \$488, respectively. Revenues from this arrangement are included within Revenue real estate services in the accompanying consolidated statements of operations. As of June 30, 2018, and December 31, 2017, the Company was owed \$12 and \$145, respectively, under this contract, which is included in Trade receivables in the accompanying consolidated balance sheets.

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On October 17, 2014, Comstock Growth Fund (CGF), an administrative entity managed by the Company, entered into a subscription agreement with Comstock Development Services, LC (CDS), an entity wholly-owned by our Chief Executive Officer, pursuant to which CDS purchased membership interests in CGF for a principal amount of \$10 million. Other purchasers who purchased interests in the private placement included members of the Company's management and board of directors and other third-party, accredited investors for an additional principal amount of \$6.2 million (the CGF Private Placement).

Simultaneously, on October 17, 2014, the Company entered into an unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal amount of \$10 million and a maximum capacity of up to \$20 million. On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. The Company borrowed an additional principal loan amount of \$6.2 million under the amended and restated CGF promissory note bringing the total aggregate principal amount borrowed to \$16.2 million. The CGF loan initially had a three year term carrying a floating interest rate of LIBOR plus 9.75% with a 10% floor. The loan requires an annual principal repayment in the amount of 10% of the average outstanding balance and a monthly interest payment that will be made in arrears. See Note 12 *Debt* for further discussion of transactions entered into with CGF.

On December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, members of the Company's management and board of directors and the other third party accredited investors who participated in the CGF Private Placement (the Amended CGF Private Placement). Under the Amended CGF Private Placement, in addition to the warrants described above, the Company entered into a commitment to grant 226,857 shares of our Class A common stock to the purchasers in the Amended CGF Private Placement. On May 12, 2015, the Company issued 226,857 un-registered shares of its Class A common stock to the purchasers in the Amended CGF Private Placement. The Amended CGF Private Placement was closed for additional investments on May 15, 2015. On May 23, 2018, Comstock Holding Companies, Inc. (Comstock , CHCI or the Company) entered into a Membership Interest Exchange and Subscription Agreement (the Membership Exchange Agreement), together with a revised promissory note agreement, in which a note (CGF Note) with an outstanding principal and accrued interest balance of \$7.7 million was exchanged for 1,482,300 shares of the Company's Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated liquidation value of \$5.00 per share (the Series C Preferred Stock), issued by the Company to Comstock Development Services, LLC (CDS), a Company wholly owned by our Chief Executive Officer. The Company exchanged the preferred equity for 91.5% of CDS membership interest in the Comstock Growth Fund promissory note. Concurrently, the face amount of the CGF Note was reduced to \$5.7 million as of the Effective Date.

On December 29, 2015, the Company and Stonehenge Funding, L.C. (Stonehenge), an entity wholly owned by our Chief Executive Officer, entered into a Note Exchange and Subscription Agreement pursuant to which the note in the original principal amount of \$4.5 million issued to the Company by Stonehenge was cancelled in its entirety and exchanged for 772,210 shares of the Company's Series B Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share (the Series B Preferred Stock). The number of shares of Series B Preferred Stock received by Stonehenge in exchange for the note represented the principal amount outstanding plus accrued interest under the note as of December 29, 2015, which was \$3.9 million. The holders of Series B Preferred Stock earn dividends at a rate of 8.75% per annum accruing from the effective date of the Note Exchange and Subscription Agreement.

On December 29, 2015, Comstock Growth Fund II, L.C. (CGF II), an administrative entity managed by the Company was created for the purpose of extending loans to the Company. CGF II entered into a subscription agreement with CDS pursuant to which CDS purchased membership interests in CGF II for an initial aggregate principal amount of \$5.0 million (the CGF II Private Placement). Also on December 29, 2015, the Company entered into a revolving line

of credit promissory note with CGF II whereby CGF II made a loan to the Company in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two-year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. On December 29, 2017, the CGF II loan was extended one year to December 31, 2018. On May 23, 2018, Comstock Holding Companies, Inc. (Comstock , CHCI or the Company) entered into a Note Exchange and Subscription Agreement (the Note Exchange Agreement) in which a note (CGF2 Note) with an outstanding principal and accrued interest balance of \$3.7 million was exchanged for 738,390 shares of the Company s Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated liquidation value of \$5.00 per share (the Series C Preferred Stock), issued by the Company to Comstock Growth Fund II, L.C. (CGF2), a Company wholly owned by our Chief Executive Officer. The CGF2 Note was cancelled in its entirety effective as of the Effective Date. As a result of the conversion of CGF & CGF2, the Company recognized a gain of \$3.7 million, which was recorded in Additional paid-in capital in the consolidated balance sheet and an income tax benefit of \$0.5 million, which was recorded in the consolidated statement of operations for the three and six months ended June 30, 2018. As of December 31, 2017, \$3.6 million, was outstanding in principal and accrued interest under the CGF II loan.

On March 22, 2017, the Company entered into a Share Exchange Agreement with the holders of the Company s Series B Preferred Stock pursuant to which the Company exchanged 772,210 shares of the Company s Series B Preferred Stock for 772,210 shares of the Company s newly created Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share. The Series C Preferred Stock has a discretionary dividend feature, as opposed to the mandatory dividend feature in the Series B Preferred Stock. The Series B Preferred Stock, together with all accrued dividends earned through the conversion date, was retired upon re-acquisition and the fair value of the Series C Preferred Stock is recorded in Stockholders equity in the accompanying consolidated balance sheets. The difference in fair value from the extinguishment of the Series B Preferred Stock and issuance of the Series C Preferred Stock of \$1,011 was recorded in the accompanying consolidated statement of operations. For the three and six months ended June 30, 2018, no shares of Series B Preferred Stock were issued. For the six months ended June 30, 2017, 15,663 shares of the Series B Preferred Stock, with a liquidation value of \$78, were paid-in-kind, and were retired in the conversion.

