

Comstock Holding Companies, Inc.

Form 10-Q

May 15, 2017

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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 March 31, 2017**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**1886 Metro Center Drive, 4<sup>th</sup> Floor**  
**Reston, Virginia 20190**  
**(703) 883-1700**

**20-1164345**  
**(I.R.S. Employer**  
**Identification No.)**

**(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 May 15, 2017, 3,220,996 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**

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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)

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,702	\$ 5,761
Restricted cash	1,519	1,238
Trade receivables	144	613
Real estate inventories	49,438	49,842
Fixed assets, net	219	255
Other assets, net	1,374	2,112
<b>TOTAL ASSETS</b>	<b>\$ 56,396</b>	<b>\$ 59,821</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable and accrued liabilities	\$ 6,935	\$ 7,721
Notes payable - secured by real estate inventories, net of deferred financing charges	26,665	26,927
Notes payable - due to affiliates, unsecured, net of discount and deferred financing charges	15,944	15,866
Notes payable - unsecured, net of deferred financing charges	959	911
Income taxes payable	19	19
<b>TOTAL LIABILITIES</b>	<b>50,522</b>	<b>51,444</b>
Commitments and contingencies (Note 8)		
<b>STOCKHOLDERS EQUITY (DEFICIT)</b>		
Series C preferred stock \$0.01 par value, 3,000,000 shares authorized, 772,210 and 0 shares issued and liquidation preference of \$3,861 and \$0 at March 31, 2017 and December 31, 2016, respectively	\$ 588	\$
Series B preferred stock \$0.01 par value, 3,000,000 shares authorized, 0 and 841,848 shares issued and liquidation preference of \$0 and \$4,209 at March 31, 2017 and December 31, 2016, respectively		1,280
Class A common stock, \$0.01 par value, 11,038,071 shares authorized, 3,050,746 and 3,035,922 issued, and outstanding, respectively	30	30
	4	4

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Class B common stock, \$0.01 par value, 390,500 shares authorized, issued, and outstanding		
Additional paid-in capital	177,012	176,251
Treasury stock, at cost (85,570 shares Class A common stock)	(2,662)	(2,662)
Accumulated deficit	(185,425)	(184,778)
<b>TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT</b>	<b>(10,453)</b>	<b>(9,875)</b>
Non-controlling interests	16,327	18,252
<b>TOTAL EQUITY</b>	<b>5,874</b>	<b>8,377</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 56,396</b>	<b>\$ 59,821</b>

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenues		
Revenue homebuilding	\$ 10,064	\$ 9,523
Revenue other	204	183
Total revenue	10,268	9,706
Expenses		
Cost of sales homebuilding	9,101	8,645
Cost of sales other	224	91
Sales and marketing	381	483
General and administrative	1,246	1,542
Interest and real estate tax expense		216
Operating loss	(684)	(1,271)
Other income, net	20	8
Loss before income tax expense	(664)	(1,263)
Income tax expense		(25)
Net loss	(664)	(1,288)
Net (loss) income attributable to non-controlling interests	(17)	436
Net loss attributable to Comstock Holding Companies, Inc.	(647)	(1,724)
Paid-in-kind dividends on Series B Preferred Stock	78	86
Extinguishment of Series B Preferred Stock	(1,011)	
Net income (loss) attributable to common stockholders	\$ 286	\$ (1,810)
Basic net income (loss) per share	\$ 0.09	\$ (0.55)
Diluted net income (loss) per share	\$ 0.08	\$ (0.55)
Basic weighted average shares outstanding	3,343	3,304
Diluted weighted average shares outstanding	3,373	3,304

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (664)	\$ (1,288)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities		
Amortization of loan discount, loan commitment and deferred financing fees	210	209
Deferred income tax benefit		3
Depreciation expense	37	55
Earnings from unconsolidated joint venture, net of distributions	18	44
Stock compensation	32	26
<b>Changes in operating assets and liabilities:</b>		
Purchaser escrow deposits	(149)	115
Trade receivables	469	(458)
Real estate inventories	524	2,858
Other assets	550	(518)
Accrued interest	253	144
Accounts payable and accrued liabilities	(754)	(1,575)
Net cash provided by (used in) operating activities	526	(385)
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(1)	
Principal received on note receivable	9	10
Collateral for letters of credit	(132)	(90)
Net cash used in investing activities	(124)	(80)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	5,499	5,209
Payments on notes payable	(5,981)	(11,175)
Loan financing costs	(71)	
Distributions to non-controlling interests	(1,908)	(1,400)
Taxes paid related to net share settlement of equity awards		(4)
Net cash used in financing activities	(2,461)	(7,370)
Net decrease in cash and cash equivalents	(2,059)	(7,835)
Cash and cash equivalents, beginning of period	5,761	12,448

