
**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, 2018

or

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
(703) 883-1700**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 16, 2018, 3,674,461 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. AND SUBSIDIARIES

FORM 10-Q
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | <u>March 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|---|---------------------------------|------------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 987 | \$ 1,806 |
| Restricted cash | 1,212 | 1,141 |
| Trade receivables | 634 | 491 |
| Trade receivables - related party | 3,976 | 145 |
| Real estate inventories | 43,010 | 44,711 |
| Fixed assets, net | 299 | 309 |
| Goodwill and intangibles | 1,922 | 1,939 |
| Other assets, net | 1,258 | 616 |
| TOTAL ASSETS | <u>\$ 53,298</u> | <u>\$ 51,158</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued liabilities | \$ 8,486 | \$ 9,116 |
| Deferred revenue | 3,192 | — |
| Notes payable - secured by real estate inventories, net of deferred financing charges | 22,890 | 23,215 |
| Notes payable - due to affiliates, unsecured, net of discount and deferred financing charges | 15,346 | 14,893 |
| Notes payable - unsecured, net of deferred financing charges | 1,220 | 1,285 |
| Income taxes payable | 45 | 39 |
| TOTAL LIABILITIES | <u>51,179</u> | <u>48,548</u> |
| Commitments and contingencies (Note 13) | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Series C preferred stock \$0.01 par value, 3,000,000 shares authorized, 579,158 shares issued and liquidation preference of \$2,896 at March 31, 2018 and December 31, 2017, respectively | \$ 442 | \$ 442 |
| Class A common stock, \$0.01 par value, 11,038,071 shares authorized, 3,374,461 and 3,295,518 issued, and outstanding, respectively | 34 | 33 |
| Class B common stock, \$0.01 par value, 220,250 shares authorized, issued, and outstanding, respectively | 2 | 2 |
| Additional paid-in capital | 177,747 | 177,612 |
| Treasury stock, at cost (85,570 shares Class A common stock) | (2,662) | (2,662) |
| Accumulated deficit | <u>(190,526)</u> | <u>(189,803)</u> |
| TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT | (14,963) | (14,376) |
| Non-controlling interests | 17,082 | 16,986 |
| TOTAL EQUITY | <u>2,119</u> | <u>2,610</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 53,298</u> | <u>\$ 51,158</u> |

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

| | Three Months Ended March 31, | |
|---|-------------------------------------|---------------|
| | 2018 | 2017 |
| Revenues | | |
| Revenue—homebuilding | \$ 5,561 | \$ 10,064 |
| Revenue—asset management | 2,791 | — |
| Revenue—real estate services | 447 | 204 |
| Total revenue | 8,799 | 10,268 |
| Expenses | | |
| Cost of sales—homebuilding | 5,495 | 9,101 |
| Cost of sales—asset management | 2,541 | — |
| Cost of sales—real estate services | 177 | 224 |
| Impairment charges | 558 | — |
| Sales and marketing | 219 | 381 |
| General and administrative | 360 | 1,246 |
| Interest and real estate taxes | 85 | — |
| Operating loss | (636) | (684) |
| Other income, net | 14 | 20 |
| Loss before income tax expense | (622) | (664) |
| Income tax expense | (6) | — |
| Net loss | (628) | (664) |
| Net income (loss) attributable to non-controlling interests | 95 | (17) |
| Net loss attributable to Comstock Holding Companies, Inc. | (723) | (647) |
| Paid-in-kind dividends on Series B Preferred Stock | — | 78 |
| Extinguishment of Series B Preferred Stock | — | (1,011) |
| Net (loss) income attributable to common stockholders | <u>\$ (723)</u> | <u>\$ 286</u> |
| Basic net (loss) income per share | \$ (0.21) | \$ 0.09 |
| Diluted net (loss) income per share | \$ (0.21) | \$ 0.08 |
| Basic weighted average shares outstanding | 3,448 | 3,343 |
| Diluted weighted average shares outstanding | 3,448 | 3,373 |

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

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

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (628) | \$ (664) |
| Adjustment to reconcile net loss to net cash (used in) provided by operating activities | | |
| Amortization of loan discount, loan commitment and deferred financing fees | 150 | 210 |
| Depreciation expense | 57 | 37 |
| Earnings from unconsolidated joint venture, net of distributions | 4 | 18 |
| Stock compensation | 86 | 32 |
| Impairment charges | 558 | — |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (5,216) | 469 |
| Real estate inventories | 1,157 | 524 |
| Other assets | (655) | 550 |
| Accrued interest | 592 | 253 |
| Accounts payable and accrued liabilities | 3,840 | (754) |
| Income taxes payable | 6 | — |
| Net cash (used in) provided by operating activities | <u>(49)</u> | <u>675</u> |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (46) | (1) |
| Principal received on note receivable | 9 | 9 |
| Net cash (used in) provided by investing activities | <u>(37)</u> | <u>8</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 2,853 | 5,499 |
| Payments on notes payable | (3,458) | (5,981) |
| Loan financing costs | (57) | (71) |
| Distributions to non-controlling interests | — | (1,908) |
| Net cash used in financing activities | <u>(662)</u> | <u>(2,461)</u> |
| Net decrease in cash, restricted cash, and cash equivalents | (748) | (1,778) |
| Cash, restricted cash, and cash equivalents, beginning of period | 2,947 | 6,999 |
| Cash, restricted cash, and cash equivalents, end of period | <u>\$ 2,199</u> | <u>\$ 5,221</u> |
| Supplemental cash flow information: | | |
| Interest paid, net of interest capitalized | \$ 605 | \$ 243 |
| Supplemental disclosure for non-cash activity: | | |
| Seller's note payable | \$ — | \$ 115 |
| Accrued liability settled through issuance of stock | \$ — | \$ 32 |
| Increase in Series B preferred stock value in connection with dividends paid in-kind | \$ — | \$ 24 |
| Extinguishment of Series B Preferred Stock | \$ — | \$ 1,011 |

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

For the three months ended March 31, 2018 and 2017, comprehensive loss equaled net loss; therefore, a separate statement of comprehensive loss is not included in the accompanying consolidated financial statements.

Liquidity and Capital Resources

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

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

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As of March 31, 2018, \$29.4 million of the Company's outstanding credit facilities and project related loans mature at various periods through the end of 2018. Active discussions are taking place with our lenders to seek long term extensions and modifications to these loans. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations, and financial covenant compliance. If the Company fails to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan's maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default. Refer to Note 12 – *Debt* for further discussion regarding the Company's credit facilities and Note 23 – *Subsequent Events* for other subsequent events impacting our credit facilities' extensions.

At March 31, 2018, \$15.3 million of the Company's notes payable to affiliates were set to mature prior to the end of 2018. These funds were primarily obtained from entities wholly owned by our Chief Executive Officer, who has unilateral ability to extend the maturity dates beyond 2018 as needed. The current performance of our projects has met all required servicing obligations required by the facilities. We are anticipating that with successful resolution of the debt extension discussions with our lenders, the recently completed capital raises from our private placements, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, the Company will have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that the Company will be successful in its efforts. See Note 18 – *Related Party Transactions* in the accompanying consolidated financial statements for details on private placement offerings.

Recent Developments

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

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

Use of Estimates

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

Reclassifications

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

Recently Adopted Accounting Standards

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

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. Additionally, in November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* (“ASU 2016-18”). ASU 2016-18 clarifies certain existing principles in ASC 230, *Statement of Cash Flows*, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. Both ASU 2016-15 and ASU 2016-18 were adopted for the Company’s fiscal year beginning January 1, 2018. The adoption resulted in presentation reclassification of cash and restricted cash for the three months ended March 31, 2018 and 2017 of \$1.2 million and \$1.5 million, respectively, in its consolidated statement of cash flows.