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On March 30, 2018, CDS Asset Management, L.C. (*CAM*), an entity wholly owned by the Company, entered into a master asset management agreement (*the Agreement*) with Comstock Development Services LC (*CDS*), an entity wholly owned by Christopher Clemente, the Chief Executive Officer of the Company. The effective date of this agreement is January 2, 2018. Entering into the Agreement is part of the Company's strategic plan to transform its business model from for-sale homebuilding to commercial development, asset management and real estate services. The Company intends to concurrently wind down its current for-sale homebuilding business.

Pursuant to the Agreement, CDS will pay CAM an annual cost-plus fee (the *Annual Fee*) in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to the Comstock Real Estate Portfolio pursuant to the Agreement, (ii) the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, and (iii) a fixed annual payment of \$1,000,000. During the three and six months ended June 30, 2018, the Company invoiced \$2.5 million and \$8.5 million, respectively. Additionally, the Company recorded revenue of \$2.8 million and \$5.6 million for the three and six months ended June 30, 2018, respectively, which is included in Revenue-asset management in the consolidated statement of operations.

19. WARRANTS

As part of the Comstock VII Private Placement discussed in Note 17 *Variable Interest Entities*, the Company issued warrants to purchase shares of the Company's Class A common stock to the Comstock VII Class B Members who are not officers, directors or affiliates of the Company and who purchased membership interests in the offering that equaled or exceeded an initial investment amount of \$250. The warrants represent the right to purchase an aggregate amount of up to 16,572 shares of the Company's Class A common stock. The warrants have an initial exercise price which is equal to the average of the closing price of the Company's Class A common stock of the 20 trading days preceding the issuance of the warrants. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants have expiration dates ranging from March 14, 2023 and April 5, 2023 and may be exercised at any time prior to those dates.

In addition, as part of the Comstock VIII Private Placement discussed in Note 17 *Variable Interest Entities*, the Company issued warrants to purchase shares of the Company's Class A common stock to the Comstock VIII Class B Members who are not officers, directors or affiliates of the Company and who purchased membership interests that equaled or exceeded an initial investment amount of \$250. The warrants represent the right to purchase an aggregate amount of up to 14,573 shares of the Company's Class A common stock. The warrants have an initial exercise price which is equal to the average of the closing price of the Company's Class A common stock of the 20 trading days preceding the issuance of the warrants. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants have expiration dates ranging from December 12, 2023 and December 17, 2023 and may be exercised at any time prior to those dates.

Also, as part of the Comstock X Private Placement discussed in Note 17 *Variable Interest Entities*, the Company issued warrants to purchase shares of the Company's Class A common stock to the Comstock X Class B Member. The warrants represent the right to purchase an aggregate amount of up to 150,000 shares of the Company's Class A common stock. The warrants have an initial exercise price which is equal to the average of the closing price of the Company's Class A common stock of the 20 trading days preceding the issuance of the warrants. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time prior to August 15, 2026.

As part of the additional \$5.0 million contribution received from Comstock X in October 2017, an additional 50,000 warrants to purchase the Company's Class A common stock were issued. These warrants have the same terms and

provisions as the original 150,000 warrants issued in August 2016. These warrants may be exercised any time prior to October 13, 2027.

As discussed in Note 18 *Related Party Transactions*, as part of the CGF Private Placement, depending upon the investment amount, purchasers of interests in CGF other than CDS received warrants that represent the right to purchase a certain number of shares of the Company's Class A common stock. For purchasers who are not affiliates or insiders, the warrants have initial exercise prices ranging from \$4.91 to \$7.63. The exercise prices of the warrants to affiliates and insiders range from \$7.30 to \$7.63. The warrants contain a cashless exercise provision. In the event a purchaser exercises the warrant on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time within ten years from the date of issuance. As of June 30, 2018, the warrants represent the right to purchase an aggregate amount of up to 76,244 shares of our Class A common stock. The warrants have expiration dates ranging from November 12, 2024 and May 12, 2025 and may be exercised at any time prior to those dates.

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In connection with entering into the SunBridge (SunBridge) loan agreement in 2011, the Company issued warrants to purchase shares of the Company's Class A common stock to BridgeCom Development I, LLC, an affiliate of SunBridge. The warrants represent the right to purchase an aggregate amount of up to 142,857 shares of the Company's Class A common stock. The warrants have an initial exercise price of \$7.21. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time prior to July 12, 2021. On May 29, 2012, the Company repaid the SunBridge loans in full and the SunBridge warrants remain unexercised as of June 30, 2018.

20. UNCONSOLIDATED JOINT VENTURE

The Company accounts for its interest in its title insurance joint venture using the equity method of accounting and periodically adjusts the carrying value for its proportionate share of earnings, losses and distributions. The carrying value of the investment is included within Other assets in the accompanying consolidated balance sheets and our proportionate share of the earnings from the investment are included in Other income, net in the accompanying consolidated statements of operations for the periods presented.

Our share of the earnings for the three months ended June 30, 2018 and 2017 are \$35 and \$6, respectively. Earnings for the six months ended June 30, 2018 and 2017 are \$49 and \$24, respectively. During the three months ended June 30, 2018 and 2017, the Company collected total distributions of \$13 and \$36, respectively, as a return on investment. During the six months ended June 30, 2018 and 2017, the Company collected total distributions of \$23 and \$54, respectively.

