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, 2019

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
(703) 230-1985
(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 every Interactive Data File required to be submitted 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 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.

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 ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock		
Class A Common Stock	CHCI	NASDAQ Capital Market

As of May 15, 2019, 3,663,843 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.

COMSTOCK HOLDING COMPANIES, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMSTOCK HOLDING COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 5,755	$ 5,780
Restricted cash	1,138	1,231
Trade receivables	1,434	1,329
Trade receivables - related parties	1,290	2,950
Real estate inventories	17,598	20,253
Fixed assets, net	205	221
Goodwill	1,702	1,702
Intangible assets, net	153	170
Lease right-of-use assets	156	—
Other assets, net	1,490	1,464
TOTAL ASSETS	$ 30,921	$ 35,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 6,803	$ 7,614
Deferred revenue	1,250	1,875
Notes payable - secured by real estate inventories, net of deferred financing charges	10,033	13,432
Notes payable - due to affiliates, unsecured, net of discount	4,935	4,903
Notes payable - unsecured, net of deferred financing charges	595	595
Lease liabilities	156	—
Income taxes payable	54	51
TOTAL LIABILITIES	23,826	28,470
Commitments and contingencies (Note 13)		
STOCKHOLDERS' EQUITY		
Series C preferred stock $0.01 par value, 20,000,000 and 3,000,000 shares authorized, 2,799,848 issued and outstanding and liquidation preference of $13,999 at March 31, 2019 and December 31, 2018, respectively	$ 7,193	$ 7,193
Class A common stock, $0.01 par value, 59,779,750 and 11,038,071 shares authorized, 3,749,413 and 3,703,513 issued, and 3,663,843 and 3,617,943 outstanding at March 31, 2019 and December 31, 2018, respectively	37	37
Class B common stock, $0.01 par value, 220,250 shares authorized, issued and outstanding at March 31, 2019 and December 31, 2018	2	2
Additional paid-in capital	180,769	180,673
Treasury stock, at cost (85,570 shares Class A common stock)	(2,662)	(2,662)
Accumulated deficit	(194,250)	(194,319)
TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT	(8,911)	(9,076)
Non-controlling interests	16,006	15,706
TOTAL EQUITY	7,095	6,630
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,921	$ 35,100

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

COMSTOCK HOLDING COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Revenues		
Revenue—homebuilding	$ 6,978	$ 5,561
Revenue—asset management	3,652	2,791
Revenue—real estate services	728	447
Total revenue	11,358	8,799
Expenses		
Cost of sales—homebuilding, excluding impairment charges	6,722	5,495
Cost of sales—asset management	3,317	2,541
Cost of sales—real estate services	494	177
Impairment charges	—	558
Sales and marketing	114	219
General and administrative	305	360
Interest and real estate taxes	34	85
Operating income (loss)	372	(636)
Other income, net	—	14
Income (loss) before income tax expense	372	(622)
Income tax expense	3	6
Net Income (loss)	369	(628)
Net income attributable to non-controlling interests	300	95
Net income (loss) attributable to common stockholders	69	(723)
Basic net income (loss) per share	$ 0.02	$ (0.21)
Diluted net income (loss) per share	$ 0.02	$ (0.21)
Basic weighted average shares outstanding	3,850	3,448
Diluted weighted average shares outstanding	3,965	3,448

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

COMSTOCK HOLDING COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Series C Preferred Stock		Class A		Class B		Additional paid-in capital	Treasury stock	Accumulated deficit	Non-controlling interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	579	442	3,295	$ 33	220	$ 2	$ 177,612	$ (2,662)	$ (189,803)	$ 16,987	$ 2,611
Stock compensation and issuances	—	—	104	1	—	—	135	—	—	—	136
Net (loss) income	—	—	—	—	—	—	—	—	(723)	95	(628)
Balance at March 31, 2018	579	$ 442	3,399	$ 34	220	$ 2	$ 177,747	$ (2,662)	$ (190,526)	$ 17,082	$ 2,119

	Series C Preferred Stock		Class A		Class B		Additional paid-in capital	Treasury stock	Accumulated deficit	Non-controlling interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2018	2,800	$ 7,193	3,703	$ 37	220	$ 2	$ 180,673	$ (2,662)	$ (194,319)	$ 15,706	$ 6,630
Stock compensation and issuances	—	—	56	—	—	—	96	—	—	—	96
Shares withheld related to net share settlement of restricted stock awards	—	—	(10)	—	—	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	—	—	—	69	300	369
Balance at March 31, 2019	2,800	$ 7,193	3,749	$ 37	220	$ 2	$ 180,769	$ (2,662)	$ (194,250)	$ 16,006	$ 7,095

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

COMSTOCK HOLDING COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income (loss)	$ 369	$ (628)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities		
Amortization of loan discount, loan commitment and deferred financing fees	21	150
Depreciation expense	31	57
Earnings from unconsolidated joint venture, net of distributions	(1)	4
Stock compensation	86	86
Impairment charges	—	558
Changes in operating assets and liabilities:		
Trade receivables	1,555	(5,216)
Real estate inventories	2,658	1,157
Other assets	(35)	(655)
Accrued interest	(404)	592
Accounts payable and accrued liabilities	(1,401)	3,840
Income taxes payable	3	6
Net cash provided by (used in) operating activities	2,882	(49)
Cash flows from investing activities:		
Purchase of fixed assets	(15)	(46)
Principal received on note receivable	10	9
Net cash used in investing activities	(5)	(37)
Cash flows from financing activities:		
Proceeds from notes payable	2,289	2,853
Payments on notes payable	(5,256)	(3,458)
Loan financing costs	—	(57)
Taxes paid related to net share settlement of equity awards	(28)	—
Net cash used in financing activities	(2,995)	(662)
Net decrease in cash, restricted cash and cash equivalents	(118)	(748)
Cash, restricted cash and cash equivalents, beginning of period	7,011	2,947
Cash, restricted cash and cash equivalents, end of period	$ 6,893	$ 2,199
Supplemental cash flow information:		
Interest paid, net of interest capitalized	$ 437	$ 605

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

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. The Company has evaluated subsequent events through the date these consolidated financial statements were issued and has included all necessary adjustments and disclosures. 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, 2018.

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 Washington, D.C. Metropolitan Statistical Area ("MSA"). In 2018, the Company 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, the Company will operate through two primary real estate focused platforms – CDS Asset Management, LC ("CAM") and Comstock Real Estate Services, LC ("CRES"). On April 30, 2019 the Company announced the exit from the Homebuilding business. 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 months ended March 31, 2019 and 2018, comprehensive income (loss) equaled net income (loss); therefore, a separate statement of comprehensive income (loss) is not included in the accompanying consolidated financial statements.