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

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

Recently Issued Accounting Standards

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

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

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

We assessed other accounting pronouncements issued or effective during the three months ended March 31, 2018 and deemed they were not applicable to us and are not anticipated to have a material effect on our consolidated financial statements.

2. TRADE RECEIVABLES

Trade receivables include amounts due from real estate services, asset management, commercial development, home sales transactions and amounts due from related parties with whom we have service arrangements.

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Trade | \$ 332 | \$ 432 |
| Due from settlement attorneys | 120 | — |
| Other | 182 | 59 |
| | 634 | 491 |
| Less : allowance for doubtful accounts | — | — |
| | <u>\$ 634</u> | <u>\$ 491</u> |

3. REAL ESTATE INVENTORIES

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

| | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Land and land development costs | \$ 22,407 | \$ 24,304 |
| Cost of construction (including capitalized interest and real estate taxes) | 20,603 | 20,407 |
| | <u>\$ 43,010</u> | <u>\$ 44,711</u> |

During the three months ended March 31, 2018, as a result of our impairment analysis, 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 due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three months ended March 31, 2017.

4. NOTE RECEIVABLE

The Company originated a note receivable to a third party in the amount of \$180 in September 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest. This note bears a fixed interest rate of 6% per annum. As of March 31, 2018, and December 31, 2017, the outstanding balance of the note was \$57 and \$66, respectively, and is included within 'Other assets' in the accompanying consolidated balance sheets. The interest income of \$1 for the three months ended March 31, 2018 and 2017, is included in 'Other income, net' in the consolidated statements of operations.

5. GOODWILL & INTANGIBLES

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

Goodwill represents the excess of the acquisition purchase price over the fair value of assets acquired and liabilities assumed, and it is not deductible for income tax purposes. As of the acquisition date, goodwill consisted primarily of synergies resulting from the combination, expected expanded opportunities for growth and production, and savings in corporate overhead costs.

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

| | March 31, 2018 | December 31, 2017 |
|---------------------------------|-------------------|----------------------|
| Goodwill | \$ 1,702 | \$ 1,702 |
| Intangibles | 268 | 268 |
| | 1,970 | 1,970 |
| Less : accumulated amortization | (48) | (31) |
| | <u>\$ 1,922</u> | <u>\$ 1,939</u> |

As of March 31, 2018, the future estimated amortization expense related to these intangible assets was:

| | Amortization Expense |
|---------------------|-------------------------|
| 2018 | \$ 50 |
| 2019 | 67 |
| 2020 | 67 |
| 2021 | 36 |
| 2022 and thereafter | — |
| Total | <u>\$ 220</u> |

6. OTHER ASSETS

Other assets consist of the following:

| | March 31, 2018 | December 31, 2017 |
|---------------------------------|-------------------|----------------------|
| Bonds and escrow deposits | \$ 628 | \$ 380 |
| Prepaid insurance | 496 | 486 |
| Other | 289 | 419 |
| | 1,413 | 1,285 |
| Less : accumulated amortization | (155) | (669) |
| | <u>\$ 1,258</u> | <u>\$ 616</u> |

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| | March 31, 2018 | December 31, 2017 |
|----------------------------|-------------------|----------------------|
| Trade and accrued payables | \$ 7,409 | \$ 8,279 |
| Warranty | 227 | 258 |
| Customer deposits | 850 | 575 |
| Other | — | 4 |
| | <u>\$ 8,486</u> | <u>\$ 9,116</u> |

8. CONTRACT ASSETS AND CONTRACT LIABILITIES

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

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Contract assets and liabilities consisted of the following:

| | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Contract Assets: Accounts Receivable | | |
| Asset Management | \$ 3,976 | \$ — |
| Real Estate Services | 332 | 432 |
| Total Contract Assets | \$ 4,308 | \$ 432 |
| Contract Liabilities: Customer Deposits and Deferred Revenue | | |
| Homebuilding - Customer deposits | \$ 850 | \$ 575 |
| Asset Management - Deferred revenue | 3,192 | — |
| Total Contract Liabilities | \$ 4,042 | \$ 575 |

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

The Company's other contract liabilities, that consist of deposits received from customers ("Customer deposits") on homes not settled, were \$0.9 million and \$0.6 million as of March 31, 2018 and December 31, 2017, respectively. During the first quarter of 2018, the Company recognized in revenue approximately \$0.1 million of the customer deposits held as of December 31, 2017.

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

9. REVENUE

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

The following series of tables 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, | |
|---------------------------------------|---------------------------------|------------------|
| | 2018 | 2017 |
| Revenue by customer | | |
| Individual customers | \$5,561 | \$ 10,064 |
| Related party | 2,791 | 204 |
| Commercial | 447 | — |
| Total Revenue by customer | \$8,799 | \$ 10,268 |
| Revenue by contract type | | |
| Fixed-price | \$5,561 | \$ 10,064 |
| Cost-plus | 2,791 | 204 |
| Time and Material | 447 | — |
| Total Revenue by contract type | \$8,799 | \$ 10,268 |

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

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

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.

10. WARRANTY RESERVE

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. Because the Company typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The Company is following the practical expedient for warranties under ASC 606. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. This reserve is an estimate and actual warranty costs could vary from these estimates. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to this reserve as they arise.

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

| | March 31, 2018 | December 31, 2017 |
|----------------------------------|---------------------------------|------------------------------------|
| Balance at beginning of period | \$ 258 | \$ 287 |
| Additions | 16 | 178 |
| Releases and/or charges incurred | (47) | (207) |
| Balance at end of period | <u>\$ 227</u> | <u>\$ 258</u> |

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, | |
|---|---|-----------------|
| | 2018 | 2017 |
| Interest incurred and capitalized | \$ 896 | \$ 1,026 |
| Real estate taxes incurred and capitalized | 66 | 40 |
| Total interest and real estate taxes incurred and capitalized | <u>\$ 962</u> | <u>\$ 1,066</u> |
| Interest expensed as a component of cost of sales | \$ 518 | \$ 451 |
| Real estate taxes expensed as a component of cost of sales | 48 | 60 |
| Interest and real estate taxes expensed as a component of cost of sales | <u>\$ 566</u> | <u>\$ 511</u> |

The amount of interest from entity level borrowings that are capitalized in accordance with Accounting Standards Codification ("ASC") 835 is dependent upon the average accumulated expenditures that exceed project specific borrowings. For the three months ended March 31, 2018, the Company expensed \$24 of interest from entity level borrowings. The Company did not expense any interest from entity level borrowings for the three months ended March 31, 2017.

Additionally, when a project becomes inactive or is not a qualifying entity, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period they are incurred. For the three months ended March 31, 2018, the Company expensed \$61 of interest and real estate taxes. The Company did not expense any interest and real estate taxes for inactive projects for the three months ended March 31, 2017.