Summarized financial information for the unconsolidated joint venture is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-------|---------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Statement of Operations: | | | | |
| Total net revenue | \$ 101 | \$ 41 | \$ 159 | \$ 107 |
| Total expenses | 31 | 30 | 61 | 60 |
| Net income | \$ 70 | \$ 11 | \$ 98 | \$ 47 |
| Comstock Holding Companies, Inc. share of net income | \$ 35 | \$ 6 | \$ 49 | \$ 24 |

21. INCOME TAXES

For the three and six months ended June 30, 2018, the Company recognized income tax benefit of \$0.5 million related to the conversion of CGF I & II to Series C Preferred Stock. The effective tax rate at June 30, 2018 is 0.90%. The Company did not recognize income tax expense for the three and six months ended June 30, 2017.

The Company currently has approximately \$143 million in federal and state Net Operating Losses (NOL s). If unused, these NOLs will begin expiring in 2027. Under Code Section 382 (Section 382) rules, if a change of ownership is triggered, the Company's NOL assets and possibly certain other deferred tax assets may be impaired. We estimate that as of June 30, 2018, the three-year cumulative shift in ownership of the Company's stock has not triggered an impairment of our NOL asset. However, if an ownership change were to occur, the Section 382 limitation would not

be expected to materially impact the Company's financial position or results of operations as of June 30, 2018, because the Company has recorded a full valuation allowance on substantially all of its net deferred tax assets.

The Company has not recorded any accruals related to uncertain tax positions as of June 30, 2018 and 2017. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2014 through 2016 tax years remain subject to examination by federal and most state tax authorities.

22. SEGMENT DISCLOSURES

During 2017 we operated our business through three segments: Homebuilding, Multi-family, and Real Estate Services. We focused on the Washington, D.C. market. In 2018, we revised our business strategy and have transitioned our business operations to three main operating segments focused in the mid-Atlantic region of the United States: Asset Management through CAM, Real Estate Services through CRES, and Homebuilding.

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In our Asset Management segment, we focus on providing management services to a wide range of real estate assets and businesses that include a variety of commercial real estate uses, including apartments, hotels, office buildings, commercial garages, leased lands, retail stores, mixed-use developments, and urban transit oriented developments. We have significant experience with construction, development, property and asset management services. The properties and businesses we currently manage are located primarily along the Washington, D.C. Metro Silver Line in Fairfax and Loudoun Counties, but also include projects in Montgomery County, Maryland and the Town of Herndon, Virginia.

In our Real Estate Services segment, our experienced real estate services based management team provides a wide range of real estate services in the areas of strategic corporate planning, capital markets, brokerage services, and environmental and design based services. Our environmental services group provides consulting, environmental studies, remediation services and provide site specific solutions for any project that may have an environmental impact, from environmental due diligence to site-specific assessments and remediation. This business line not only allows us to generate positive fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.

In our Homebuilding segment, we will continue to develop, construct, and build out the Company's existing homebuilding projects and winding down of this on balance sheet business segment being largely accomplished by the last quarter of 2018 or the first quarter of 2019. We anticipate residual land development activities and finished lot sales to regional or national homebuilders continuing beyond 2019 and the Company may engage in homebuilding activities from time to time if self-performance of our residual lot pipeline is deemed the best financial alternative. Any future homebuilding activities is expected to be provided off balance sheet on an asset management basis.

The Asset Management and Homebuilding segments operate solely within the Company's Washington, D.C. area reportable geographic area. The Real Estate Services segment operates in the Washington, D.C, New Jersey, and Pennsylvania geographic area. The following table includes the Company's three reportable segments of Asset Management, Real Estate Services, and Homebuilding for the three and six months ended June 30, 2018 and 2017.

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| | Homebuilding | Asset Management | Real Estate Services | Total |
|---|--------------|------------------|----------------------|-----------|
| Three Months Ended June 30, 2018 | | | | |
| Gross revenue | \$ 10,709 | \$ 2,960 | \$ 631 | \$ 14,300 |
| Gross profit (loss) | (834) | 354 | (45) | (525) |
| Net (loss) income | (607) | 354 | (564) | (817) |
| Depreciation and amortization | 62 | | 36 | 98 |
| Interest expense | | | 24 | 24 |
| Total assets | 38,543 | 3,730 | 3,645 | 45,918 |
| Three Months Ended June 30, 2017 | | | | |
| Gross revenue | \$ 10,235 | \$ | \$ 285 | \$ 10,520 |
| Gross profit (loss) | 1,014 | | (11) | 1,003 |
| Net loss | (524) | | (11) | (535) |
| Depreciation and amortization | 112 | | 34 | 146 |
| Interest expense | | | | |
| Total assets | 55,590 | | 233 | 55,823 |
| Six Months Ended June 30, 2018 | | | | |
| Gross revenue | \$ 16,270 | \$ 5,751 | \$ 1,078 | \$ 23,099 |
| Gross profit (loss) | (768) | 604 | 225 | 61 |
| Net (loss) income | (1,288) | 604 | (761) | (1,445) |
| Depreciation and amortization | 62 | | 73 | 135 |
| Interest expense | 61 | | 48 | 109 |
| Total assets | 38,543 | 3,730 | 3,645 | 45,918 |
| Six Months Ended June 30, 2017 | | | | |
| Gross revenue | \$ 20,299 | \$ | \$ 489 | \$ 20,788 |
| Gross profit (loss) | 1,977 | | (31) | 1,946 |
| Net loss | (1,168) | | (31) | (1,199) |
| Depreciation and amortization | 177 | | 43 | 220 |
| Interest expense | | | | |
| Total assets | 55,590 | | 233 | 55,823 |

The Company allocates sales, marketing and general and administrative expenses to the individual segments based upon specifically allocable costs.