Recent Developments

On February 12, 2019, the Company held a special meeting of stockholders (the "2019 Special Meeting"), at which its stockholders approved and adopted the Comstock Holding Companies, Inc. 2019 Omnibus Incentive Plan (the "2019 Plan"). The Company's board of directors previously approved the 2019 Plan on December 12, 2018, subject to stockholder approval. At the 2019 Special Meeting, the Company's stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A common stock from 11,038,071 to 59,779,750 and a corresponding increase to the number of authorized shares of all classes of capital stock from 31,428,571 to 80,000,000 (the "Amendment"). The Amendment became effective upon filing with the Secretary of State of the State of Delaware on February 15, 2019 (the "Certificate of Amendment"). Also on February 15, 2019 the Company filed a Certificate of Amendment of the Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc. (the "Series C Certificate of Amendment") with the Secretary of the State of Delaware. The Series C Certificate of Amendment amended the Certificate of Designation to increase the number of shares of Series C Preferred Stock from 3,000,000 to 4,500,000. Refer to the Company's 10K Annual Report filing on March 29, 2019, which is incorporated herein.

On April 30, 2019, The Company entered into a Master Transfer Agreement (the "MTA") with Comstock Development Services, LC ("CDS"), an entity wholly owned by Christopher Clemente, the Chief Executive Officer of CHCI, and FR54, LC ("FR54"), an entity also controlled by Mr. Clemente, that sets forth certain transactions to complete CHCI's previously announced exit from the homebuilding and land development business in favor of a migration to an asset management model. Refer to Note 22 – *Subsequent Events* for further discussion regarding the transaction.

On April 30, 2019, CDS Asset Management, L.C. ("CAM"), an entity wholly owned by CHCI, entered into an amended and restated master asset management agreement (the "2019 AMA") with CDS, which amends and restates in its entirety the asset management agreement between the parties dated March 30, 2018 with an effective date as of January 1, 2018. Pursuant to the 2019 AMA, CDS will engage CAM to manage and administer CDS' commercial real estate portfolio ("CRE Portfolio") and the day to-day operations of CDS and each property-owning subsidiary of CDS (collectively, the "CDS Entities"). Pursuant to the terms of the 2019 AMA, CAM will provide investment advisory, development and asset management services necessary to build out, stabilize and manage the CRE Portfolio. The CRE Portfolio consists primarily of two of the larger transit-oriented, mixed-use developments located at metro stops on Washington D.C. Metro's Silver Line (Reston Station and Loudoun Station), which are owned by entities of varying ownership interests but all of which are ultimately controlled by Mr. Clemente. Refer to Note 22 – Subsequent Events for further discussion regarding the 2019 AMA.

On April 30, 2019, CAM entered into a Business Management Agreement (the "Management Agreement") with Comstock Investors X, L.C. ("Investors X") whereby CAM will provide Investors X with asset and professional services related to the wind down of Investors X's homebuilding operations and the continuation of services related to Investors X's existing land development activities. The aggregate fee payable to CAM from Investors X under the Management Agreement is $937,500, payable in fifteen quarterly installments of $62,500 each. Refer to Note 22 – Subsequent Events for further discussion regarding the Management Agreement.

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.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") 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 ("ROU") asset representing its right to use the underlying asset for the lease term. The FASB subsequently issued ASU 2018-10 and ASU 2018-11 in July 2018, which provide clarifications and improvements to ASU 2016-02. ASU 2018-11 also provides the optional transition method which will allow companies to apply the new lease standard at the adoption date instead of at the earliest comparative period presented. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. The Company adopted this standard using the modified retrospective method effective January 1, 2019. As permitted by the guidance, the Company elected to retain the original lease classification and historical accounting for initial direct costs for leases existing prior to the adoption date and did not reassess contracts entered into prior to the adoption date for the existence of a lease. The Company also did not recognize ROU assets and lease liabilities for short-term leases, which are leases in existence as of the adoption date with an original term of twelve months or less. As a result of the adoption of the standard, the Company recognized ROU assets and liabilities of $170 thousand as of the adoption date on its condensed consolidated balance sheet. The assets and liabilities recognized upon application of the transition provisions were primarily associated with our existing office leases.

Recently Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"), which removes, adds and modifies certain disclosure requirements for fair value measurements in Topic 820. ASU 2018-13 removes the following disclosure requirements: (i) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and (ii) the entity's valuation processes for Level 3 fair value measurements. ASU 2018-13 adds the following disclosure requirements: (i) provide information about the measurement uncertainty of Level 3 fair value measurements as of the reporting date rather than a point in the future, (ii) disclose changes in unrealized gains and losses related to Level 3 measurements for the period included in other comprehensive income, and (iii) disclose for Level 3 measurements the range and weighted average of the significant unobservable inputs and the way it is calculated. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. We do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements.

We assessed other accounting pronouncements issued or effective during the three months ended March 31, 2019 and deemed they were not applicable to us and are not anticipated to have a material effect on our consolidated financial statements. Other standards previously issued and adopted by the Company have been disclosed in previous filings.

2. TRADE RECEIVABLES & TRADE RECEIVABLES – RELATED PARTIES

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.

	March 31, 2019	December 31, 2018
Trade	$ 793	$ 804
Due from settlement attorneys	606	441
Other	35	84
	$ 1,434	$ 1,329

As of March 31, 2019 and December 31, 2018, the Company had $1.3 million and $3.0 million, respectively, of receivables from related parties, primarily related to the AMA.

3. REAL ESTATE INVENTORIES

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

	March 31, 2019	December 31, 2018
Land and land development costs	$ 7,919	$ 9,741
Cost of construction (including capitalized interest and real estate taxes)	9,679	10,512
	$ 17,598	$ 20,253

As a result of our impairment analysis, for the three months ended March 31, 2019, the Company did not expense any feasibility, site securing, predevelopment, design, carry costs and related costs for its communities in the Washington, D.C. metropolitan area. There were $0.6 million of impairment charges recorded during the three months ended March 31, 2018 due to unsuccessful negotiations and market conditions.

4. GOODWILL & INTANGIBLES

On July 17, 2017, Comstock Environmental, 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. Comstock Environmental has its principal office located in Conshohocken, Pennsylvania, and operates in Maryland, Pennsylvania, New Jersey, and Delaware. Comstock Environmental 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. As of March 31, 2019 and December 31, 2018, the balance of goodwill was $1.7 million.