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Cash and cash equivalents, end of period	\$	3,702	\$	4,613
Supplemental cash flow information:				
Interest paid, net of interest capitalized	\$	243	\$	(65)
Supplemental disclosure for non-cash activity:				
Seller's note payable	\$	115	\$	
Accrued liability settled through issuance of stock	\$	32	\$	14
Increase in Series B preferred stock value in connection with dividends paid in-kind	\$	24	\$	26
Extinguishment of Series B Preferred Stock	\$	1,011	\$	

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 in thousands, except per share data, number of units, or as otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

The accompanying unaudited 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 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, 2016.

Comstock Holding Companies, Inc., incorporated in 2004 as a Delaware corporation, is a multi-faceted real estate development and construction services company focused in the Washington, D.C. metropolitan area (Washington, D.C., Northern Virginia and Maryland suburbs of Washington, D.C.). We have substantial experience with building a diverse range of products, including multi-family homes, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. References in this Form 10-Q to Comstock, Company, 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 in thousands, except per share data, number of units, or as otherwise noted.

For the three months ended March 31, 2017 and 2016, comprehensive income (loss) equaled net income (loss); therefore, a separate statement of comprehensive income (loss) is not included in the accompanying consolidated financial statements.

**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. 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. See Note 13 in the accompanying consolidated financial statements for more details on our credit facilities and Note 11 in the accompanying consolidated financial statements for details on private

placement offerings.

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 March 31, 2017, \$35.3 million of the Company's outstanding credit facilities and project related loans mature at various periods through the end of 2017. We are in active discussions with our lenders seeking 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 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. We are anticipating that with the successful resolution of the debt extension discussions with our lenders, capital raises from our recent private placement, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, the Company will have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that the Company will be successful in its efforts. The Company will also continue to focus on its cost structure in an effort to conserve cash and manage expenses. Such actions may include cost reductions and/or deferral arrangements with respect to current operating expenses.

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### **Recent Developments**

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). 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 dividend earned through the conversion date, was retired upon re-acquisition.

On March 24, 2017, the Company entered into a share repurchase agreement with Investor Management, L.C., an entity owned by Gregory V. Benson, the former Chief Operating Officer of the Company, whereby the Company agreed to repurchase 193,052 shares of the Series C Preferred Stock held by Investor Management, L.C. for \$89. The Series C Preferred Stock acquisition closed on April 4, 2017, and the Series C Preferred Stock was retired.

On March 24, 2017, Comstock Acquisitions II, L.C. ( Purchaser ), an entity wholly owned by certain officers, directors, and employees of the Company, entered into a share repurchase agreement with Mr. Benson and Clareth, LLC, an entity wholly owned by Mr. Benson ( Clareth ), pursuant to which it agreed to purchase 64,563 shares of the Company's Class A common stock and 170,250 shares of the Company's Class B common stock held by Clareth for \$235. The purchase transaction closed on April 4, 2017. Upon repurchase of the Company's Class B common stock, pursuant to the Amended and Restated Certificate of Incorporation of the Company, the Class B common stock automatically converted to Class A common stock.

On March 24, 2017, Christopher Clemente, the Chief Executive Officer of the Company entered into a share repurchase agreement with Clareth pursuant to which he agreed to purchase 25,000 shares of the Company's Class B common stock held by Clareth for \$25. The purchase transaction closed on April 4, 2017. See Note 9 to the consolidated financial statements for further information.

### **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.

### **Use of Estimates**

Our financial statements have been prepared in accordance with GAAP. The preparation of these 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 judgements on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions.

### **Recently Issued 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. Additionally, the FASB has also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. The Company is continuing to evaluate the impact of ASU 2014-09.

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In February 2016, the FASB issued ASU No. 2016-02, Leases ( ASU 2016-02 ). 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 financial statements.

We assessed other accounting pronouncements issued or effective during the three months ended March 31, 2017 and deemed they were not applicable to us and are not anticipated to have a material effect on our consolidated financial statements.