23. SUBSEQUENT EVENTS

On July 25, 2018, the Company refinanced its mezzanine loan related to its Richmond Station project, which had an outstanding balance as of June 30, 2018 of \$2.0 million of principal and accrued interest. The loan was refinanced as a secured development loan, with a variable interest rate of LIBOR plus 3.50%, with a floor of 5.00%. The loan has an initial maturity date of July 25, 2021. Simultaneously, the Company repaid its secured line of credit obligation, which had an outstanding balance of \$1.8 million of principal and accrued interest.

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see

Cautionary Notes Regarding Forward-looking Statements for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed below and elsewhere in this report, particularly under the headings Cautionary Notes Regarding Forward-looking Statements. References to dollar amounts are in thousands except per share data, or as otherwise noted.

Cautionary Notes Regarding Forward-looking Statements

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as anticipate, believe, estimate, may, likely, intend, expect, will, should, seeks or other similar expressions. Forward-looking statements are based largely on our expectations and involve inherent risks and uncertainties, many of which are beyond our control. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply specifically to us. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation: general economic and market conditions, including interest rate levels; our ability to service our debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; economic risks in the markets in which we operate, including actions related to government spending; delays in governmental approvals and/or land development activity at our projects; regulatory actions; our ability to maintain compliance with stock market listing rules and standards; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates.

Additional information concerning these and other important risk and uncertainties can be found under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Our actual results could differ materially from those projected or suggested by the forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements in light of new information or future events, except as required by law.

We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. The information on or accessible through our website,

www.comstockcompanies.com, is not incorporated by reference into this Quarterly Report on Form 10-Q.

Overview

We are a multi-faceted real estate development and services company primarily focused in the mid-Atlantic region of the United States. In 2018, the Company has changed its focus to commercial development, asset management, and provision of complementary real estate related services, transitioning from its primary reliance upon revenue generated by production-oriented, for-sale homebuilding. To accomplish the transition from homebuilding to the new lines of business, the Company will operate through three real estate focused platforms – Asset Management, Real Estate Services, and Homebuilding. These business segments include construction, asset and property management, including the remaining homebuilding projects, and service-oriented companies providing services clients primarily in the real estate sector. Financial information for each of our reportable segments is included in Note 22 *Segment Disclosures* of our consolidated financial statements.

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Our Business Strategy

Our business strategy to transition to a full-service asset manager and real estate services company involves the initial integration of our existing homebuilding operating platform with the commercial development operating platform of the Chief Executive Officer's private company and thereafter to grow our assets under management and expand our service based relationships.

To anchor our new business focus, on March 30, 2018, the Company entered into an initial Master Asset Management Agreement (AMA) effective January 2, 2018, through its CAM subsidiary, with Comstock Development Services, LC (CDS), an entity wholly owned by the Chief Executive Officer of the Company. Under the AMA, CDS will pay CAM an annual cost-plus fee in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to CDS's private portfolio pursuant to the AMA, (ii) the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, and (iii) a fixed annual payment of \$1,000,000 (the Annual Fee). In connection with the execution of the AMA, CDS paid CAM a deposit in the aggregate amount of \$2,500,000 pursuant to the Agreement that will be credited against the Annual Fee to be paid to CAM in accordance with the Agreement. The initial term of the Agreement will terminate on December 31, 2022 (Initial Term). The Agreement will automatically renew for successive additional one-year terms (each an Extension Term) unless CDS delivers written notice of non-renewal of the Agreement at least 180 days prior to the termination date of the Initial Term or any Extension Term.

Entering into the initial AMA is part of the Company's strategic plan to transform its business model from for-sale homebuilding to asset management and commercial development. In addition to the AMA, CRES continues to organically grow and pursue acquisitions of businesses and assets that provide supply chain services to assets under management pursuant to AMA as well as to unrelated third parties in the areas of environmental consulting, mortgage brokerage, and capital market services.

We believe that we have several strengths that distinguish our updated business strategy:

Revenue Base. Our revenues are primarily from recurring fees earned under the AMA, operations of CRES businesses and acquisitions and the buildout of the remaining projects under the homebuilding platform. The AMA provides a reliable source of revenue and cashflow to cover the Company's operating expenses, positioning the Company to enhance bottom line results and growth.

Management Services. Our experienced asset management team provides management services to a wide range of real estate assets and businesses that include a variety of commercial real estate uses, including apartments, hotels, office buildings, commercial garages, leased lands, retail stores, mixed-use developments, and urban transit oriented developments. We have significant experience with construction, development, property and asset management services. The properties and businesses we currently manage are located primarily along the Dulles Corridor section of the Washington DC Metro Silver Line in Fairfax and Loudoun Counties.

Real Estate Services. Our experienced real estate services based management team provides a wide range of real estate services in the areas strategic corporate planning, capital markets, brokerage services, and

environmental and design based services. Our environmental services group provides consulting, environmental studies, remediation services and provide site specific solutions for any project that may have an environmental impact, from environmental due diligence to site-specific assessments and remediation. This business line not only allows us to generate positive fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.

Homebuilding. We will continue to develop, construct, and build out the Company's existing homebuilding projects (more particularly identified below); the winding down of this on balance sheet business segment being largely accomplished by the last quarter of 2018 or the first quarter of 2019. We anticipate residual land development activities and finished lot sales to regional or national homebuilders continuing beyond 2019 and the Company may engage in homebuilding activities from time to time if self-performance of our residual lot pipeline is deemed the best financial alternative. Any future homebuilding activities is expected to be provided off balance sheet on an asset management basis.