Intangible assets include customer relationships which have an amortization period of four years. During the three months ended March 31, 2019 and 2018, $17 thousand of intangible asset amortization was recorded in '*General and administrative*' expense on the Consolidation Statements of Operations.

	March 31, 2019	December 31, 2018
Intangibles	268	268
Less: accumulated amortization	(115)	(98)
	$ 153	$ 170

As of March 31, 2019, the future estimated amortization expense related to these intangible assets was:

	Amortization Expense
2019	$ 50
2020	67
2021	36
Total	$ 153

5. LEASES

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, Leases, later codified as Accounting Standards Codification ("ASC") 842 ("ASC 842"), using the modified retrospective method. For periods presented prior to the adoption date, the Company continues to follow its previous policy under ASC 840, Leases.

The determination of whether an arrangement contains a lease and the classification of a lease, if applicable, is made at lease commencement, at which time the Company also measures and recognizes an ROU asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments under the terms of the arrangement. For the purposes of recognizing ROU assets and lease liabilities associated with the Company's leases, the Company has elected the practical expedient to not recognize a ROU asset or lease liability for short-term leases, which are leases with a term of twelve months or less. The lease term is defined as the noncancelable portion of the lease term plus any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised.

ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The rates implicit within the Company's leases are generally not determinable, therefore, the Company's incremental borrowing rate is used to determine the present value of lease payments. The determination of the Company's incremental borrowing rate requires judgment. The incremental borrowing rate is determined at lease commencement, or as of January 1, 2019 for operating leases in existence upon adoption of ASC 842.

The Company has operating leases for its office facilities as well as for office equipment. The Company's leases have remaining terms of less than one year to 3 years. The leases can contain various renewal and termination options. The period which is subject to an option to extend the lease is included in the lease term if it is reasonably certain that the option will be exercised. The period which is subject to an option to terminate the lease is included if it is reasonably certain that the option will not be exercised. Lease costs related to the Company's operating leases are generally recognized as a single ratable lease cost over the lease term.

Maturities of lease liabilities as of March 31, 2019 are as follows:

	Operating Leases
2019 (9 months ended December 31)	$ 49
2020	59
2021	54
2022	9
Total lease payments	171
Less: imputed interest	15
Present Value of lease liabilities	$ 156

As of March 31, 2019, operating lease payments include $108 thousand related to options to extend lease terms that are reasonably certain of being exercised. The Company does not have any lease liabilities which have not yet commenced as of March 31, 2019.

6. OTHER ASSETS, NET

Other assets, net consist of the following:

	March 31, 2019	December 31, 2018
Bonds and escrow deposits	$ 1,108	$ 1,100
Prepaid insurance	82	60
Other	300	304
	1,490	1,464

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	March 31, 2019	December 31, 2018
Trade and accrued payables	$ 3,729	$ 4,727
Accrued wages and commissions	477	1,396
Customer deposits	2,357	1,189
Warranty	186	195
Other	54	107
	$ 6,803	$ 7,614

8. CONTRACT LIABILITIES

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.”

Contract liabilities consisted of the following:

	March 31, 2019	December 31, 2018
Contract Liabilities: Customer Deposits and Deferred Revenue		
Homebuilding - Customer deposits	$ 2,357	$ 1,189
Asset Management - Deferred revenue	1,250	1,875
Total Contract Liabilities	$ 3,607	$ 3,064

Asset Management – Deferred revenue 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 $2.4 million and $1.2 million as of March 31, 2019 and December 31, 2018, respectively. During the three months ended March 31, 2019, the Company recognized in revenue approximately $414 thousand of the customer deposits held as of December 31, 2018.

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, 3) property management, and 4) 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.

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 March 31, 2019	2018
Revenue by customer		
Individual customers	$ 6,769	$ 5,561
Related party	3,595	2,791
Commercial	994	447
Total Revenue by customer	$ 11,358	$ 8,799
Revenue by contract type		
Fixed-price	$ 7,202	$ 5,561
Cost-plus	3,485	2,791
Time and Material	671	447
Total Revenue by contract type	$ 11,358	$ 8,799

Revenue and related profits or losses from homebuilding contracts: the sale of residential properties and units, finished lots and land sales is recognized on the settlement date at the contract sales price, when control is transferred to our customers. These contracts meet the criteria for recognizing revenue at a point in time. As such, these revenues are disaggregated in ‘Individual customers’ and ‘Fixed-price’ in the tables above.

Under the recently executed AMA and most of 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 “right-to-invoice” 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 ‘Commercial’ customers, and ‘Cost-plus’ and ‘Fixed-price’ 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 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:

	Three Months Ended March 31, 2019	2018
Balance at beginning of period	$ 195	$ 258
Additions	18	16
Releases and/or charges incurred	(27)	(47)
Balance at end of period	$ 186	$ 227

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 March 31, 2019	2018
Interest incurred and capitalized	$ 392	$ 896
Real estate taxes incurred and capitalized	14	66
Total interest and real estate taxes incurred and capitalized	$ 406	$ 962
Interest expensed as a component of cost of sales	$ 519	$ 518
Real estate taxes expensed as a component of cost of sales	41	48
Interest and real estate taxes expensed as a component of cost of sales	$ 560	$ 566

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. 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.

12. DEBT

Notes payable consisted of the following:

	March 31, 2019	December 31, 2018
Construction revolvers	$ 1,883	$ 2,220
Development and acquisition notes	7,293	10,290
Line of credit	-	13
Other	857	909
Total secured notes	10,033	13,432
Unsecured financing, net of unamortized deferred financing charges of $0 and $0, respectively	595	595
Notes payable- due to affiliates, unsecured, net of $0.8 million and $0.8 million discount and unamortized deferred financing charges, respectively	4,935	4,903
Total notes payable	$ 15,563	$ 18,930

As of March 31, 2019, net maturities and/or curtailment obligations of all borrowings are as follows:

2019	$	4,935
2020		4,802
2021		4,375
2022		1,419
2023 and thereafter		32
Total	$	15,563

As of March 31, 2019, the Company had no credit facilities or project related loans scheduled to mature during the remainder of 2019.

Construction and development debt – secured

The Company enters into secured acquisition and development loan agreements 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.

The Company had $1.9 million and $2.2 million of outstanding secured construction borrowings as of March 31, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, the weighted average interest rate on the Company's outstanding construction revolving facilities was 5.7% per annum. The construction credit facilities have maturity dates ranging from March 15, 2020 to July 31, 2020, including extensions subject to the Company meeting certain conditions.