**2. REAL ESTATE INVENTORIES**

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

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Land and land development costs	\$ 32,665	\$ 33,355
Cost of construction (including capitalized interest and real estate taxes)	16,773	16,487
	<b>\$ 49,438</b>	<b>\$ 49,842</b>

**3. 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 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.

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance at beginning of period	\$ 288	\$ 312

Additions	50	44
Releases and/or charges incurred	(60)	(42)
Balance at end of period	\$ 278	\$ 314

#### 4. 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.

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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:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Total interest incurred and capitalized	\$ 1,026	\$ 736
Total real estate taxes incurred and capitalized	40	22
<b>Total interest and real estate taxes incurred and capitalized</b>	<b>\$ 1,066</b>	<b>\$ 758</b>
Interest expensed as a component of cost of sales	\$ 451	\$ 292
Real estate taxes expensed as a component of cost of sales	60	49
 Interest and real estate taxes expensed as a component of cost of sales	 \$ 511	 \$ 341

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 months ended March 31, 2017 and 2016, the Company expensed \$0 and \$208, respectively, of interest from entity level borrowings.

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 months ended March 31, 2017 and 2016, the Company expensed \$0 and \$8 of interest and real estate taxes for inactive projects.

**5. EARNINGS PER SHARE**

The weighted average shares and share equivalents used to calculate basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three months ended March 31, 2017 and 2016 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 income attributable to common stockholders for the three months ended March 31, 2017, we have included the following shares to the diluted share computation. As a result of the net losses attributable to common stockholders for the three months ended March 31, 2016, the following shares have been excluded from the diluted share computation as their inclusion would be anti-dilutive:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Restricted stock awards	5	1
Warrants	25	

## 6. SEGMENT DISCLOSURES

We operate our business through three segments: Homebuilding, Multi-family, and Real Estate Services. We are currently focused on the Washington, D.C. area market.

In our Homebuilding segment, we develop properties with the intent to sell as fee-simple properties or condominiums to individual buyers or to private or institutional investors. Our for-sale products are designed to attract first-time, early move-up, and secondary move-up buyers. We focus on products that we are able to offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products.

In our Multi-family segment, we focus on projects ranging from approximately 75 to 200 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 will either position the assets for sale when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future.



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In our Real Estate Services segment, we pursue projects in all aspects of real estate management, including strategic planning, land development, entitlement, property management, sales and marketing, workout and turnaround strategies, financing and general construction. We are able to provide a wide range of construction management and general contracting services to other property owners.

The following table includes the Company's three reportable segments of Homebuilding, Multi-family, and Real Estate Services. Each of these segments operates within the Company's single Washington, D.C. area reportable geographic segment.

	<b>Homebuilding</b>	<b>Multi-family</b>	<b>Real Estate Services</b>	<b>Total</b>
<b>Three Months Ended March 31, 2017</b>				
Gross revenue	\$ 10,064	\$	\$ 204	\$ 10,268
Gross profit (loss)	963		(20)	943
Net (loss) income	(644)		(20)	(664)
Depreciation and amortization	65		9	74
Interest expense				
Total assets	56,317		79	56,396
<b>Three Months Ended March 31, 2016</b>				
Gross revenue	\$ 9,523	\$	\$ 183	\$ 9,706
Gross profit (loss)	878		92	970
Net (loss) income	(1,380)		92	(1,288)
Depreciation and amortization	83		3	86
Interest expense	213			213
Total assets	48,161		263	48,424

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

**7. INCOME TAX**

For the three months ended March 31, 2017 the Company recognized income tax expense of \$0. For the three months ended March 31, 2016, the Company recognized income tax expense of \$25, and the effective tax rate was 2%.

The Company has not recorded any accruals related to uncertain tax positions as of March 31, 2017 and 2016. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2013 through 2016 tax years remain subject to examination by federal and most state tax authorities.

At March 31, 2017 and December 31, 2016, due to the uncertainties surrounding the realization of the deferred tax assets, the Company recorded a full valuation allowance.

**8. 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.

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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 March 31, 2017 and 2016, the Company had \$1.1 million and \$1.9 million in outstanding letters of credit, respectively. At March 31, 2017 and 2016, the Company had \$4.2 million and \$4.8 million in outstanding performance and payment 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 March 31, 2017 and December 31, 2016, we had approximately \$1.0 million and \$0.8 million, respectively, in these escrow accounts, which are included in *Restricted cash* in the accompanying consolidated balance sheets.