Quality and Depth of Management. We have a highly qualified and experienced management team providing a broad base of deep expertise and a proven track record to our clients. The combination of the new platforms leverage the diverse capabilities and relationships of the management teams of two companies developed over more than thirty years.

Alignment of Interests. We believe our new business strategy fosters a strong economic alignment of interests with our shareholders due to our Chief Executive Officer's large economic interest in the Company and in the portfolio being managed by the initial AMA. Additionally, the integration of the two operating platforms provides opportunities for additional operational efficiencies and management alignment.

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These business units work in concert to leverage the collective skill sets of our organization. The talent and experience of our personnel allows workflow flexibility and a multitasking approach to managing various projects. We believe that our business network in the mid-Atlantic market provides us with a competitive advantage in sourcing and executing investment opportunities.

Homebuilding**Our Developed Communities**

We are currently operating, or developing in multiple counties throughout the Washington, D.C. area market. The following table summarizes certain information for our owned or controlled communities as of June 30, 2018:

Pipeline Report as of June 30, 2018

| Project | State | Product Type (1) | Estimated | | Units | | Average | |
|------------------------------------|-------|------------------|---------------------|---------------|-------------|---------------------|--|------------------------------------|
| | | | Units at Completion | Units Settled | Units Owned | Units Under Control | Total Units Owned, Unsettled and Under Control | New Order Revenue Per Unit to Date |
| City Homes at the Hampshires | DC | SF | 38 | 38 | | | | \$ 747 |
| Townes at the Hampshires (3) | DC | TH | 73 | 73 | | | | \$ 551 |
| Estates at Falls Grove | VA | SF | 19 | 19 | | | | \$ 545 |
| Townes at Falls Grove | VA | TH | 110 | 110 | | | | \$ 304 |
| Townes at Shady Grove Metro | MD | TH | 36 | 27 | | 9 | 9 | \$ 583 |
| Townes at Shady Grove Metro (4) | MD | SF | 3 | 3 | | | | \$ |
| Momentum Shady Grove Metro (5) | MD | Condo | 110 | 110 | | | | \$ 26 |
| Estates at Emerald Farms | MD | SF | 84 | 84 | | | | \$ 426 |
| Townes at Maxwell Square | MD | TH | 45 | 45 | | | | \$ 421 |
| Townes at Hallcrest | VA | TH | 42 | 42 | | | | \$ 465 |
| Estates at Leeland | VA | SF | 24 | 17 | 4 | 3 | 7 | \$ 379 |
| Villas Preserve at Two Rivers 28 | MD | TH | 6 | 6 | | | | \$ 458 |
| Villas Preserve at Two Rivers 32 | MD | TH | 10 | 10 | | | | \$ 504 |
| Marrwood East (7) | VA | SF | 35 | 30 | 4 | 1 | 5 | \$ 645 |
| Townes at Totten Mews (6) | DC | TH | 40 | 13 | 18 | 9 | 27 | \$ 589 |
| The Towns at 1333 | VA | TH | 18 | 7 | 6 | 5 | 11 | \$ 928 |
| The Woods at Spring Ridge | MD | SF | 21 | 5 | 7 | 9 | 16 | \$ 681 |
| Solomons Choice | MD | SF | 56 | | 1 | 55 | 56 | \$ 653 |
| Townes at Richmond Station | VA | TH | 104 | | | 104 | 104 | \$ |
| | VA | MF | 54 | | | 54 | 54 | \$ |

Condominiums at Richmond
Station

| | | | | | |
|--------------|------------|------------|-----------|------------|------------|
| Total | 928 | 639 | 40 | 249 | 289 |
|--------------|------------|------------|-----------|------------|------------|

- (1) SF means single family home, TH means townhouse, Condo means condominium, MF means multi-family.
- (2) Under land option purchase contract, not owned.
- (3) 3 of these units are subject to statutory affordable dwelling unit program.
- (4) Units are subject to statutory moderately priced dwelling unit program; not considered a separate community.
- (5) 16 of these units are subject to statutory moderately priced dwelling unit program.
- (6) 5 of these units are subject to statutory affordable dwelling unit program.
- (7) 1 of these units is subject to statutory affordable dwelling unit program.
- (8) Backlog means we have an executed order with a buyer but the settlement did not occur prior to report date.

Table of Contents**Settlements, orders, cancellations and backlog**

The following table summarizes certain information related to new orders, settlements, and backlog for the three and six-month periods ended June 30, 2018 and 2017:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Gross new orders | 22 | 23 | 41 | 62 |
| Cancellations | 1 | 5 | 2 | 10 |
| Net new orders | 21 | 18 | 39 | 52 |
| Gross new order revenue | \$ 12,992 | \$ 10,980 | \$ 25,695 | \$ 30,537 |
| Cancellation revenue | \$ 671 | \$ 2,555 | \$ 1,292 | \$ 5,068 |
| Net new order revenue | \$ 12,321 | \$ 8,425 | \$ 24,403 | \$ 25,469 |
| Average gross new order price | \$ 591 | \$ 477 | \$ 627 | \$ 493 |
| Settlements | 15 | 23 | 23 | 48 |
| Revenue - homebuilding(1) | \$ 7,870 | \$ 10,235 | \$ 13,430 | \$ 20,299 |
| Average settlement price | \$ 525 | \$ 445 | \$ 584 | \$ 423 |
| Backlog units | 40 | 39 | 40 | 39 |
| Backlog revenue | \$ 25,434 | \$ 22,378 | \$ 25,434 | \$ 22,378 |
| Average backlog price | \$ 636 | \$ 574 | \$ 636 | \$ 574 |

- (1) Revenue from homebuilding above excludes \$2.8 million of revenue recognized in conjunction with the sale of Momentum | Shady Grove land.