As of March 31, 2019, and December 31, 2018, the Company had approximately $7.3 million and $10.3 million, respectively, of aggregate acquisition and development loans outstanding. These loans have maturity dates ranging from March 15, 2020 to July 25, 2021, 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 4.25% to 5.50% per annum. As of March 31, 2019 and December 31, 2018, the weighted average interest rate was 5.9% and 6.6% per annum, respectively.

Line of credit – secured

During 2018, the Company opened a secured line of credit with a maximum capacity of $0.2 million, which was paid in full during the three months ended March 31, 2019. Interest charged on this line of credit was based on the prime rate plus 2.50%. As of December 31, 2018, there was $13 thousand of principal and interest outstanding on this line of credit, and the interest rate was 6.75%.

Other – secured

As of March 31, 2019 and December 31, 2018, the Company had one secured loan related to Comstock Environmental. The loan was used to finance the acquisition of Comstock Environmental, and carries a fixed interest rate of 6.5%, with a maturity date of October 17, 2022. At March 31, 2019 and December 31, 2018, this financing had an outstanding balance of $824 thousand and $874 thousand, respectively. This financing is secured by the assets of Comstock Environmental and is guaranteed by our Chief Executive Officer.

Unsecured financing

As of March 31, 2019 and December 31, 2018, the Company had one unsecured seller-financed promissory note with an outstanding balance of $595 thousand. This financing carries an annual interest rate of LIBOR plus 3% and has a maturity date of July 17, 2022. At March 31, 2019 and December 31, 2018, the interest rate was 5.7% and 6.0%, respectively.

Notes payable to affiliate – unsecured

<u>Comstock Growth Fund</u>

On October 17, 2014, Comstock Growth Fund, L.C. ("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. 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. The Company is the administrative manager of CGF but does not own any membership interests. The Company had approximately $4.9 million of outstanding borrowings and accrued interest under the CGF loan, net of discounts, as of March 31, 2019 and December 31, 2018. As of March 31, 2019, and December 31, 2018, the interest rate was 10.0% per annum. The maturity date for the CGF loan was April 16, 2019. Subsequent to March 31, 2019, the Company secured an extension on the CGF loan, providing for a new maturity date of April 16, 2020. See Note 22 – *Subsequent Events* for further discussion on the extension.

For the three months ended March 31, 2019 and 2018, the Company made interest payments of $0.2 million and $0.1 million, respectively.

During the three months ended March 31, 2019 and 2018, the Company did not make principal payments to CGF.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Currently, we are not subject to any material legal proceedings. From time to time, 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 March 31, 2019, and 2018, the Company had $1.1 million in outstanding letters of credit. At March 31, 2019, and 2018, the Company had $7.7 million and $4.5 million in outstanding performance bonds, respectively. No amounts have been drawn against these 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, 2019, and December 31, 2018, we had approximately $1.0 million in these escrow accounts, which are included in 'Restricted cash' in the accompanying consolidated balance sheets.

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.

	March 31, 2019	December 31, 2018
Carrying amount	$ 15,563	$ 18,930
Fair value	$ 15,376	$ 18,608

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.

As a result of our impairment analysis, for the three months ended March 31, 2019, the Company did not expense any feasibility, site securing, predevelopment, design, carry costs and related costs for its communities in the Washington, D.C. metropolitan area. There were $0.6 million of impairment charges recorded during the three months ended March 31, 2018 due to unsuccessful negotiations and market conditions.

15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

During the three months ended March 31, 2019, the Company issued 94,431 stock options and 57,788 restricted stock awards to employees. No stock awards were issued during the three months ended March 31, 2018.

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 March 31,	
	2019	2018
Assets - Real Estate Inventories	$ 3	$ 14
Cost of sales - Real Estate Services	11	86
Expense - General and administrative	73	-
	87	100

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, 2019, the weighted-average remaining contractual term of unexercised stock options was 8 years. As of March 31, 2019, and December 31, 2018, there was $0.5 million and $0.3 million, respectively, 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. EARNINGS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted loss per share for the three months ended March 31, 2019 and 2018 are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three months ended March 31, 2019 and 2018 are included in the diluted loss per share calculation using the treasury stock method and average market prices during the periods, unless their inclusion would be anti-dilutive.

The following shares have been excluded from the dilutive share computation for the three months ended March 31, 2019 and 2018 as their inclusion would be anti-dilutive.

	Three Months Ended March 31,	
	2019	2018
Restricted stock awards	—	46
Stock options	319	850
Warrants	620	994
	939	1,890

17. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

GAAP requires a VIE to be consolidated by the company that is the primary beneficiary. The primary beneficiary of a VIE is the entity that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities determined to be VIEs, for which we are not the primary beneficiary, are accounted for under the equity method. Comstock's variable interests in VIEs may be in the form of (1) equity ownership, (2) contracts to purchase assets and/or (3) loans provided to and or guaranteed for a VIE. We examine specific criteria and use judgment when determining if Comstock is the primary beneficiary of a VIE. Factors considered in determining whether we are the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions and contracts to purchase assets from VIEs.

<u>Consolidated Real Estate Inventories</u>

Included within the Company's real estate inventories at March 31, 2019 and December 31, 2018 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 the Company's majority voting rights and complete operational control of these entities,

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 thousand. 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 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.

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, Townes at 1333, Richmond Station, and Marrwood 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 were issued. 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 months ended March 31, 2019 and 2018.

At March 31, 2019 and December 31, 2018, the distributions and contributions for the VIEs discussed above are included within the 'Non-controlling interest' classification in the consolidated balance sheets.

At March 31, 2019 and December 31, 2018, total assets of these VIEs were approximately $16.6 million and $19.3 million, respectively, and total liabilities were approximately $11.6 million and $12.6 million, respectively. The classification of these assets is primarily within 'Real estate inventories' and the classification of liabilities is 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

Lease for Corporate Headquarters

The Company has a lease for its corporate headquarters from an affiliate wholly-owned by our CEO. Future minimum lease payments under this lease, which expires on September 30, 2019, is $0.4 million.

For each of the three months ended March 31, 2019 and 2018, total rental payments made were $138 thousand and $53 thousand, respectively. Rent expense for the three months ended March 31, 2019 and 2018 was $138 thousand and $53 thousand, respectively.

Asset Management Agreement

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 "AMA") 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. Pursuant to the AMA, CDS has engaged CAM to manage and administer the CDS' commercial real estate portfolio and the day to-day operations of CDS and each property-owning subsidiary of CDS. Pursuant to the terms of the AMA, CAM will provide investment advisory, development and asset management services necessary to build out, stabilize and manage certain assets.

Pursuant to the AMA, 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 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. During the three months ended March 31, 2019, the Company recorded revenue of $3.6 million which is included in 'Revenue-asset management' in the consolidated statement of operations).