12. DEBT

Notes payable consisted of the following:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|------------------------------|
| Construction revolvers | \$ 5,682 | \$ 7,237 |
| Development and acquisition notes | 10,719 | 9,533 |
| Mezzanine notes | 3,300 | 3,253 |
| Line of credit | 2,128 | 2,123 |
| Secured - other | 1,061 | 1,069 |
| Total secured notes | 22,890 | 23,215 |
| Unsecured financing, net of unamortized deferred financing charges of \$39 and \$55 | 1,220 | 1,285 |
| Notes payable due to affiliates, unsecured, net of \$1.9 million and \$2.0 million discount and unamortized deferred financing charges, respectively | 15,346 | 14,893 |
| Total notes payable | <u>\$ 39,456</u> | <u>\$ 39,393</u> |

As of March 31, 2018, maturities and/or curtailment obligations of all borrowings are as follows:

| | |
|---------------------|-----------------|
| 2018 | \$29,391 |
| 2019 | 8,266 |
| 2020 | 128 |
| 2021 | — |
| 2022 and thereafter | 1,671 |
| Total | <u>\$39,456</u> |

As of March 31, 2018, the Company had \$29.4 million of its credit facilities and project related loans scheduled to mature during the remainder of 2018. As of May 16, 2018, the Company has successfully extended or repaid all obligations with lenders through May 16, 2018, and it is actively engaging its lenders seeking long term extensions and modifications to the loans where necessary. See Note 23 – *Subsequent Events* for further discussion on repayments and extensions subsequent to March 31, 2018.

Construction, development and mezzanine debt – secured

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

As of March 31, 2018, and December 31, 2017, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$24.8 million and \$24.7 million, respectively. The Company may borrow under these facilities to fund its home building activities. The amount the Company may borrow is subject to applicable borrowing base provisions and the number of units under construction, which may also limit the amount available or outstanding under the facilities. The facilities are secured by deeds of trust on the real property and improvements thereon, and the borrowings are repaid with the net proceeds from the closings of homes sold, subject to a minimum release price. As of March 31, 2018, and December 31, 2017, the Company had approximately \$19.1 million and \$17.5 million, respectively, of unused construction loan commitments. The Company had \$5.7 million and \$7.2 million of outstanding construction borrowings as of March 31, 2018 and December 31, 2017, respectively. Interest rates charged under these facilities include the London Interbank Offered Rate (“LIBOR”) and prime rate pricing options, subject to minimum interest rate floors. At March 31, 2018 and December 31, 2017, the weighted average interest rate on the Company’s outstanding construction revolving facilities was 4.8% and 4.6% per annum, respectively. The construction credit facilities have maturity dates ranging from May 2018 to April 2019, including extensions subject to the Company meeting certain conditions.

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As of March 31, 2018, and December 31, 2017, the Company had approximately \$26.5 million of aggregate acquisition and development maximum loan commitments of which \$10.7 million and \$9.5 million, respectively, were outstanding. These loans have maturity dates ranging from May 2018 to June 2019, including extensions subject to certain conditions, and bear interest at a rate based on LIBOR and prime rate pricing options, with interest rate floors ranging from 4.5% to 12.0% per annum. As of March 31, 2018 and December 31, 2017, the weighted average interest rate was 6.3% and 7.1% per annum, respectively.

As of March 31, 2018, the Company had a mezzanine loan that is being used to finance the development of the Momentum | Shady Grove project. The maximum principal commitment amount of this loan was \$1.1 million, of which \$1.3 million of principal and accrued interest was outstanding at March 31, 2018 and December 31, 2017. This financing carries an annual interest rate of 12%, of which 6% is paid monthly with the remaining 6% being accrued and paid at maturity. This financing has a maturity date of June 30, 2018, and is guaranteed by the Company and our Chief Executive Officer.

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

Line of credit – secured

At March 31, 2018 and December 31, 2017, the Company utilized a secured revolving line of credit with a maximum capacity of \$3.0 million, of which \$2.1 million was outstanding at March 31, 2018 and December 31, 2017. This line of credit is secured by the first priority security interest in the Company's wholly owned subsidiaries' in the Washington, D.C. metropolitan area and guaranteed by our Chief Executive Officer. The Company uses this line of credit to finance the predevelopment related expenses and deposits for current and future projects and bears a variable interest rate tied to a one-month LIBOR plus 3.25% per annum, with an interest rate floor of 5.0%. At March 31, 2018 and December 31, 2017, the interest rate was 5.13% and 5.00%, respectively. This line of credit also calls for the Company to adhere to financial covenants such as, minimum net worth and minimum liquidity, measured quarterly and minimum EBITDA, as defined in the agreement, measured on a twelve-month basis. The Company obtained a waiver from the financial institution for not meeting the minimum liquidity requirement as of March 31, 2018, but was in compliance with the minimum net worth requirement as dictated by the line of credit agreement as of March 31, 2018. This line of credit is guaranteed by our Chief Executive Officer. This line of credit matures on June 30, 2018.

Other – secured

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

Unsecured financing

As of March 31, 2018, and December 31, 2017, the Company had \$0.5 million and \$0.6 million, respectively, in outstanding balances under a 10-year unsecured note with a bank. Interest is charged on this financing on an annual basis at the Overnight LIBOR rate plus 2.2%. At March 31, 2018 and December 31, 2017, the interest rate was 3.9% and 3.6% per annum, respectively. The maturity date of this financing is December 28, 2018. The Company is required to make monthly principal and interest payments through maturity.

As of March 31, 2018, and December 31, 2017, the Company had two unsecured seller-financed promissory notes with outstanding balances totaling \$0.7 million. The first note, in the amount of \$0.1 million, carries an annual interest rate of the prime rate plus 5%. At March 31, 2018 and December 31, 2017, the interest rate was 9.75% and 9.5%, respectively. This financing has a maturity date of February 27, 2020, and is guaranteed by our Chief Executive Officer. The second note has an outstanding balance of \$0.6 million as of March 31, 2018 and December 21, 2017. This financing carries an annual interest rate of LIBOR plus 3% and has a maturity date of July 17, 2022. At March 31, 2018 and December 31, 2017, the interest rate was 4.88% and 4.56%, respectively.

Notes payable to affiliate – unsecured

Comstock Growth Fund

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

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. The loan bears interest at a floating rate based on the 30-day LIBOR plus 9.75% per annum with a 10% floor per annum. Interest payments will be made monthly in arrears. There is a principal curtailment requirement of 10% annually based on the average outstanding balance for the prior year. The Company is the administrative manager of CGF but does not own any membership interests. The Company had approximately \$11.7 million and \$11.3 million of outstanding borrowings and accrued interest under the CGF loan, net of discounts, as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, and December 31, 2017, the interest rate was 12.4% and 11.9% per annum, respectively. For the three months ended March 31, 2018 and 2017, the Company made interest payments of \$0.1 million and \$0.4 million, respectively. During the three months ended March 31, 2018, and 2017, the Company did not make principal payments to CGF. The maturity date for the CGF loan is April 16, 2018. Subsequent to March 31, 2018, the Company secured an extension on the CGF loan, providing for a new maturity date of April 16, 2019. See Note 23 – *Subsequent Events* for further discussion on the extension.

Comstock Growth Fund II

On December 29, 2015, the Company entered into a revolving line of credit promissory note with Comstock Growth Fund II (“CGF II”) whereby CGF II made a loan to the Company in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two-year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. The funds obtained from the loan are being used by the Company (i) to capitalize the Company’s current and future development pipeline, (ii) to repay all or a portion of the Company’s prior private placements, and (iii) for general corporate purposes. Effective December 31, 2017, the CGF II loan was extended one year to December 31, 2018. As of March 31, 2018, and December 31, 2017, \$3.7 million and \$3.6 million, respectively, was outstanding in principal and accrued interest under the CGF II loan.

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

Letters of credit, performance bonds and compensating balances

The Company has commitments as a result of contracts with certain third parties, primarily local governmental authorities, to meet certain performance criteria outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that the commitments entered into are met. These letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. In some circumstances, we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds. We cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds. At March 31, 2018, and 2017, the Company had \$1.1 million in outstanding letters of credit. At March 31, 2018, and 2017, the Company had \$4.5 million and \$4.2 million in outstanding performance bonds, respectively. No amounts have been drawn against the outstanding letters of credit or performance bonds.