**9. 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 are as follows:

2017	\$ 157
2018	160
<b>Total</b>	<b>\$ 317</b>

For the three months ended March 31, 2017 and 2016, total payments made under this lease agreement were \$52 and \$81, 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 March 31, 2017 and 2016, the Company billed Comstock Asset Management, L.C. \$203 and \$183, respectively, for services and out-of-pocket expenses. Revenues from this arrangement are included within *Revenue other* in the accompanying consolidated statements of operations. As of March 31, 2017 and December 31, 2016, the Company was owed \$68 and \$132, respectively, under this contract, which is included in *Trade receivables* in the accompanying consolidated balance sheets.

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. All of the other terms of the unsecured promissory note remained the same. 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 has 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. Purchasers other than CDS who purchased membership interests in CGF received warrants that represent the right to purchase an amount of shares of our Class A common stock, depending upon the investment amount. As of March 31, 2017 and December 31, 2016, there were 76 warrants issued in connection with the CGF Private Placement outstanding, representing the right to purchase shares of our Class A common stock having an aggregate fair value of \$433, which was considered as a debt discount. The Company amortizes the debt discount over the three year term of the loan to interest expense. As of March 31, 2017, \$12.6 million was outstanding in principal and accrued interest, net of discounts, on the CGF loan. For the three months ended March 31, 2017 and 2016, the Company made interest payments of \$0.4 million, on the CGF loan. In May 2017, subsequent to quarter end, the Company made the second principal curtailment to CGF in the amount of \$1.5 million.

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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 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 \$4,500 issued to the Company by Stonehenge was 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 \$3,861. The note was cancelled in its entirety on December 29, 2015. 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. For the three months ended March 31, 2017 and 2016, 15,663 and 17,216 shares of the Series B Preferred Stock, respectively, with a liquidation value of \$78 and \$86, respectively, were paid in-kind, and are included in Stockholders' equity in the accompanying consolidated balance sheets.

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.

On March 24, 2017, the Company entered into a share repurchase agreement with Investor Management, L.C., an entity owned by Gregory V. Benson, the former Chief Operating Officer of the Company, whereby the Company agreed to repurchase 193,052 shares of the Series C Preferred Stock held by Investor Management, L.C. for \$89. The Series C Preferred Stock acquisition closed on April 4, 2017, and the Series C Preferred Stock was retired.

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).

Simultaneously, on December 29, 2015, the Company and CGF II entered into an unsecured revolving line of credit promissory note 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. As of March 31, 2017 and December 31, 2016, \$3.3 million was outstanding in principal and accrued interest on the CGF II loan.

See Note 11 to the consolidated financial statements for a description of the Comstock VIII and Comstock X Private Placements and Note 13 to the consolidated financial statements for a description of the CGF Private Placement and the CGF II Private Placement.

## **10. 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 of \$3. This note bears a fixed interest rate of 6% per annum. As of March 31, 2017 and December 31, 2016, the outstanding balance of the note was \$94 and \$103, respectively, and is included within Other assets in the accompanying consolidated balance sheets. The interest income of \$1 and \$2 for the three months ended March 31, 2017 and 2016, respectively, is included in Other income, net in the consolidated statements of operations.

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**Table of Contents****11. VARIABLE INTEREST ENTITY**

Included within the Company's real estate inventories at March 31, 2017 and December 31, 2016 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. The Company determined that it was the primary beneficiary of these VIEs as a result of its majority voting and complete operational control of the entities.

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a joint venture of its subsidiary, Comstock Ventures XVI, L.C., and 6000 New Hampshire Avenue, LLC, for the purpose of acquiring, developing and constructing a 111-unit project (the NHA Project ) in Washington, D.C. The Company evaluated the joint venture and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it 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 obligation to absorb losses, or receive benefits. The Company contributed its ownership interest in Comstock Ventures XVI, L.C. to Comstock Investors VII, L.C. ( Comstock VII ) on March 13, 2013. During the three months ended March 31, 2016, New Hampshire Ave. Ventures, LLC distributed \$1.4 million to its non-controlling interest member, 6000 New Hampshire Avenue, LLC. No such distributions were made during the three months ended March 31, 2017.

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 15 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 ). Proceeds of the Comstock VIII Private Placement were utilized to provide capital needed to complete the Investor VIII Projects in conjunction with project financing for the Investor VIII Projects, to reimburse the Company for prior expenditures incurred on behalf of the Investor VIII Projects, and for general corporate purposes of the Company. 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. No distributions were paid to the Comstock VIII Class B Members during the three months ended March 31, 2016.

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 proceeds from the Comstock IX Private Placement have been utilized (A) for the current construction of the Marrwood East project of 35 single family homes in Loudoun County Virginia, (B) to reimburse the Company for prior expenditures incurred on behalf of the Marrwood East project and (C) for general corporate purposes of the Company. 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 have been paid to the Comstock IX Class B Members to date.