Asset Management

Under the Asset Management business segment, we manage projects ranging from approximately 100-500 units in locations that are supply constrained with demonstrated demand for stabilized assets. We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We also provide management services to a wide range of real estate assets and businesses that include apartments, hotels, office buildings, leased lands, retail stores, mixed-use developments, and urban developments. We have significant experience with construction and development management, property management, and asset management.

Although we intend to transition away from on-balance sheet homebuilding operations, our expertise in developing various housing products enables us to focus on a wide range of opportunities and provide a wide range of services to clients within our core market. For our remaining homebuilding inventory, we will continue to develop properties with the intent that they be sold either as fee-simple properties or condominiums to individual unit buyers or we may sell raw or finished lot inventories to third party developers or homebuilders who will then develop or build out the homes in our remaining projects. For the inventory which we will continue with our homebuilding operations, we will continue to focus on for-sale products designed to attract first-time, early move-up, and secondary move-up buyers. We focus on products that we offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products.

Our Managed Communities

Reston Station. Reston Station is among the largest mixed-use, transit oriented developments in the Washington, D.C. region. Located at the terminus of phase I of Metrorail's Silver Line, Reston Station is already home to more than 1,000 residents, numerous businesses, multiple retail establishments, and several restaurants. With more than 1 million square feet of completed and stabilized buildings, more than 2 million square feet of additional development in various states of entitlement, development and construction, and a 3,500-space underground parking garage and transit facility adjacent to the Wiehle Reston-East Metro Station, the Company is providing a wide variety of its real estate management services to the project under the AMA. For more information about Reston Station, visit: www.RestonStation.com.

Loudoun Station. Loudoun Station represents Loudoun County's first Metrorail connected development and has approximately 700,000 square feet of mixed-use development completed, including hundreds of rental apartments, approximately 150,000 square feet of retail, restaurants, and entertainment venues, 50,000 square feet of Class-A office space, and a 1,500-space commuter parking garage. Loudoun Station represents Loudoun County's beginning transformation into a transit connected community with direct metro rail connectivity to Dulles International Airport, Reston, Tysons Corner, and downtown Washington, D.C. Located at the terminus of Metrorail's Silver Line and with more than 2 million square feet of additional development slated for Loudoun Station; construction of its next phase of apartments and commercial space will commence in the second quarter of 2018, with the Company providing a variety of its real estate management services to the project under the AMA. For more information about Loudoun Station, visit: www.LoudounStation.com.

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Herndon. On November 1, 2017, a subsidiary of CDS entered into an agreement to acquire, develop, and construct a mixed-use project in downtown Town of Herndon. The project upon completion is anticipated to consist of approximately 500,000 square feet of mixed use development. The Company will provide a variety of its real estate management services to the project under the AMA.

Shady Grove Metro. In June 2018, we conveyed 110 multifamily dwelling units in Rockville, Maryland adjacent to the Shady Grove metro rail station to a joint venture for a purchase price of \$2.8 million. The Company will be providing a variety of real estate management services to the project on an on-going basis.

Real Estate Services

We can provide a wide range of real estate services through our experienced management team. We continue to engage in providing third party services focused on strategic planning, land development, land acquisitions, environmental, entitlement, and general construction management activities. Our real estate and environmental services, including consulting, studies, and remediation activities, provide site specific solutions for any project that may have an environmental impact, from environmental due diligence to site-specific assessments and remediation. This business line not only allows us to generate positive fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and future acquisition opportunities that are complementary to the services provided by CRES and the real estate focused clients of CAM.

Results of Operations

Three and six months ended June 30, 2018 compared to three and six months ended June 30, 2017

Revenue homebuilding

Revenue from homebuilding decreased by \$2.3 million to \$7.9 million for the three months ended June 30, 2018 as compared to \$10.2 million for the three months ended June 30, 2017. Revenue from homebuilding decreased by \$6.9 million to \$13.4 million for the six months ended June 30, 2018 as compared to \$20.3 million for the six months ended June 30, 2017. For the three months ended June 30, 2018, the Company settled 15 units (7 units at Marrwood, 4 units at Leeland Station, 1 unit at The Towns at 1333, 2 units at The Woods at Spring Ridge, and 1 unit at Totten Mews), as compared to 23 units (12 units at Falls Grove, 1 unit at Emerald Farm, 3 units at Marrwood, 4 units at Leeland, 2 units at Two Rivers and 1 unit at The Towns at 1333) for the three months ended June 30, 2017. For the six months ended June 30, 2018, the Company settled 23 units (11 units at Marrwood, 5 units at Leeland Station, 3 units at The Towns at 1333, 2 units at The Woods at Spring Ridge, and 2 units at Totten Mews), as compared to 48 units (24 units at Falls Grove, 6 units at Hallcrest, 5 units at Emerald Farm, 4 unit at Marrwood, 5 units at Leeland, 1 unit at Shady Grove, 2 units at Two Rivers, and 1 unit at The Towns at 1333) for the six months ended June 30, 2017. Our homebuilding gross margin percentage for the three months ended June 30, 2017 decreased by 17.7% to (7.8)%, as compared to 9.9% for the three months ended June 30, 2017. Our homebuilding gross margin percentage for the six months ended June 30, 2018 decreased by 14.4% to (4.7)%, as compared to 9.7% for the six months ended June 30, 2017. The overall decrease in gross margins was the result of the number of units settled and the mix of homes, which included the sales of 4 lots at Leeland Station, and 110 multi-family units at Momentum | Shady Grove.