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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, 2018, and December 31, 2017, we had approximately \$1.0 million in these escrow accounts, which are included in 'Restricted cash' in the accompanying consolidated balance sheets.

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, 2018 | December 31, 2017 |
|-----------------|-------------------|----------------------|
| Carrying amount | \$ 39,456 | \$ 39,393 |
| Fair value | \$ 38,731 | \$ 38,899 |

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

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.

During the three months ended March 31, 2018, as a result of our impairment analysis, 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 due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three months ended March 31, 2017.

15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

The Company did not issue restricted stock awards during the three months ended March 31, 2018. During the three months ended March 31, 2017, the Company issued 157,000 stock options and 245,000 restricted stock awards to employees.

Stock-based compensation expense associated with restricted stock and stock options is recognized based on the grant date fair value of the award over its vesting period. For the three months ended March 31, 2018, total stock based compensation expense was \$100, of which \$86 was charged to expenses within 'Cost of sales-asset management' and 'Cost of sales-real estate services' in the consolidated statement of operations, and \$14 was capitalized to 'Real estate inventories'. For the three months ended March 31, 2017, total stock based compensation expense was \$37, of which \$32 was charged to expenses within 'General and administrative' and 'Cost of sales-real estate services' in the consolidated statement of operations, and \$5 was capitalized to 'Real estate inventories'.

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

As of March 31, 2018, the weighted-average remaining contractual term of unexercised stock options was 8 years. As of March 31, 2018, and December 31, 2017, there was \$0.5 million and \$0.6 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. LOSS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted earnings (loss) per share for the three months ended March 31, 2018, and 2017, are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants are included in the diluted earnings (loss) per share calculation using the treasury stock method and average market prices during the periods, unless the restricted stock award, stock options and warrants would be anti-dilutive.

As a result of the net loss attributable to common stockholders for the three months ended March 31, 2018, approximately 46 restricted stock awards were excluded in the computation of dilutive earnings per share. As a result of the net income attributable to common stockholders for the three months ended March 31, 2017, approximately 5 restricted stock awards and 25 warrants were included in the computation of dilutive earnings per share.

17. VARIABLE INTEREST ENTITIES

Consolidated Real Estate Inventories

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

In December 2013, Comstock Investors VIII, L.C. ("Comstock VIII") entered into subscription agreements with certain accredited investors ("Comstock VIII Class B Members"), pursuant to which Comstock VIII Class B Members purchased membership interests in Comstock VIII for an aggregate amount of \$4.0 million (the "Comstock VIII Private Placement"). In connection with the Comstock VIII Private Placement, the Company issued 14,573 warrants for the purchase of shares of the Company's Class A common stock to the non-affiliated accredited investors, having an aggregate fair value of \$131. Comstock VIII Class B Members included unrelated third-party accredited investors along with members of the Company's board of directors and the Company's former Chief Operating Officer and the former Chief Financial Officer. The Comstock VIII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock VIII Class B Members at any time, provided that (i) all of the Comstock VIII Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VIII Class B Members' capital accounts plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The proceeds from the Comstock VIII Private Placement have been used for the construction of the following projects: The Townes at HallCrest in Sterling, Virginia consisting of 42 townhome units, and Townes at Maxwell Square Condominium in Frederick, Maryland consisting of 45 townhome condominium units (collectively, the "Investor VIII Projects"). The Company evaluated Comstock VIII and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits accordingly, the Company consolidates this entity. In January 2017, the Company fully redeemed the remaining equity interest of Class B Members in Comstock VIII after paying \$1.9 million in distributions.

In June 2015, Comstock Investors IX, L.C. ("Comstock IX") entered into subscription agreements with third-party accredited investors ("Comstock IX Class B Members"), pursuant to which Comstock IX Class B Members purchased membership interests in Comstock IX for an aggregate amount of \$2.5 million (the "Comstock IX Private Placement"). The Comstock IX Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock IX Class B Members at any time, provided that (i) all of the Comstock IX Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock IX Class B Members' capital accounts plus any amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Company evaluated Comstock IX and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses or receive benefits. Accordingly, the Company consolidates this entity. No distributions were made during the three months ended March 31, 2018 and 2017.

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In August 2016, Comstock Investors X, L.C. (“Comstock X”) entered into a subscription agreement with an accredited investor (“Comstock X Class B Member”), pursuant to which the Comstock X Class B Member purchased membership interests in Comstock X for an initial amount of \$5.0 million, which is part of an aggregate capital raise of \$14.5 million (the “Comstock X Private Placement”). The Comstock X Class B Member is Comstock Development Services, LC (“CDS”), an entity wholly owned by Christopher Clemente, our Chief Executive Officer. In October 2016, the Comstock X Class B Member purchased additional interests in the Comstock X Private Placement in an amount of \$9.5 million resulting in an aggregate subscription amount of \$14.5 million. In connection with the Comstock X Private Placement, the Company issued a total of 150,000 warrants for the purchase of shares of the Company’s Class A common stock, having an aggregate fair value of \$258. The Comstock X Member is entitled to a cumulative, preferred return of 6% per annum, compounded annually on the capital account balance. The Company has the right to repurchase the interest of the Comstock X Class B Member at any time, provided that (i) all of the Comstock X Class B Members’ interest is acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock X Class B Members’ capital account plus accrued priority return. In October 2017, the Operating Agreement for Comstock X was amended to increase the maximum capital raise to \$19.5 million. Additionally, in October 2017, Comstock X received proceeds of \$5.0 million under the amended Operating Agreement to be used for the planned construction of the Company’s Totten Mews, Towns at 1333, Richmond Station, and Marwood East projects. As part of this additional contribution, 50,000 warrants for the purchase of the Company’s Class A common stock, having an aggregate fair value of \$81. The Company evaluated Comstock X and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits. Accordingly, the Company consolidates this entity. No distributions were made during the three months ended March 31, 2018 and 2017.

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

At March 31, 2018 and December 31, 2017, total assets of these VIEs were approximately \$28.0 million and \$30.6 million, respectively, and total liabilities were approximately \$14.9 million and \$15.9 million, respectively. The classification of these assets is primarily within ‘Real estate inventories’ and the classification of liabilities are primarily within ‘Accounts payable and accrued liabilities’ and ‘Notes payable – secured by real estate inventories’ in the accompanying consolidated balance sheets.

18. RELATED PARTY TRANSACTIONS

The Company leases its corporate headquarters from an affiliated entity that is wholly-owned by our Chief Executive Officer. Future minimum lease payments under this lease, which expires in 2018, is \$0.1 million.

For the three months ended March 31, 2018 and 2017, total payments made under this lease agreement were \$53 and \$52, respectively.

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by our Chief Executive Officer, to provide services related to real estate development and improvements, including legal, accounting, marketing, information technology and other additional support services. For the three months ended March 31, 2018 and 2017, the Company billed Comstock Asset Management, L.C. \$0 and \$203, respectively, for services and out-of-pocket expenses. Revenues from this arrangement are included within ‘Revenue – real estate services’ in the accompanying consolidated statements of operations. As of March 31, 2018, and December 31, 2017, the Company was owed \$0 and \$145, respectively, under this contract, which is included in ‘Trade receivables’ in the accompanying consolidated balance sheets.