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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 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. Proceeds of the Comstock X Private Placement are being utilized (A) to provide capital needed to complete the projects known as The Townes at Totten Mews, consisting of 40 townhomes in Washington, D.C., and The Towns at 1333, consisting of 18 townhomes in the City of Alexandria, Virginia (collectively, the Investor X Projects ), (B) to reimburse the Company for prior expenditures incurred on behalf of the Investor X Projects, and (C) for general corporate purposes of the Company. 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 have been paid to the Comstock X Class B Members to date.

The distributions to and contributions from the VIEs discussed above are included within the non-controlling interest in the consolidated balance sheets for the periods presented.

At March 31, 2017 and December 31, 2016, total assets of these VIEs were approximately \$32.4 million and \$38.1 million, respectively, and total liabilities were approximately \$15.5 million and \$18.5 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.

**12. 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 March 31, 2017 and 2016, are \$18 and \$8, respectively. During the three months ended March 31, 2017 and 2016, the Company collected total distributions of \$36 and \$52, respectively, as a return on investment.

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

<b>Three Months Ended March 31,</b>	
2017	2016

<b>Statement of Operations:</b>			
Total net revenue	\$	66	\$ 45
Total expenses		30	29
Net income	\$	36	\$ 16
Comstock Holding Companies, Inc. share of net income	\$	18	\$ 8

**Table of Contents****13. CREDIT FACILITIES**

Notes payable consisted of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Construction revolvers	\$ 5,601	\$ 6,429
Development and acquisition notes	16,862	16,278
Mezzanine notes	1,439	1,424
Line of credit	2,929	2,929
<b>Total secured notes</b>	<b>26,831</b>	<b>27,060</b>
Deferred financing charges, net of amortization	(166)	(133)
<b>Net secured notes</b>	<b>26,665</b>	<b>26,927</b>
Unsecured financing, net of unamortized deferred financing charges of \$105 and \$121	959	911
Notes payable, unsecured, net of \$2.1 million discount and unamortized deferred financing charges	15,944	15,866
<b>Total notes payable</b>	<b>\$ 43,568</b>	<b>\$ 43,704</b>

As of March 31, 2017, maturities and/or curtailment obligations of all borrowings are as follows:

2017	\$ 35,258
2018	6,198
2019	1,997
2020	115
<b>Total</b>	<b>\$ 43,568</b>

As of March 31, 2017, the Company had \$35.3 million of its credit facilities and project related loans scheduled to mature during the remainder of 2017, and we are in active discussions with our lenders seeking long-term extensions.

***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 March 31, 2017 and December 31, 2016, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$30.5 million and \$26.6 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 March 31, 2017 and December 31, 2016, the Company had approximately \$24.9 million and \$20.2 million, respectively, of unused construction loan commitments. The Company had \$5.6 million and \$6.4 million of outstanding construction borrowings as of March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, the weighted average interest rate on the Company s outstanding construction revolving facilities was 4.6% per annum. The construction credit facilities have maturity dates ranging from April 2017 to March 2019, including extensions subject to the Company meeting certain conditions. Subsequent to March 31, 2017, \$0.2 million of the outstanding construction revolving credit facilities matured in April 2017 and therefore, the Company secured an extension for this borrowing. See Note 16 for further discussion on the extension.

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As of March 31, 2017 and December 31, 2016, the Company had approximately \$24.3 million and \$27.8 million, respectively, of aggregate acquisition and development maximum loan commitments of which \$16.9 million and \$16.3 million, respectively, were outstanding. These loans have maturity dates ranging from May 2017 to March 2019, 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 5.5% per annum. As of March 31, 2017 and December 31, 2016, the weighted average interest rate was 5.2% per annum.

As of March 31, 2017, the Company had one mezzanine loan that is being used to finance the development of the Momentum | Shady Grove project. The maximum principal commitment amount of this loan was \$1.1 million, of which \$1.4 million of principal and accrued interest was outstanding at March 31, 2017 and December 31, 2016. This financing carries an annual interest rate of 12% of which 6% is paid on a monthly basis with the remaining 6% being accrued and paid at maturity. This financing has a maturity date of December 31, 2017 and is guaranteed by the Company and our Chief Executive Officer.