On April 30, 2019 the Company entered into an amended and restated master asset management agreement. Refer to Note 22 – Subsequent Events for further information on the transaction.

Private Placements and Promissory Notes

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 earned 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 notes, 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 year ended 2018.

See Note 17 for a summary of the Comstock VIII Private Placement which involved certain of our officers and directors and Note 12 to the consolidated financial statements for further description of the CGF Private Placement.

Services Agreement

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 the Chief Executive Officer, to provide services related to real estate development and improvements, legal, accounting, marketing, information technology and additional support services. For the years ended December 31, 2018, the Company billed Comstock Asset Management, L.C. $0.12 million for services and out-of-pocket expenses incurred. Revenues from this arrangement are included within ‘Revenue – asset management’ within the accompanying consolidated statements of operations. As of December 31, 2018 the Company was not owed under this contract.

19. UNCONSOLIDATED JOINT VENTURE

The Company accounts for its 50% interest in its title insurance joint venture using the equity method of accounting and 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 ‘Revenue – real estate services’ in the accompanying consolidated statements of operations for the periods presented.

Our share of the earnings for the three months ended March 31, 2019 and 2018 are $57 thousand and $14 thousand, respectively. During the three months ended March 31, 2019 and 2018, the Company collected total distributions of $58 thousand and $10 thousand, respectively, as a return on investment..

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

	Three Months Ended March 31, 2019	2018
Statement of Operations:		
Total net revenue	$ 147	$ 58
Total expenses	33	30
Net income	$ 114	$ 28
Comstock Holding Companies, Inc. share of net income	$ 57	$ 14

20. INCOME TAXES

For the three months ended March 31, 2019, the Company recognized income tax expense of $3 thousand and the effective tax rate is (0.85)%. The effective tax rate is primarily attributable to the Company's federal and state Net Operating Losses ("NOL"s).

The Company currently has approximately $147 million in federal and state NOLs. 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.

The Company has not recorded any accruals related to uncertain tax positions as of March 31, 2019 and 2018. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2015 through 2018 tax years remain subject to examination by federal and most state tax authorities.

21. SEGMENT DISCLOSURES

During the three months ended March 31, 2019 and 2018 we operated our business through our three segments: Homebuilding, Asset Management, and Real Estate Services. We are focused on the Washington, D.C. MSA.

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 develop properties with the intent to sell as fee-simple properties or condominiums to individual buyers or to private or institutional investors. On April 30, 2019 the Company completed the previously announced exit from homebuilding and land development. See Note 22 – *Subsequent Events* for details regarding the transaction.

The Asset Management and Homebuilding segments operate solely within the Company's Washington, D.C. MSA reportable geographic area. The Real Estate Services segment operates in the Washington, D.C. MSA, New Jersey, and Pennsylvania geographic area. The following table includes the Company's three reportable segments of Homebuilding, Asset Management, and Real Estate Services for the three months ended March 31, 2019 and 2018.

	Homebuilding	Asset Management	Real Estate Services	Total
Three Months Ended March 31, 2019				
Gross revenue	$ 6,978	$ 3,652	$ 728	$ 11,358
Gross profit	256	335	234	825
Net income	126	230	13	369
Depreciation and amortization	—	7	38	45
Interest expense	12	—	22	34
Total assets	26,042	1,808	3,071	30,921
Three Months Ended March 31, 2018				
Gross revenue	$ 5,561	$ 2,791	$ 447	$ 8,799
Gross profit	66	250	270	586
Net (loss) income	(681)	250	(197)	(628)
Depreciation and amortization	—	—	37	37
Interest expense	61	—	24	85
Total assets	46,409	3,976	2,913	53,298

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

22. SUBSEQUENT EVENTS

Master Transfer Agreement

On April 30, 2019, the Company entered into the MTA with CDS, an entity wholly owned by Christopher Clemente, the Chief Executive Officer of CHCI, and FR54, an entity also controlled by Mr. Clemente, that sets forth certain transactions to complete the Company's previously announced exit from the homebuilding and land development business in favor of a migration to an asset management model.

Amended and Restated Asset Management Agreement

On April 30, 2019, CDS Asset Management, L.C. ("CAM"), an entity wholly owned by CHCI, entered into an amended and restated master asset management agreement (the "2019 AMA") with CDS, which amends and restates in its entirety the asset management agreement between the parties dated March 30, 2018 with an effective date as of January 1, 2018. Pursuant to the 2019 AMA, CDS will engage CAM to manage and administer CDS' commercial real estate portfolio ("CRE Portfolio") and the day to-day operations of CDS and each property-owning subsidiary of CDS (collectively, the "CDS Entities").

Pursuant to the terms of the 2019 AMA, CAM will provide investment advisory, development and asset management services necessary to build out, stabilize and manage the CRE Portfolio. The CRE Portfolio consists primarily of two of the larger transit-oriented, mixed-use developments located at metro stops on Washington D.C. Metro's Silver Line (Reston Station and Loudoun Station), which are owned by entities of varying ownership interests but all of which are ultimately controlled by Mr. Clemente. Pursuant to the modified fee structure set forth in the 2019 AMA, CDS will pay CAM an annual fee equal to the greater of either (i) an aggregate amount equal to the sum of (a) an asset management fee equal to 2.5% of the CRE Portfolio revenues; (b) a construction management fee equal to 4% of all costs associated with CRE Portfolio projects in development; (c) a property management fee equal to 1% of the CRE Portfolio revenues, (d) an acquisition fee equal to up to 0.5% of the purchase price of an acquired asset; and (f) a disposition fee equal to 0.5% of the sales price of an asset on disposition (collectively the "Market Rate Fee"); or (ii) an aggregate amount equal to the sum of (x) the employment expenses of personnel dedicated to providing services to the CRE Portfolio pursuant to the 2019 AMA, (y) the costs and expenses of CHCI related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations of a public company, and (z) a fixed annual payment of $1,000,000 (collectively the "Cost Plus Fee").

In addition to the annual payment of either the Market Rate Fee or the Cost Plus Fee; CAM is also entitled on an annual basis to the following supplemental AMA fees; (i) an incentive fee equal to 10% of the free cash flow of each of the real estate assets comprising the CRE Portfolio after calculating a compounding preferred return of 8% on CDS invested capital (the "Incentive Fee"); (ii) an investment origination fee equal to 1% of raised capital, (iii) a leasing fee equal to $1.00/sf for new leases and $.50/sf for renewals; and (iv) mutually agreeable loan origination fees related to the CRE Portfolio.