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

Simultaneously, on October 17, 2014, the Company entered into an unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal amount of \$10 million and a maximum capacity of up to \$20 million. On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. All of the other terms of the unsecured promissory note remained the same. The Company borrowed an additional principal loan amount of \$6.2 million under the

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amended and restated CGF promissory note bringing the total aggregate principal amount borrowed to \$16.2 million. The CGF loan has a three year term carrying a floating interest rate of LIBOR plus 9.75% with a 10% floor. The loan requires an annual principal repayment in the amount of 10% of the average outstanding balance and a monthly interest payment that will be made in arrears. See Note 12 – *Debt* for further discussion of transactions entered into with CGF.

On December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, members of the Company’s management and board of directors and the other third party accredited investors who participated in the CGF Private Placement (the “Amended CGF Private Placement”). Under the Amended CGF Private Placement, in addition to the warrants described above, the Company entered into a commitment to grant 226,857 shares of our Class A common stock to the purchasers in the Amended CGF Private Placement. On May 12, 2015, the Company issued 226,857 un-registered shares of its Class A common stock to the purchasers in the Amended CGF Private Placement. The Amended CGF Private Placement was closed for additional investments on May 15, 2015.

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

On December 29, 2015, Comstock Growth Fund II, L.C. (“CGF II”), an administrative entity managed by the Company was created for the purpose of extending loans to the Company. CGF II entered into a subscription agreement with CDS pursuant to which CDS purchased membership interests in CGF II for an initial aggregate principal amount of \$5.0 million (the “CGF II Private Placement”). Also on December 29, 2015, the Company entered into a revolving line of credit promissory note with CGF II whereby CGF II made a loan to the Company in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two-year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. On December 29, 2017, the CGF II loan was extended one year to December 29, 2018. As of March 31, 2018, and December 31, 2017, \$3.7 million and \$3.6 million, respectively, was outstanding in principal and accrued interest under the CGF II loan.

On March 22, 2017, the Company entered into a Share Exchange Agreement with the holders of the Company’s Series B Preferred Stock pursuant to which the Company exchanged 772,210 shares of the Company’s Series B Preferred Stock for 772,210 shares of the Company’s newly created Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share. The Series C Preferred Stock has a discretionary dividend feature, as opposed to the mandatory dividend feature in the Series B Preferred Stock. The Series B Preferred Stock, together with all accrued dividends earned through the conversion date, was retired upon re-acquisition and the fair value of the Series C Preferred Stock is recorded in ‘Stockholders’ equity’ in the accompanying consolidated balance sheets. The difference in fair value from the extinguishment of the Series B Preferred Stock and issuance of the Series C Preferred Stock of \$1,011 was recorded in the accompanying consolidated statement of operations. For the three months ended March 31, 2018, no shares of Series B Preferred Stock were issued. For the three months ended March 31, 2017, 15,663 shares of the Series B Preferred Stock, with a liquidation value of \$78, were paid-in-kind, and were retired in the conversion.

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

Pursuant to the Agreement, CDS will pay CAM an annual cost-plus fee (the “Annual Fee”) in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to the Comstock Real Estate Portfolio pursuant to the Agreement, (ii) the costs and expenses of the Company related to maintaining the listing of its shares on a securities exchange and complying with regulatory and reporting obligations as a public company, and (iii) a fixed annual payment of \$1,000,000. During the three months ended March 31, 2018, the Company invoiced \$6.0 million, of which \$2.5 million represents a deposit on the Agreement, to an entity wholly owned by our Chief Executive Officer. Additionally, the Company received payments of \$0.8 million, and recorded revenue of \$2.8 million during the three months ended March 31, 2018, which is included in ‘Revenue-asset management’ in the consolidated statement of operations.

19. WARRANTS

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

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

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

As part of the additional \$5.0 million contribution received from Comstock X in October 2017, an additional 50,000 warrants to purchase the Company’s Class A common stock were issued. These warrants have the same terms and provisions as the original 150,000 warrants issued in August 2016. These warrants may be exercised any time prior to October 13, 2027.

As discussed in Note 18 – *Related Party Transactions*, as part of the CGF Private Placement, depending upon the investment amount, purchasers of interests in CGF other than CDS received warrants that represent the right to purchase a certain number of shares of the Company’s Class A common stock. For purchasers who are not affiliates or insiders, the warrants have initial exercise prices ranging from \$4.91 to \$7.63. The exercise prices of the warrants to affiliates and insiders range from \$7.30 to \$7.63. The warrants contain a cashless exercise provision. In the event a purchaser exercises the warrant on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time within ten years from the date of issuance. As of December 31, 2017, the warrants represent the right to purchase an aggregate amount of up to 76,244 shares of our Class A common stock. The warrants have expiration dates ranging from November 12, 2024 and May 12, 2025 and may be exercised at any time prior to those dates.

In connection with entering into the SunBridge (“SunBridge”) loan agreement in 2011, the Company issued warrants to purchase shares of the Company’s Class A common stock to BridgeCom Development I, LLC, an affiliate of SunBridge. The warrants represent the right to purchase an aggregate amount of up to 142,857 shares of the Company’s Class A common stock. The warrants have an initial exercise price of \$7.21. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time prior to July 12, 2021. On May 29, 2012, the Company repaid the SunBridge loans in full and the SunBridge warrants remain unexercised as of March 31, 2018.

20. UNCONSOLIDATED JOINT VENTURE

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

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Our share of the earnings for the three months ended March 31, 2018 and 2017 are \$14 and \$18, respectively. During the three months ended March 31, 2018 and 2017 the Company collected total distributions of \$10 and \$36, respectively, as a return on investment.

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

| | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2018 | 2017 |
| Statement of Operations: | | |
| Total net revenue | \$ 58 | \$ 66 |
| Total expenses | 30 | 30 |
| Net income | \$ 28 | \$ 36 |
| Comstock Holding Companies, Inc. share of net income | \$ 14 | \$ 18 |

21. INCOME TAXES

For the three months ended March 31, 2018, the Company recognized income tax expense of \$6, and the effective tax rate is (0.94)%. The Company did not recognize any income tax expense for the three months ended March 31, 2017.

The Company currently has approximately \$143 million in federal and state Net Operating Losses (“NOL”s). If unused, these NOLs will begin expiring in 2027. Under Code Section 382 (“Section 382”) rules, if a change of ownership is triggered, the Company’s NOL assets and possibly certain other deferred tax assets may be impaired. We estimate that as of March 31, 2018, the three-year cumulative shift in ownership of the Company’s stock has not triggered an impairment of our NOL asset. However, if an ownership change were to occur, the Section 382 limitation would not be expected to materially impact the Company’s financial position or results of operations as of March 31, 2018, because the Company has recorded a full valuation allowance on substantially all of its net deferred tax assets.

The Company has not recorded any accruals related to uncertain tax positions as of March 31, 2018 and 2017. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2014 through 2016 tax years remain subject to examination by federal and most state tax authorities.

22. SEGMENT DISCLOSURES

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

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.