### ***Line of credit    secured***

At March 31, 2017 and December 31, 2016, the Company had a secured revolving line of credit with a maximum capacity of \$3.0 million, of which \$2.9 million was outstanding at March 31, 2017 and December 31, 2016. 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%. This line of credit calls for the Company to adhere to financial covenants, as defined in the loan agreement such as, minimum net worth and minimum liquidity, measured quarterly and minimum EBITDA measured on an annual basis and matures on December 31, 2017. As of March 31, 2017, the Company was in compliance with all financial covenants dictated by the line of credit agreement.

### ***Unsecured financing***

As of March 31, 2017 and December 31, 2016, the Company had \$0.9 million 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 March 31, 2017 and December 31, 2016, the interest rate was 3.1% and 2.9% 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 March 31, 2017, the Company had one unsecured seller-financed promissory note with an outstanding balance of \$0.1 million. This financing carries an annual interest rate of the prime rate plus 5%. This financing has a maturity date of February 27, 2020, and is guaranteed by our Chief Executive Officer.

### ***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.

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 (the Original Promissory Note ). On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. The loan bears interest at a floating rate based on the 30 day LIBOR plus 9.75% per annum with a 10% floor 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 loan will be used by the Company (i) to finance the Company s current and future development pipeline, (ii) to repay all or a portion of the Company s prior private placements, (iii) to repay all or a portion of the Company s project mezzanine loans, and (iv) for general corporate purposes. The Company is the administrative manager of CGF but does not own any membership interests. The Company had approximately \$12.6 million of outstanding borrowings under the CGF loan, net of discounts, as of March 31, 2017 and December 31, 2016. As of March 31, 2017 and December 31, 2016, the interest rate was 11.4% and 10.4% per annum, respectively. For the three months ended March 31, 2017 and 2016, the Company made interest payments of \$0.4 million. During the second quarter of 2017, the Company made the second principal curtailment to CGF in the amount of \$1.5 million.

**Table of Contents****Comstock Growth Fund II**

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. 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. As of March 31, 2017 and December 31, 2016, \$3.4 million and \$3.3 million, respectively, was outstanding in principal and accrued interest under the CGF II loan.

**14. FAIR VALUE DISCLOSURES**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities 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 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:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Carrying amount	\$ 43,568	\$ 43,704
Fair value	\$ 45,091	\$ 44,986

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.

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.

**15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS**

During the three months ended March 31, 2017, the Company issued 157 thousand stock options and 200 thousand restricted stock awards to employees.

Stock-based compensation expense associated with restricted stock and stock options is recognized based on the fair value of the award over its vesting period. For the three months ended March 31, 2017, total stock based compensation expense was \$37 of which, \$32 was charged to expenses within general and administrative and cost of sales-other in the consolidated statement of operations, and \$5 was capitalized to Real estate inventories. For the three months ended March 31, 2016, total stock based compensation cost was \$31, and of this amount, \$26 was charged to expenses within general and administrative and cost of sales-other in the consolidated statement of operations, and \$5 was capitalized to Real estate inventories.

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.

As of March 31, 2017, the weighted-average remaining contractual term of unexercised stock options was 8 years. As of March 31, 2017 and December 31, 2016, there was \$0.7 million and \$0.1 million, respectively, of unrecognized compensation cost related to stock grants.



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**16. SUBSEQUENT EVENTS**

In April 2017, the Company and an entity wholly owned by certain officers, directors, and employees of the Company, closed on a repurchase of its Series B Common Stock from Gregory V. Benson, the Company's former Chief Operating Officer, and Clareth, LLC, an entity wholly owned by Mr. Benson. In addition, the Company also finalized the conversion of its Series B Preferred Stock to its Series C Preferred Stock. For further information regarding these transactions, see the "Recent Developments" section within Note 1, and the "Related Party Transactions" within Note 9 to the consolidated financial statements.

In April 2017, the Company repaid \$0.8 million of principal related to its secured line of credit. As of March 31, 2017, the Company had \$2.9 million in outstanding borrowings under this line of credit.

In April 2017, the Company extended its revolving construction and development loan related to the Estates at Falls Grove project. This loan had an initial maturity date of April 23, 2017 and the extension provides for a maturity date of July 23, 2017. As of March 31, 2017, the Company had \$0.2 million in outstanding borrowings under this revolving credit facility.

In May 2017, the Company made the second principal curtailment on the Amended CGF Private Placement in the amount of \$1.5 million.

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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, 2016. 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.