The 2019 AMA will terminate on December 31, 2027 ("Initial Term"), an extension from the original termination date of December 31, 2022, and will automatically renew for successive additional one-year terms (each an "Extension Term") unless CDS delivers written notice of non-renewal of the 2019 AMA at least 180 days prior to the termination date of the Initial Term or any Extension Term. Twenty-four months after the effective date of the 2019 AMA, CDS is entitled to terminate the 2019 AMA without cause upon 180 days advance written notice to CAM. In the event of such a termination and in addition to the payment of any accrued annual fees due and payable as of the termination date under the 2019 AMA, CDS is required to pay a termination fee equal to (i) the Market Rate Fee or the Cost Plus Fee paid to CAM for the calendar year immediately preceding the termination , and (ii) a one-time payment of the Incentive Fee as if the CRE Portfolio were liquidated for fair market value as of the termination date; or the continued payment of the Incentive Fee as if a termination had not occurred

Business Management Agreement

On April 30, 2019, CAM entered into a Business Management Agreement (the "Management Agreement") with Investors X whereby CAM will provide Investors X with asset and professional services related to the wind down of Investors X's homebuilding operations and the continuation of services related to Investors X's existing land development activities. The aggregate fee payable to CAM from Investors X under the Management Agreement is $937,500, payable in fifteen quarterly installments of $62,500 each.

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 words or 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, 2018. Our actual results could differ materially from these 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

CHCI is a multi-faceted real estate development, asset management and real estate related services company that, since 1985, has designed, developed, constructed and managed several thousand residential units and millions of square feet of residential and mixed-use projects throughout the Washington, DC metropolitan market and in other key markets in the southeastern United States. In early 2018, CHCI transitioned its operating platform from being primarily focused on developing on-balance sheet, for-sale, homebuilding projects to being focused on commercial real estate development, asset management and real estate related services. In addition to providing real estate development, asset management, and property management services, CHCI provides development supply chain services, including capital markets, real estate brokerage, environmental consulting and design services in the Washington, DC metropolitan area and in New Jersey and Pennsylvania. Anchoring the transition of CHCI is a long-term asset management agreement covering two of the largest transit-oriented, mixed-use developments in the Washington, DC area; Reston Station, a nearly 5 million square foot transit-oriented, mixed-use development located in Reston, VA, and Loudoun Station, a nearly 2.5 million square foot transit-oriented, mixed-use development in Ashburn, VA, as well as other additional development assets. Comstock's substantial experience in entitling, designing, developing, and managing a diverse range of properties including apartments, single-family homes, townhomes, mid-rise condominiums, high-rise condominiums and mixed-use (residential and commercial) properties, as well as large scale commercial parking garages and infrastructure projects, has positioned the Comstock organization as a premier developer and real estate related service provider in the mid-Atlantic Region.

About Reston Station

Strategically located mid-way between Tysons Corner and Dulles International Airport, Reston Station is among the largest mixed use, transit-oriented developments in the Washington, DC area. Located at the terminus of Phase I of Metro's Silver Line and encompassing nearly 40 acres spanning the Dulles Toll Road and surrounding Reston's first Metro Station, Reston Station is already home to more than 1,000 residents, numerous businesses, multiple retail establishments, and several popular restaurants. With more than 1 million square feet of completed and stabilized buildings, approximately 4 million square feet of additional development in various stages of entitlement, development and construction, and a 3,500-space underground parking garage and bus transit facility adjacent to the Wiehle Reston-East Metro Station, the Reston Station neighborhood is quickly becoming Fairfax County's urban focal point in the Dulles Corridor.

About Loudoun Station

Located at the terminus station on Metro's Silver Line, minutes from Dulles International Airport, Loudoun Station represents Loudoun County's first (and currently its only) Metro-connected development. Loudoun Station 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, and a 1,500-space commuter parking garage. Approximately 2 million square feet of additional development is slated for Loudoun Station. Located adjacent to Metro's Ashburn Station, the Loudoun Station neighborhood represents Loudoun County's beginning transformation into a transit connected community with direct connectivity to Dulles International Airport, Reston, Tysons Corner and downtown Washington, DC. As Loudoun County's only transit connected neighborhood, Loudoun Station has become the new downtown of Loudoun County in the Dulles Corridor.

Our Business Strategy

On April 30, 2019, we completed our previously announced exit from homebuilding and land development in favor of a migration to an asset management model. The Company operates through two real estate focused platforms, CDS Asset Management ("CAM") and Comstock Real Estate Services ("CRES"). CAM provides real estate development, asset management, and property management services, while CRES provides development supply chain services, including capital markets, real estate brokerage, title services, environmental consulting and design services in the Washington, DC metropolitan area and in New Jersey and Pennsylvania.

We believe that Comstock's substantial experience in entitling, designing, developing, and managing a diverse range of properties including apartments, single-family homes, townhomes, mid-rise condominiums, high-rise condominiums and mixed-use (residential and commercial) properties, as well as large scale commercial parking garages and transit related projects, positions the CAM subsidiary to capitalize on commercial development and asset management opportunities in the Washington, DC region. Our CRES subsidiary is well positioned to capitalize on market opportunities related to providing development supply chain services, including capital markets, brokerage, environmental consulting and other real estate related services in the Washington, DC metropolitan area and in other parts of the Washington, D.C. MSA.

In connection with our new strategy, and anchoring the transition of our operations, the Company entered into a Master Asset Management Agreement ("AMA"), effective as of 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. The AMA covers two large-scale, transit-oriented, mixed-use developments in the Washington, DC area; Reston Station, a multi-million square foot development located in Reston, VA, and Loudoun Station, a multi-million square foot development in Ashburn, VA, as well as a mixed-use development asset located in Herndon, VA. On April 30, 2019 we entered into an amended and restated master asset management agreement. Refer to Note 22 – Subsequent Events for further discussion regarding the transaction. Separately, the Company also entered into fee-based management agreements with unrelated third parties concerning a mixed-use property in Tysons Corner, VA, and an affordable housing multi-family development in Rockville, MD.

Pursuant to the AMA, CDS has engaged CAM to manage and administer the CDS commercial real estate portfolio ("CRE Portfolio") and the day to-day operations of CDS and each property-owning subsidiary of CDS. Pursuant to the terms of the AMA, CAM provides investment advisory, development and asset management services related to the build out, lease-up and stabilization, and management of the CRE Portfolio. CDS pays the Company fees for the services provided by the Company in connection with the CDS portfolio of assets under management ("AUM") calculated on a cost-plus basis, thereby protecting the Company from incurring operating costs related to asset management services being provided to CDS in excess of fees collected during the transition, while also enabling the Company to expand its operating capabilities through the addition of qualified managers with experience in growing AUM.