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

The Asset Management and Homebuilding segments operate solely within the Company's Washington, D.C. area reportable geographic area. The Real Estate Services segment operates in the Washington, D.C, New Jersey, and Pennsylvania geographic area. The following table includes the Company's three reportable segments of Asset Management, Real Estate Services, and Homebuilding for the three months ended March 31, 2018 and 2017.

| | <u>Homebuilding</u> | <u>Asset Management</u> | <u>Real Estate Services</u> | <u>Total</u> |
|--|---------------------|-------------------------|-----------------------------|--------------|
| 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 |
| Three Months Ended March 31, 2017 | | | | |
| Gross revenue | \$ 10,064 | \$ — | \$ 204 | \$10,268 |
| Gross profit (loss) | 963 | — | (20) | 943 |
| Net loss | (644) | — | (20) | (664) |
| Depreciation and amortization | 65 | — | 9 | 74 |
| Interest expense | — | — | — | — |
| Total assets | 56,317 | — | 79 | 56,396 |

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

23. SUBSEQUENT EVENTS

On April 16, 2018, the Company extended its notes payable with Comstock Growth Fund I. The maturity date of the note was extended to April 16, 2019; and the Company has a unilateral option to extend for an additional 12 months upon payment of an extension fee of 0.5% of the outstanding balance. The interest rate of the extended note was revised to 3.89% of the outstanding balance, payable monthly in arrears, and the issuance of 300 thousand shares of Class A Common Stock to Comstock Growth Fund I on the date of extension. As of March 31, 2018, the Company had \$11.7 million of principal and interest, net of discounts, outstanding under the credit facility.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see “Cautionary Notes Regarding Forward-looking Statements” for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed below and elsewhere in this report, particularly under the headings “Cautionary Notes Regarding Forward-looking Statements.” References to dollar amounts are in thousands except per share data, number of units, 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, 2017. 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

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

Our Business Strategy

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

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

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

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

- **Revenue Base.** Our revenues are primarily from recurring fees earned under the AMA, operations of CRES businesses and acquisitions and the buildout of the remaining projects under the homebuilding platform. The AMA provides a reliable source of revenue and cashflow to cover the Company's operating expenses, positioning the Company to enhance bottom line results and growth.
- **Management Services.** Our experienced asset management team provides management services to a wide range of real estate assets and businesses that include a variety of commercial real estate uses, including apartments, hotels, office buildings, commercial garages, leased lands, retail stores, mixed-use developments, and urban transit oriented developments. We have significant experience with construction, development, property and asset management services. The properties and businesses we currently manage are located primarily along the Dulles Corridor section of the Washington DC Metro Silver Line in Fairfax and Loudoun Counties.
- **Real Estate Services.** Our experienced real estate services based management team provides a wide range of real estate services in the areas strategic corporate planning, capital markets, brokerage services, and environmental and design based services. Our environmental services group provides consulting, environmental studies, remediation services and provide site specific solutions for any project that may have an environmental impact, from environmental due diligence to site-specific assessments and remediation. This business line not only allows us to generate positive fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.
- **Homebuilding.** We will continue to develop, construct, and build out the Company's existing homebuilding projects (more particularly identified below); the winding down of this on balance sheet business segment being largely accomplished by the last quarter of 2018 or the first quarter of 2019. We anticipate residual land development activities and finished lot sales to regional or national homebuilders continuing beyond 2019 and the Company may engage in homebuilding activities from time to time if self-performance of our residual lot pipeline is deemed the best financial alternative. Any future homebuilding activities is expected to be provided off balance sheet on an asset management basis.
- **Quality and Depth of Management.** We have a highly qualified and experienced management team providing a broad base of deep expertise and a proven track record to our clients. The combination of the new platforms leverage the diverse capabilities and relationships of the management teams of two companies developed over more than thirty years.
- **Alignment of Interests.** We believe our new business strategy fosters a strong economic alignment of interests with our shareholders due to our Chief Executive Officer's large economic interest in the Company and in the portfolio being managed by the initial AMA. Additionally, the integration of the two operating platforms provides opportunities for additional operational efficiencies and management alignment.

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

Homebuilding

Our Developed Communities

We are currently operating, or developing in multiple counties throughout the Washington, D.C. area market. The following table summarizes certain information for our owned or controlled communities as of March 31, 2018:

| Pipeline Report as of March 31, 2018 | | | | | | | | | |
|--------------------------------------|-------|------------------|-------------------------------|---------------|-------------|--------------------|-------------------------|--|--|
| Project | State | Product Type (1) | Estimated Units at Completion | Units Settled | Backlog (8) | Units Owned Unsold | Units Under Control (2) | Total Units Owned, Unsettled and Under Control | Average New Order Revenue Per Unit to Date |
| City Homes at the Hampshires | DC | SF | 38 | 38 | — | — | — | — | \$ 747 |
| Townes at the Hampshires (3) | DC | TH | 73 | 73 | — | — | — | — | \$ 551 |
| Estates at Falls Grove | VA | SF | 19 | 19 | — | — | — | — | \$ 545 |
| Townes at Falls Grove | VA | TH | 110 | 110 | — | — | — | — | \$ 304 |
| Townes at Shady Grove Metro | MD | TH | 36 | 27 | — | 9 | — | 9 | \$ 583 |
| Townes at Shady Grove Metro (4) | MD | SF | 3 | 3 | — | — | — | — | \$ — |
| Momentum Shady Grove Metro (5) | MD | Condo | 110 | — | — | 110 | — | 110 | \$ — |
| Estates at Emerald Farms | MD | SF | 84 | 84 | — | — | — | — | \$ 426 |
| Townes at Maxwell Square | MD | TH | 45 | 45 | — | — | — | — | \$ 421 |
| Townes at Hallcrest | VA | TH | 42 | 42 | — | — | — | — | \$ 465 |
| Estates at Leeland | VA | SF | 24 | 13 | — | 11 | — | 11 | \$ 451 |
| Villas Preserve at Two Rivers 28' | MD | TH | 6 | 6 | — | — | — | — | \$ 458 |
| Villas Preserve at Two Rivers 32' | MD | TH | 10 | 10 | — | — | — | — | \$ 504 |
| Marrwood East (7) | VA | SF | 35 | 23 | 9 | 3 | — | 12 | \$ 644 |
| Townes at Totten Mews (6) | DC | TH | 40 | 12 | 11 | 17 | — | 28 | \$ 577 |
| The Towns at 1333 | VA | TH | 18 | 6 | 3 | 9 | — | 12 | \$ 920 |
| The Woods at Spring Ridge | MD | SF | 21 | 3 | 7 | 11 | — | 18 | \$ 691 |
| Solomons Choice | MD | SF | 56 | — | — | 56 | — | 56 | \$ 621 |
| Townes at Richmond Station | VA | TH | 104 | — | — | 104 | — | 104 | \$ — |
| Condominiums at Richmond Station | VA | MF | 54 | — | — | 54 | — | 54 | \$ — |
| Total | | | 928 | 514 | 30 | 384 | — | 414 | |

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

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Settlements, orders, cancellations and backlog

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

| | Three Months Ended March 31, | |
|-------------------------------|-------------------------------------|-------------|
| | 2018 | 2017 |
| Gross new orders | 19 | 39 |
| Cancellations | 1 | 5 |
| Net new orders | 18 | 34 |
| Gross new order revenue | \$ 12,703 | \$ 19,557 |
| Cancellation revenue | \$ 621 | \$ 2,513 |
| Net new order revenue | \$ 12,082 | \$ 17,044 |
| Average gross new order price | \$ 669 | \$ 501 |
| Settlements | 8 | 25 |
| Revenue - homebuilding | \$ 5,561 | \$ 10,064 |
| Average settlement price | \$ 695 | \$ 403 |
| Backlog units | 31 | 44 |
| Backlog revenue | \$ 21,186 | \$ 23,920 |
| Average backlog price | \$ 683 | \$ 544 |

Asset Management

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

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

Our Managed Communities

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

Loudoun Station. Loudoun Station represents Loudoun County's first Metrorail connected development and has approximately 700,000 square feet of mixed-use development completed, including hundreds of rental apartments, approximately 150,000 square feet of retail, restaurants, and entertainment venues, 50,000 square feet of Class-A office space, and a 1,500-space commuter parking garage. Loudoun Station represents Loudoun County's beginning transformation into a transit connected community with direct metro

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rail connectivity to Dulles International Airport, Reston, Tysons Corner, and downtown Washington, D.C. Located at the terminus of Metrorail's Silver Line and with more than 2 million square feet of additional development slated for Loudoun Station; construction of its next phase of apartments and commercial space will commence in the second quarter of 2018, with the Company providing a variety of its real estate management services to the project under the AMA. For more information about Loudoun Station, visit: www.LoudounStation.com.