**Overview**

We are a multi-faceted real estate development and services company. We have substantial experience with building a diverse range of products, including multi-family homes, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. We operate our business through three segments: Homebuilding, Multi-family, and Real Estate Services as further discussed in Note 6

to the consolidated financial statements. We are currently focused in the Washington, D.C. metropolitan area, which is the sixth largest metropolitan statistical area in the United States.

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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 March 31, 2017:

**Pipeline Report as of March 31, 2017**

Project	State	Product Type (1)	Estimated Units		Units Settled	Backlog (8)	Units Owned/Controlled (2)	Units Under Control	Total Units Owned, Unsettled and Under Control	Average
			at Completion	Units						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	18		1		1		\$ 543
Townes at Falls Grove	VA	TH	110	92		9	9	18		\$ 303
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	110		\$
Estates at Emerald Farms	MD	SF	84	82		2		2		\$ 426
Townes at Maxwell Square	MD	TH	45	45						\$ 421
Townes at Hallcrest	VA	TH	42	42						\$ 465
Estates at Leeland	VA	SF	24	6		6	12	18		\$ 446
Villas   Preserve at Two Rivers 28	MD	TH	6	5		1		1		\$ 458
Villas   Preserve at Two Rivers 32	MD	TH	10	9		1		1		\$ 504
Marrwood East (7)	VA	SF	35	2		17	16	33		\$ 641
Townes at Totten Mews (6)	DC	TH	40			3	37	40		\$ 627
The Towns at 1333	VA	TH	18			1	17	18		\$ 995
The Woods at Spring Ridge	MD	SF	21			4	17	21		\$ 644
Solomons Choice	MD	SF	56				56	56		\$
Townes at Richmond Station	VA	TH	104				104	104		\$
Condominiums at Richmond Station	VA	MF	54				54	54		\$
<b>Total</b>			<b>928</b>	<b>442</b>		<b>44</b>	<b>284</b>	<b>158</b>	<b>486</b>	

- (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****Results of Operations****Three months ended March 31, 2017 compared to three months ended March 31, 2016***Settlements, orders, cancellations and backlog*

The following table summarizes certain information related to new orders, settlements, and backlog for the three month periods ended March 31, 2017 and 2016:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Gross new orders	39	38
Cancellations	5	3
Net new orders	34	35
Gross new order revenue	\$ 19,557	\$ 16,089
Cancellation revenue	\$ 2,513	\$ 1,156
Net new order revenue	\$ 17,044	\$ 14,933
Average gross new order price	\$ 501	\$ 423
Settlements	25	22
Revenue homebuilding	\$ 10,064	\$ 9,523
Average settlement price	\$ 403	\$ 433
Backlog units	44	38
Backlog revenue	\$ 23,920	\$ 16,264
Average backlog price	\$ 544	\$ 428

*Revenue homebuilding*

Revenue from homebuilding increased by \$0.6 million to \$10.1 million for the three months ended March 31, 2017 as compared to \$9.5 million for the three months ended March 31, 2016. For the three months ended March 31, 2017, the Company settled 25 units (12 units at Falls Grove, 6 units at Hallcrest, 4 units at Emerald Farm, 1 unit at Marrwood, 1 unit at Leeland and 1 unit at Shady Grove), as compared to 22 units (6 units at Maxwell Square, 5 units at Falls Grove, 4 units at Two Rivers, 4 units at Hallcrest, and 3 units at The Hampshires) for the three months ended March 31, 2016. Our homebuilding gross margin percentage for the three months ended March 31, 2017 increased by 0.2% to 9.4%, as compared to 9.2% for the three months ended March 31, 2016. The increase noted in gross margins was mainly the result of the number of units settled and the mix of homes.

Backlog which reflects the number of homes for which the Company has entered into a sales contract with a homebuyer but has not yet delivered the home increased by 6 units to 44 units at March 31, 2017, as compared to 38 units at March 31, 2016. At March 31, 2017, we had \$23.9 million in backlog to generate future revenue as compared to \$16.3 million at March 31, 2016, resulting in an increase of \$7.6 million.

Gross new order revenue, consisting of revenue from all units sold, for the three months ended March 31, 2017 was \$19.6 million on 39 units as compared to \$16.1 million on 38 units for the three months ended March 31, 2016. Net new order revenue, representing revenue for all units sold less cancellations, for the three months ended March 31, 2017 was \$17.0 million on 34 units as compared to \$14.9 million on 35 units for the three months ended March 31, 2016. The increases are attributable to the mix of homes sold.