Backlog, which reflects revenue from sales contracts the Company entered into with homebuyers for future delivery, increased by \$3.0 million to \$25.4 million as of June 30, 2018, as compared to \$22.4 million as of June 30, 2017.

Gross new order revenue, consisting of revenue from all units sold, for the three months ended June 30, 2018 was \$13.0 million on 22 units as compared to \$11.0 million on 23 units for the three months ended June 30, 2017. Gross

new order revenue, consisting of revenue from all units sold, for the six months ended June 30, 2018 was \$25.7 million on 41 units as compared to \$30.5 million on 62 units for the six months ended June 30, 2017. Net new order revenue, representing revenue for all units sold less cancellations, for the three months ended June 30, 2018 was \$12.3 million on 21 units as compared to \$8.4 million on 18 units for the three months ended June 30, 2017. Net new order revenue, representing revenue for all units sold less cancellations, for the six months ended June 30, 2018 was \$24.4 million on 39 units as compared to \$24.5 million on 52 units for the six months ended June 30, 2017. The changes are attributable to the number and mix of homes sold.

Table of Contents*Revenue asset management*

Revenue from asset management for the three and six months ended June 30, 2018 was \$3.1 million and \$5.9 million, respectively. Effective January 2, 2018, the Company entered into a master asset management agreement (the Agreement) with Comstock Development Services LC (CDS), an entity wholly owned by Christopher Clemente, the Chief Executive Officer of the Company. Pursuant to the Agreement, CDS will pay CAM an annual cost-plus fee (the Annual Fee) in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to the Comstock Real Estate Portfolio pursuant to the Agreement, (ii) the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, and (iii) a fixed annual payment of \$1,000,000.

Revenue real estate services

Revenue from real estate services for the three months ended June 30, 2018 increased by \$0.3 to \$0.6 million, as compared to \$0.3 million during the three months ended June 30, 2017. Revenue from real estate services for the six months ended June 30, 2018 increased by \$0.6 to \$1.1 million, as compared to \$0.5 million for the six months ended June 30, 2017. The increase is attributable to the Company's acquisition of JK Environmental on July 17, 2017.

Cost of sales homebuilding

Cost of sales homebuilding increased by \$2.3 million to \$11.5 million during the three months ended June 30, 2018, as compared to \$9.2 million during the three months ended June 30, 2017. Cost of sales homebuilding decreased by \$1.3 million to \$17.0 million during the six months ended June 30, 2018, as compared to \$18.3 million during the six months ended June 30, 2017. The changes were primarily attributable to the number of units settled and the mix of homes settled during the three and six months ended June 30, 2018.

Cost of sales asset management

Cost of sales asset management for the three and six months ended June 30, 2018 was \$3.1 million and \$5.9 million, respectively. This increase from the three and six months ended June 30, 2017 was a result of the master asset management agreement that became effective for the Company January 2, 2018.

Cost of sales real estate services

Cost of sales real estate services increased by \$0.4 million to \$0.7 million during the three months ended June 30, 2018, as compared to \$0.3 million during the three months ended June 30, 2017. Cost of sales real estate services increased by \$0.4 million to \$0.9 million during the six months ended June 30, 2018, as compared to \$0.5 million during the six months ended June 30, 2017. The increase primarily relates to our new initiatives within our real estate services segment to expand our footprint in the real estate consulting and environmental study fields.

Impairment charges

During the three and six months ended June 30, 2018, as a result of our impairment analysis, the Company expensed \$0.2 million and \$0.8 million, respectively, of feasibility, site securing, predevelopment, design, carry costs and related costs for two of its communities in the Washington, D.C. metropolitan area due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three and six months ended June 30, 2017.

Sales and marketing

Selling and marketing expenses for the three months ended June 30, 2018 decreased by \$0.1 million to \$0.2 million, as compared to \$0.3 million for the three months ended June 30, 2017. Selling and marketing expenses for the six months ended June 30, 2018 decreased by \$0.3 million to \$0.4 million, as compared to \$0.7 million for the six months ended June 30, 2017. The decrease is attributable to continued benefit from the cost saving measures, in addition to the master asset management agreement, which was effective January 2, 2018.

General and administrative

General and administrative expenses for the three months ended June 30, 2018 decreased by \$0.8 million to \$0.4 million, as compared to \$1.2 million for the three months ended June 30, 2017. General and administrative expenses for the six months ended June 30, 2018 decreased by \$1.8 million to \$0.7 million, as compared to \$2.5 million for the six months ended June 30, 2017. The year-over-year decrease is attributable to attrition in employee head count and general overhead cost saving measures, in addition to the master asset management agreement, which was effective January 2, 2018. Under the master asset management agreement, the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, along with the employment expenses of personnel are to be included as Cost of sales – Asset Management, as opposed to General and administrative expenses historically.

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Income taxes

For the three and six months ended June 30, 2018, the Company recognized income tax benefit of \$0.5 million related to the conversion of Comstock Growth Fund I & II to Series C Preferred Stock. Refer to Note 12 *Debt* to the consolidated financial statements for more information. As of June 30, 2018, the effective tax rate is 0.90%. There were no income tax expenses for the three and six months ended June 30, 2017.