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

Shady Grove Metro. Commencing in the 2nd quarter of 2018, we intend to convey 110 multifamily dwelling units in Rockville, Maryland adjacent to the Shady Grove metro rail station to a joint venture. Thereafter, the Company will provide a variety of real estate management services to the project.

Real Estate Services

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

Results of Operations

Three months ended March 31, 2018 compared to three months ended March 31, 2017

Revenue – homebuilding

Revenue from homebuilding decreased by \$4.5 million to \$5.6 million for the three months ended March 31, 2018 as compared to \$10.1 million revenue for the three months ended March 31, 2017. For the three months ended March 31, 2018, the Company settled 8 units (4 units at Marrwood, 1 unit at Leeland, 2 units at Powhatan, and 1 unit at Totten Mews), as compared to 25 units (12 units at Falls Grove, 6 units at Hallcrest, 4 units at Emerald Farm, 1 unit at Marrwood, 1 unit at Leeland and 1 unit at Shady Grove) for the three months ended March 31, 2017. Our homebuilding gross margin percentage for the three months ended March 31, 2018 decreased by 8.4% to 1.2%, as compared to 9.6% for the three months ended March 31, 2017. The overall decrease noted in gross margins was the result of the number of units settled and the mix of homes.

Gross new order revenue, consisting of revenue from all units sold, for the three months ended March 31, 2018 was \$12.7 million on 19 units as compared to \$19.6 million on 39 units for the three months ended March 31, 2017. Net new order revenue, representing revenue for all units sold less cancellations, for the three months ended March 31, 2018 was \$12.1 million on 18 units as compared to \$17.0 million on 34 units for the three months ended March 31, 2017. The decreases are attributable to the number and mix of homes sold.

Revenue – asset management

Revenue from asset management during the three months ended March 31, 2018 was \$2.8 million. 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.

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Revenue – real estate services

Revenue from real estate services during the three months ended March 31, 2018 increased by \$0.2 to \$0.4 million, as compared to \$0.2 million during the three months ended March 31, 2017. The increase is attributable to the Company's acquisition of JK Environmental on July 17, 2017.

Cost of sales – homebuilding

Cost of sales – homebuilding decreased by \$3.6 million to \$5.5 million during the three months ended March 31, 2018, as compared to \$9.1 million during the three months ended March 31, 2017. The decrease noted was primarily attributable to the number of units settled and the mix of homes settled during the three months ended March 31, 2018.

Cost of sales – asset management

Cost of sales – asset management for the three months ended March 31, 2018 was \$2.5 million. This increase from the three months ended March 31, 2017 was a result of the master asset management agreement that was entered into effective January 2, 2018.

Impairment charges

During the three months ended March 31, 2018, as a result of our impairment analysis, 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 due to unsuccessful negotiations and market conditions. There were no impairment charges recorded during the three months ended March 31, 2017.

Sales and marketing

Selling and marketing expenses for the three months ended March 31, 2018 and 2017 was \$0.2 million and \$0.4 million, respectively. The decrease is attributable to continued benefit from the cost saving measures, in addition to the master asset management agreement, which was effective January 2, 2018.

General and administrative

General and administrative expenses for the three months ended March 31, 2018 and 2017 was \$0.4 million and \$1.2 million, respectively. The year-over-year decrease is attributable to attrition in employee head count and general overhead cost saving measures, in addition to the master asset management agreement, which was effective January 2, 2018.

Income taxes

For the three months ended March 31, 2018, the Company recognized income tax expense of \$6 and the effective tax rate is 0.94%. For the three months ended March 31, 2017, the Company did not recognize any income tax expense.

Liquidity and Capital Resources

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

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

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As of March 31, 2018, \$11.4 million of our secured project related notes were set to mature at various periods through the end of 2018. As of May 16, 2018, we have successfully extended or repaid all obligations with lenders through May 16, 2018, and we are actively engaging our lenders seeking long term extensions and modifications to the loans where necessary. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations and financial covenant compliance. If we fail to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan's maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default.

At March 31, 2018, \$15.3 million of our notes payable to affiliates are set to mature prior to the end of 2018. These funds were primarily obtained from entities wholly owned by our Chief Executive Officer, who has unilateral ability to extend the maturity dates beyond 2018 as needed.

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

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

Cash Flow

Net cash used in operating activities was \$0.1 million for the three months ended March 31, 2018 compared to the net cash provided by operating activities of \$0.5 million for the three months ended March 31, 2017. The \$0.1 million net cash used in operations during the three months ended March 31, 2018 was primarily attributable to increases in trade receivable 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. The \$0.7 million of net cash provided by operations during the three months ended March 31, 2017 was primarily attributable to collections of trade receivables of \$0.5 million and net releases of inventories of \$0.5 million, offset by the net operating loss of \$0.7 million.

Net cash used in financing activities was \$0.7 million 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. Net cash used in financing activities was \$2.5 million for the three months ended March 31, 2017. This was primarily attributable to the distributions of \$1.9 million to the Comstock Investor VIII Class B Members to fully redeem their equity interest, along with the pay downs on notes payable of \$6.0 million, offset by borrowings of \$5.5 million.

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.

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Critical Accounting Policies and Estimates

Contract Liability – Deferred Revenue

The Company has recorded deferred revenue for the three months ended March 31, 2018 in the amount of \$3.2 million. Deferred revenue refers to payments received in advance for services which have not yet been performed. These payments resulted from the Agreement executed by CAM as described in Note 1 – *Organization and Basis of Presentation* and Note 18 – *Related Party Transactions* in the accompanying notes to the consolidated financial statements. These deferred revenues are classified on the Company’s balance sheet as a liability. Refer to Note 8 – *Contract Assets and Contract Liabilities* in the accompanying notes to the consolidated financial statements.

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

Off Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2018 due to the material weakness described below.

As described in “Item 9A. Controls and Procedures” of our 2017 Form 10-K, management performed its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017, and concluded that our internal control over financial reporting as of that date was not effective because of the material weakness described below.

Material Weakness Discussion and Remediation

As reported in our Form 10-K for the year ended December 31, 2017 we did not maintain effective internal control over financial reporting as of December 31, 2017 as a result of a material weakness resulting from insufficient finance and accounting department resources with appropriate knowledge, expertise and training commensurate with the Company’s corporate structure and financial reporting requirements to effectively assess risk, design, operate and oversee internal controls over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. Refer to “Item 9A. Controls and Procedures” of our 2017 Form 10-K for further description of this material weakness.

In response to the identified material weakness, our management, with oversight from the Company’s Audit Committee, has dedicated significant resources, including retaining third party consultants, to enhance the Company’s internal control over financial reporting. The Company has hired additional accounting personnel with technical accounting and financial reporting experience; invested in training programs for the enhancement of the accounting department’s technical expertise; and has added additional layers of review controls and procedures during the financial statement preparation process. The Company has made significant progress toward remediation of our material weakness as of the date of this filing and we will continue the remediation steps outlined above and continue to test their effectiveness over the next quarter.