In addition to the asset management services provided by CAM to CDS, the Company's CRES subsidiary is focused on generating growth organically and through potential acquisitions of operating businesses that would provide complementary development and supply chain services to assets under management pursuant to the AMA as well as to unrelated third parties in the areas of environmental consulting, mortgage brokerage, title services, and capital market and financial consulting services.

We believe that we have several strengths that distinguish our new business focus and strategy:

- *Revenue Base*. Our revenues are primarily generated from recurring fees earned under the AMA and operations of our CRES subsidiary. The AMA provides a reliable cost-plus source of revenue and cashflow to cover the Company's operating expenses related to the services being provided to CDS pursuant to the AMA, positioning the Company to enhance bottom line results and pursue additional revenue growth.
- *Management Services*. Our experienced asset management professionals provide management services to a wide range of real estate assets and businesses that include a variety of commercial real estate uses, including apartments, office buildings, hotels, commercial garages, leased lands, retail stores, mixed-use developments, and transit-oriented developments. Our management team has significant capabilities generated through decades of experience managing large-scale projects and portfolios of commercial real estate development, construction, and 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 of strategic corporate planning, capital markets and financial consulting services, commercial mortgage brokerage services, and environmental and design-based services. Our environmental services group provides consulting, environmental studies, remediation services and site-specific solutions for properties that may benefit from environmental due diligence, site-specific assessments, and environmental remediation. The real estate services business platform allows us to generate positive fee income from our highly qualified personnel and serves as a potential catalyst for joint venture and acquisition opportunities.
- *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 leverages the diverse capabilities and relationships of the management teams of the Comstock organization 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 Company pursuant to the AMA.
- *Operating Efficiencies*. As previously reported, the transition of our business focus and new strategy required the combination of the operating platform of the Company and the operating platform of the privately held commercial development company controlled by the Company's Chief Executive Officer. The integration of the two operating platforms has significantly enhanced the operating capabilities of the Company while providing opportunities for additional operational efficiencies and management alignment.
- *Fee-Based Service Platform*. Our asset-light business strategy, adopted in 2018, has contributed to our ability to materially reduce our liabilities during 2019 and we believe will contribute to our ability to produce positive results in future periods.

The Company's various 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 Washington, D.C. MSA provides us with a competitive advantage in sourcing and executing on investment opportunities.

While Comstock has developed numerous properties in multiple key markets throughout the southeastern United States, and our management team has experience managing large regional portfolios, we believe the Washington, DC MSA provides continued growth opportunity in the near-term for several reasons, including the following:

- *Long Track Record*. Comstock has been active in the Washington, DC MSA since 1985 and has developed, acquired, and managed thousands of residential units and millions of square feet of mixed-use properties, throughout the region.
- *Multiple Public-Private Partnerships*. Comstock has been selected by multiple local governments (Fairfax County, Loudoun County, and Town of Herndon) to develop and manage large-scale mixed-use, and transit facility developments through public-private partnerships at a time when local jurisdictions are focused on public-private partnerships as a means of leveraging private sector capabilities to meet public infrastructure development needs.

- *Economic Drivers*. Significant growth trends in demand for cyber security and other technology services in the government sector, as well as in the private sector, has generated growth opportunities for tech companies, generating numerous start-ups, and is attracting big tech to the region. Further, Northern Virginia's data center market, primarily the Dulles Corridor, has seen record growth and has become the global leader in data center space while accounting for more than 40% of national data center space absorption in recent years.
- *Diverse Employment Base*. The diverse and well-educated employment base in the Washington, DC MSA, coupled with proximity to the federal government and the presence of well-established government contractors is contributing to the attractiveness of the region to tech companies.
- *Metro's Silver Line*. Phase I of Metro's Silver Line opened in 2014, connecting Tysons Corner and Reston to Arlington and downtown Washington, DC. Phase II is scheduled to open in 2020 and will extend service from the terminus of Phase I located in the center of Comstock's Reston Station development to Herndon, Dulles International Airport, and Loudoun County, terminating at Comstock's Loudoun Station development.
- *Regional Land Use Plans*. Recent changes to Comprehensive Land Use Plans of Fairfax County and Loudoun County encourage high density and mixed-use development proximate to the new Silver Line Metro Stations.
- *Increased Demand for Transit-Oriented and Mixed-Use Developments*. Recent trends indicate commercial tenants are increasingly seeking to locate (or relocate) office to Metro Accessible sites and have demonstrated a willingness to pay premium rents for commercial space because proximity to Metro in urban, mixed-use developments has become a key recruiting tool. Additionally, demand for housing in transit-oriented, mixed-use neighborhoods has increased steadily over the past decade while home ownership rates have decreased and demand for high quality rental housing has increased.

Comstock has been focused on these emerging trends for more than a decade and the Company, through the AMA, controls the development and asset management of a significant portfolio at the forefront of the urban transformation taking place in the Dulles Corridor. With a stabilized portfolio and development pipeline that includes millions of square feet of mixed-use and transit-oriented properties located at key Metro stations in the Dulles Corridor, Comstock is well positioned to capitalize on trends that we believe will shape the future commercial real estate landscape.

Results of Operations

Three months ended March 31, 2019 compared to three months ended March 31, 2018

Revenue – asset management

Revenue from asset management for the three months ended March 31, 2019 and 2018 was $3.9 million and $2.8 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. On April 30, 2019 we entered into an amended and restated master asset management agreement. Refer to Note 22 – Subsequent Events for further discussion regarding the transaction.

Revenue – real estate services

Revenue from real estate services for the three months ended March 31, 2019 increased by $281 thousand to $728 thousand, as compared to $447 thousand for the three months ended March 31, 2018. The increase is primarily attributable to revenue growth within our Comstock Environmental business along with $57 thousand in title service fees from our joint venture partnership.

Revenue – homebuilding

Revenue from homebuilding increased by $1.4 million to $7.0 million for the three months ended March 31, 2019 as compared to $5.6 million for the three months ended March 31, 2018. For the three months ended March 31, 2019, the Company settled 10 units as compared to 8 units for the three months ended March 31, 2018. Our homebuilding gross margin percentage for the three months ended March 31, 2019 increased by 2.48% to 3.67%, as compared to 1.19% for the three months ended March 31, 2018. The overall increase in gross margins was the result of the number of units settled and the mix of homes.