Liquidity and Capital Resources

We require capital to operate, to post deposits on new potential acquisitions, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and we believe will continue to include, private equity and debt placements (which has included significant participation from Company insiders), funds derived from various secured and unsecured borrowings to finance acquisition, development and construction on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, finished and raw building lots and the potential sale of public debt and equity securities. We are involved in ongoing discussions with lenders and equity sources in an effort to provide additional growth capital to fund various new business opportunities.

We have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate projects. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each of our projects or collection of our projects to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders.

As of June 30, 2018, \$6.5 million of our secured project related notes were set to mature at various periods through the end of 2018. As of August 14, 2018, we have successfully extended or repaid all obligations with lenders through August 14, 2018, and we are actively engaging our lenders seeking long term extensions and modifications to the loans where necessary. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations and financial covenant compliance. If we fail to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan's maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default.

The current performance of our projects has met all required servicing obligations required by the facilities. We are anticipating that with successful resolution of the debt extension discussions with our lenders, the recently completed capital raises from our private placements, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, we will have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that we will be successful in its efforts.

Refer to Note 12 *Debt* and Note 23 *Subsequent Events* for further discussion regarding our debts, extension of loan maturity date and other subsequent events impacting our credit facilities. See Note 18 *Related Party Transactions* in the accompanying consolidated financial statements for details on private placement offerings.

Cash Flow

Net cash provided by operating activities was \$6.9 million for the six months ended June 30, 2018 compared to the net cash provided by operating activities of \$1.9 million for the six months ended June 30, 2017. The \$6.9 million net cash provided by operations for the six months ended June 30, 2018 was primarily attributable to releases of inventories associated with units settled and land sold of \$9.2 million, offset by the net loss of \$1.4 million, the deferred income tax benefit of \$0.5 million recognized as a result of the conversion of the Comstock Growth Fund I & II notes payable to Series C Preferred Stock, and decreases in accounts payable and accrued liabilities of \$0.7 million. The \$1.9 million net cash provided by operations for the six months ended June 30, 2017 was primarily attributable to increases in accounts payable of \$1.3 million, \$0.3 million of releases of inventories associated with units settled, increases in accrued interest of \$0.3 million, capitalization of feasibility costs for new projects of \$0.7 million, and the amortization of loan discounts and other financing fees of \$0.6 million, offset by the net loss of \$1.2 million.

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Net cash used in financing activities was \$2.9 million for the six months ended June 30, 2018. This was primarily attributable to the pay downs on notes payable of \$11.1 million, offset by borrowings of \$8.3 million. Net cash used in financing activities was \$4.9 million for the six months ended June 30, 2017. This was primarily attributable to the distributions of \$1.9 million to the Comstock Investor VIII Class B Members to fully redeem their equity interest and a distribution to the Comstock Investor X Class B Members of \$1.0 million, along with the pay downs on notes payable of \$13.6 million, offset by borrowings of \$11.8 million.

Seasonality

The homebuilding industry usually experiences seasonal fluctuations in quarterly operating results and capital requirements. Our business is affected by seasonality with respect to homebuilding orders and deliveries. In the market in which we operate, the primary selling season is from January through May as well as September and October. We expect this seasonal pattern to continue; however, it may also be affected by volatility in the homebuilding industry and the general economy.

Recently Issued Accounting Standards

See Note 1 - *Organization and Basis of Presentation* to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

Contract Liability Deferred Revenue

As of June 30, 2018, the Company has recorded deferred revenue of \$2.8 million. Deferred revenue refers to payments received in advance for services which have not yet been performed. These payments resulted from the Agreement executed by CAM as described in Note 1 *Organization and Basis of Presentation* and Note 18 *Related Party Transactions* in the accompanying notes to the consolidated financial statements. These deferred revenues are classified on the Company's balance sheet as a liability. Refer to Note 8 *Contract Assets and Contract Liabilities* in the accompanying notes to the consolidated financial statements.

There have been no other significant changes to our critical accounting policies and estimates during the three and six months ended June 30, 2018 from those discussed above or disclosed in Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2018.

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Limitations on the Effectiveness of Controls

We do not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. 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.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Control

No changes have occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 13 - *Commitments and Contingencies* to the accompanying consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 16, 2015).
- 3.2 Amended and Restated Bylaws (incorporated by reference to an Exhibit 3.2 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005).
- 3.3 Certificate of Elimination of the Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 (incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 27, 2015).
- 3.4 Certificate of Designation of Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 (incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 27, 2015).
- 3.5 Certificate of Designation of Series B Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on December 29, 2015 (incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed on January 4, 2016).
- 3.6 Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc., filed with the Secretary of the State of Delaware on March 22, 2017 (incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 28, 2017).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (File No. 333-118193)).
- 10.66* Third Amended and Restated Promissory Note, dated May 22, 2018, between Comstock Holding Companies, Inc. and Comstock Growth Fund, L.C.
- 10.67* Second Amended and Restated Operating Agreement of Comstock Growth Fund, L.C., dated May 22, 2018.
- 10.68* Membership Interest Exchange and Subscription Agreement, dated May 23, 2018, between Comstock Holding Companies, Inc., Comstock Growth Fund, L.C., and certain members of Comstock Growth Fund.

- 10.69* Note Exchange and Subscription Agreement, dated May 23, 2018, between Comstock Holding Companies, Inc. and Comstock Growth Fund II, L.C.
- 31.1* Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements.

* Filed herewith.

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SIGNATURES

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

COMSTOCK HOLDING COMPANIES, INC.

Date: August 14, 2018

By: /s/ CHRISTOPHER CLEMENTE
Christopher Clemente
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2018

By: /s/ CHRISTOPHER GUTHRIE
Christopher Guthrie
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)