*Cost of sales homebuilding*

Cost of sales homebuilding increased by \$0.5 million to \$9.1 million during the three months ended March 31, 2017, as compared to \$8.6 million for the three months ended March 31, 2016. The increase noted was primarily attributable to the number of units settled and the mix of homes settled during the three months ended March 31, 2017.

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### *Cost of sales other*

Cost of sales other increased by \$0.1 million to \$0.2 million during the three months ended March 31, 2017, as compared to \$0.1 million during the three months ended March 31, 2016. The increase primarily relates to our new initiatives within our real estate services segment to expand our footprint in the real estate consulting field.

### *Sales and marketing*

Selling and marketing expenses for the three months ended March 31, 2017 decreased by \$0.1 million to \$0.4 million, as compared to \$0.5 million for the three months ended March 31, 2016. The decrease is attributable to continued benefit from the general overhead cost saving measures.

### *General and administrative*

General and administrative expenses for the three months ended March 31, 2017 decreased by \$0.3 million to \$1.2 million, as compared to \$1.5 million for the three months ended March 31, 2016. The decrease is attributable to attrition in employee head count and general overhead cost saving measures.

### *Income taxes*

For the three months ended March 31, 2017 the Company recognized income tax expense of \$0. For the three months ended March 31, 2016, the Company recognized income tax expense of \$25, and the effective tax rate was 2%.

### *Recent Developments*

See the Recent developments section in Note 1 to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q.

### ***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. 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. See Note 13 in the accompanying consolidated financial statements for more details on our credit facilities and Note 11 in the accompanying consolidated financial statements for details on private placement offerings.

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 March 31, 2017, \$35.3 million of the Company's outstanding credit facilities and project related loans mature at various periods through the end of 2017. We are in active discussions with our lenders seeking 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 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. We are anticipating that with the successful resolution of the debt extension discussions with our lenders, capital raises from our recent private placement, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, the Company will have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that the Company will be successful in its efforts. The Company will also continue to focus on its cost structure in an effort to conserve cash and manage expenses. Such actions may include cost reductions and/or deferral arrangements with respect to current operating expenses.

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See Note 11 and Note 13 to the accompanying consolidated financial statements for details on private placement offerings and for more details on our credit facilities, respectively.

### ***Cash Flow***

Net cash provided by operating activities was \$0.5 million for the three months ended March 31, 2017 compared to the net cash used in operating activities of \$0.4 million for the three months ended March 31, 2016. The \$0.5 million net cash provided by operations was primarily attributable to collections of trade receivables of \$0.5 million and net releases of inventories of \$0.5 million, offset by the net loss of \$0.7 million. The \$0.4 million net cash used in operations for the three months ended March 31, 2016 was primarily due to \$2.9 million of net releases of inventories, offset by usage on accounts payable of \$1.6 million, increases in trade receivables of \$0.5 million and net loss of \$1.3 million.

Net cash used in financing activities was \$2.5 million for the three months ended March 31, 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, along with the pay downs on notes payable of \$6.0 million, offset by borrowings of \$5.5 million. Net cash used in financing activities was \$7.4 million for the three months ended March 31, 2016. This was primarily attributable to the distribution of \$1.4 million to the New Hampshire Avenue non-controlling interest member, along with the pay downs on notes payable of \$11.2 million, offset by borrowings of \$5.2 million.

### ***Seasonality***

The homebuilding industry usually experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity in the Spring and Summer, although this activity is also highly dependent on the number of active selling communities, the timing of new community openings and other market factors. Because it typically takes four to six months to construct a new home, we deliver more homes in the second half of the year as Spring and Summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters, and the majority of cash receipts from home deliveries occur during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry and the general economy.

### ***Recently Issued Accounting Standards***

See Note 1 to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q.

### ***Critical Accounting Policies and Estimates***

There have been no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2017 from those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2016.

### ***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 March 31, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2017.

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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 March 31, 2017, 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 8 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, 2016.

**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 Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on March 27, 2015 (incorporated by reference to Exhibit 3.2 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 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 Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on January 4, 2016).
- 3.5 Certificate of Designation of Series C Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 22, 2017 (incorporated by reference to Exhibit 3.1 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)).
- 10.59\* Loan agreement between Comstock Sixth Street, LLC and Eagle Bank.
- 10.60\* Series C Share Repurchase Agreement between the Company and Investor Management, 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\*

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The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, 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: May 15, 2017

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

Date: May 15, 2017

By: /s/ CHRISTOPHER L. CONOVER  
Christopher L. Conover  
**Chief Financial Officer**  
**(Principal Financial Officer and Principal**  
**Accounting Officer)**