Backlog, which reflects revenue from sales contracts the Company entered into with homebuyers for future delivery, decreased by $14.2 million to $7.0 million as of March 31, 2019, as compared to $21.2 million as of March 31, 2018. The decrease in backlog is primarily attributable to the wind-down of our homebuilding business.

Gross new order revenue, consisting of revenue from all units sold, for the three months ended March 31, 2019 was $2.3 million on 4 units as compared to $12.7 million on 19 units for the three months ended March 31, 2018. Net new order revenue, representing revenue for all units sold less cancellations, for the three months ended March 31, 2019 was $2.3 million on 4 units, the same a gross new orders, as compared to $12.1 million on 18 units for the three months ended March 31, 2018. The changes are attributable to the number and mix of homes sold.

Cost of sales – asset management

Cost of sales – asset management for the three months ended March 31, 2019 was $3.3 million. This increase of $776 thousand from $2.5 million for the three months ended March 31, 2018 was primarily related to increased personnel expense from the continued growth of our asset management operations.

Cost of sales – real estate services

Cost of sales – real estate services increased by $317 thousand to $494 thousand during the three months ended March 31, 2019, as compared to $177 thousand during the three months ended March 31, 2018. The increase primarily relates to our expanding footprint in the real estate consulting and environmental study fields.

Cost of sales – homebuilding

Cost of sales – homebuilding increased by $1.2 million to $6.7 million during the three months ended March 31, 2019, as compared to $5.5 million during the three months ended March 31, 2018. The changes were primarily attributable to the number of units settled and the mix of homes settled during the three months ended March 31, 2019.

Impairment charges

During the Three months Ended March 31, 2018, the Company wrote off $0.6 million of feasibility, site securing, predevelopment, design, carry costs and related costs for one of its communities in the Washington, D.C. Metropolitan area as a result of our impairment analysis. There were no impairment charges recorded during the three months ended March 31, 2019.

Sales and marketing

Selling and marketing expenses for the three months ended March 31, 2019 decreased by $105 thousand to $114 thousand, as compared to $219 thousand for the three months ended March 31, 2018. The decrease is attributable to continued benefit from the cost saving measures and the continued wind down of the for-sale homebuilding operation.

General and administrative

General and administrative expenses for the three months ended March 31, 2019 decreased by $55 thousand to $305 thousand, as compared to $360 thousand for the three months ended March 31, 2018. The year-over-year decrease is attributable to general overhead cost saving measures, in addition to the AMA. 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.

Income taxes

For the three months ended March 31, 2019, the Company recognized income tax expense of of $3 thousand and the effective tax rate was (0.85)%. For the three months ended March 31, 2018 the Company recognized income tax expense of $6 thousand, and the effective tax rate was 0.94%.

Liquidity and Capital Resources

We finance our Asset Management and Real Estate Services operations, capital expenditures, and business acquisitions with internally generated funds, borrowings from our credit facilities and long-term debt. The winding down of on balance sheet Homebuilding activities required capital to develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. Pursuant to the MTA, the Company transferred to CDS management of its Class A membership interests in Investors X the entity owning CHCI's residual homebuilding operations. See Note 22- Subsequent Events. 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, unrelated to the wind down of our homebuilding operations. See Note 12 in the accompanying consolidated financial statements for more details on our debt and credit facilities.

As of March 31, 2019, the Company had no secured project related notes that were set to mature through the end of 2019. As of May 15, 2019, the Company has successfully extended or repaid all obligations with Lenders through May 15, 2019, as more fully described in Note 12 and Note 22, 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.

At March 31, 2019, $4.9 million of our notes payable to affiliates are set to mature prior to the end of 2019. These funds were originally obtained from entities wholly owned by our Chief Executive Officer, and the Company maintains the unilateral ability to extend the maturity dates beyond 2019 as needed. Subsequent to March 31, 2019, the Company secured an extension on the CGF loan, providing for a new maturity date of April 16, 2020. See Note 22 – Subsequent Events for further discussion on the extension.

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, capital raises from our private placements, 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 we will be successful in its efforts.

Cash Flow

Net cash provided by operating activities was $2.9 million for the three months ended March 31, 2019 compared to the net cash used in operating activities of $49 thousand for the three months ended March 31, 2018. The $2.9 million net cash provided by operations for the three months ended March 31, 2019 was primarily attributable to releases of inventories associated with units settled and land sold of $2.7 million, the collection of certain receivables outstanding as of December 31, 2018, offset by the reduction in accounts payable and accrued liabilities. The $49 thousand net cash used in operations for the three months ended March 31, 2018 was primarily attributable to increases in trade receivables of $5.2 million, net of increases in accounts payable of $3.8 million, $1.2 million of releases of inventories associated with units settled, and the amortization of loan discounts and other financing fees of $0.2 Million.

Net cash used in investing activities was immaterial for the three months ended March 31, 2019 and 2018.

Net cash used in financing activities was $3.0 million for the three months ended March 31, 2019. This was primarily attributable to the pay downs on notes payable of $5.3 million, offset by borrowings of $2.3 million. Net cash used in financing activities was $662 thousand for the three months ended March 31, 2018. This was primarily attributable to the pay downs on notes payable of $3.5 million, offset by borrowings of $2.9 million

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, 2019 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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.

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, 2019. 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, 2019.

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, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, 2018.

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).
3.7	Certificate of Amendment of Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc. filed with the Secretary of State of the State of Delaware on February 15, 2019 (incorporated by reference to an exhibit to the Registrant's Current Report on Form 10-K filed with the Commission on March 29, 2019).
3.8	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Comstock Holding Companies, Inc. (incorporated by reference to an exhibit to the Registrant's Current Report on Form 10-K filed with the Commission on March 29, 2019).
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)).
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 March 31, 2019, 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.

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, 2019	By:	/s/ CHRISTOPHER CLEMENTE
		Christopher Clemente **Chairman and Chief Executive Officer** **(Principal Executive Officer)**
Date: May 15, 2019	By:	/s/ CHRISTOPHER GUTHRIE
		Christopher Guthrie **Chief Financial Officer** **(Principal Financial Officer and Principal Accounting Officer)**

Exhibit 31.1

CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Clemente, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2019

/s/ Christopher Clemente
Christopher Clemente
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Guthrie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 15, 2019

/s/ Christopher Guthrie
Christopher Guthrie
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Comstock Holding Companies, Inc. (the "Company") for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Christopher Clemente, Chairman and Chief Executive Officer of the Company, and Christopher Guthrie, Chief Financial Officer of the Company, certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2019	/s/ Christopher Clemente Christopher Clemente Chairman and Chief Executive Officer
Date: May 15, 2019	/s/ Christopher Guthrie Christopher Guthrie Chief Financial Officer