Notwithstanding the material weakness in our internal control over financial reporting, we concluded that our previously issued consolidated financial statements and notes to the consolidated financial statements included in our filings fairly present in all material respects our financial condition, results of operations and cash flows as of, and for, the periods presented. The foregoing has been approved by our management, including our Chief Executive Officer and Chief Financial Officer, who have been involved with the reassessment and analysis of our internal control over financial reporting.

The material weakness did not result in a material misstatement in the financial statements included in our 2017 Form 10-K, or previously issued financial statements; however, we concluded that, as of December 31, 2017 and March 31, 2018, there was a reasonable possibility that material misstatements could occur in the consolidated financial statements.

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

As described above, the Company has made changes to internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) to enhance the effectiveness of the internal control over financial reporting process, during the quarter ended March 31, 2018. Other than the remediation efforts, there were no other changes in the Company's internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's 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, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The descriptions of the offerings related to Comstock Investors VII, L.C., Comstock Investors VIII, L.C. and Comstock Investors X, L.C. in Notes 17 – *Variable Interest Entities* and 19 – *Warrants*, and the description of the offering related to Comstock Growth Fund in Notes 12 – *Debt* and 23 – *Subsequent Events* to the accompanying consolidated financial statements are hereby incorporated by reference. The shares of our Class A common stock, the membership interests and the warrants, as applicable, were offered and sold to purchasers in such offerings in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act of 1933 (the “Securities Act”) and Rule 506 of Regulation D promulgated under the Securities Act and the certificates representing the securities shall bear legends to that effect. The shares of our Class A common stock, the membership interests, the warrants and the shares of our Class A common stock issuable upon the exercise of the warrants have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

ITEM 6. EXHIBITS

- 3.1 [Amended and Restated Certificate of Incorporation \(incorporated by reference to an exhibit to the Registrant’s Quarterly Report on Form 10-Q filed with the Commission on November 16, 2015\).](#)
- 3.2 [Amended and Restated Bylaws \(incorporated by reference to an Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K filed with the Commission on March 31, 2005\).](#)
- 3.3 [Certificate of Elimination of the Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 \(incorporated by reference to an exhibit to the Registrant’s Current Report on Form 8-K filed with the Commission on March 27, 2015\).](#)
- 3.4 [Certificate of Designation of Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 \(incorporated by reference to an exhibit to the Registrant’s Current Report on Form 8-K filed with the Commission on March 27, 2015\).](#)
- 3.5 [Certificate of Designation of Series B Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on December 29, 2015 \(incorporated by reference to an exhibit to the Registrant’s Current Report on Form 8-K filed on January 4, 2016\).](#)
- 3.6 [Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc., filed with the Secretary of the State of Delaware on March 22, 2017 \(incorporated by reference to an exhibit to the Registrant’s Current Report on Form 8-K filed with the Commission on March 28, 2017\).](#)
- 4.1 [Specimen Stock Certificate \(incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 \(File No. 333-118193\)\).](#)
- 10.65* [Master Asset Management Agreement, dated January 2, 2018, between CDS Asset Management, L.C. and Comstock Development Services, L.C.](#)
- 31.1* [Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002](#)
- 31.2* [Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002](#)
- 32.1* [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002](#)

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101* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements.

* Filed herewith.

MASTER ASSET MANAGEMENT AGREEMENT

among

Comstock Development Services, LC

and

CDS Asset Management, LC

Effective as of

January 2, 2018

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This MASTER ASSET MANAGEMENT AGREEMENT (“*Agreement*”) is entered into on this 30th day of March 2018 (the “*Execution Date*”) and made effective as of the 2nd day of January 2018 (the “*Effective Date*”), among Comstock Development Services, LC, a Virginia limited liability company (“*CDS*”) and CDS Asset Management, L.C., a Virginia limited liability company (the “*Manager*”).

W I T N E S S E T H:

WHEREAS, the Manager is a subsidiary of Comstock Holding Companies, Inc., a Delaware corporation (“*CHCI*”), and has experience in acquiring, entitling, designing, developing, constructing and managing real estate assets; and

WHEREAS, CDS and certain affiliated entities control a mixed-use real estate portfolio and development pipeline, and CDS desires to engage the Manager to provide development and asset management services necessary to build out, stabilize and manage its portfolio;

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Definitions.

(a) The following terms shall have the respective meanings set forth below in this Section 1(a):

“*Acquisition and Development Expenses*” means any and all expenses, exclusive of loan origination fees, incurred by CDS or the Manager or any of their respective Affiliates in connection with the selection, evaluation, acquisition, origination, entitlement, development, and construction of any Real Estate Asset or making of any Investment, whether or not acquired or funded, including legal fees and expenses, travel and communications expenses, property inspection expenses, third party brokerage or finder’s fees, costs of appraisals, nonrefundable deposits or option payments on property not acquired, accounting fees and expenses, title insurance premiums and expenses, survey expenses, closing costs and the costs of performing due diligence.

“*Affiliate*” means, with respect to a specified Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such specified Person, (ii) any general partner or manager of such specified Person, or (iii) any Person for which such specified Person acts as a general partner or manager. For purposes of this definition, the terms “controlled”, “controlled by”, or “under common control with” shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities or membership interests, pursuant to an operating agreement, contract or credit arrangement, as trustee or executor, or otherwise. The Manager and CDS shall not be deemed to be Affiliates of each other for the purposes of this Agreement.

“*Agreement*” has the meaning set forth in the Recitals.

“*Annual Business Plan and Budget*” means the detailed business objectives of the CDS Entities with regard to their Real Estate Assets, including pro forma and actual development and construction cost estimates, schedule estimates, stabilization plans, operating budgets as well as information regarding conditional objectives, such as changes to land use entitlements or zoning and development objectives, as such objectives are established by CDS from time to time.

“*Annual Fee*” means the amount of One Million and No/100ths Dollars \$1,000,000.

“*Bankruptcy Event*” means, with respect to any Person, (i) the filing by such Person of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code or any other U.S. federal or state or foreign insolvency law, or such Person’s filing an answer consenting to or acquiescing in any such petition, (ii) the making by such Person of any assignment for the benefit of its creditors, (iii) the expiration of 60 days after the filing of an involuntary petition under Title 11 of the United States Code, an application for the appointment of a receiver for a material portion of the assets of such Person, or an involuntary petition seeking liquidation, reorganization, arrangement or readjustment of its debts under any other U.S. federal or state or foreign insolvency law, provided that the same shall not have been vacated, set aside or stayed within such 60-day period, or (iv) the entry against such Person of a final and non-appealable order for relief under any bankruptcy, insolvency or similar law now or hereinafter in effect.

“*Base Costs*” means the costs of the Staffing Requirements as agreed to by the Manager and CDS on no less than an annual basis which, for the initial purposes hereof, shall be the lesser of (i) all estimated employment expenses related to personnel employed by the Manager for Real Estate Assets in accordance with the Annual Business Plan and Budget, including salaries, wages, payroll taxes and the costs of employee benefit plans, or (ii) the actual employment expenses related to personnel employed by the Manager that are dedicated to providing services to CDS Entities hereunder; provided, that, Base Costs shall not include (i) the personnel or other expenses of CHCI’s homebuilding division or any of its Affiliates (other than Manager) (ii) the personnel or other expenses of CHCI’s services division or any of its Affiliates (other than Manager) including CDS Capital Management, L.C., or (iii) any interest, dividend or principal obligations of CHCI and its Affiliates as of the Effective Date, unless expressly set forth in the Annual Business Plan and Budget approved by the Manager and CDS..

“*Board*” means the board of directors of CHCI, and shall be deemed to include any duly appointed and constituted committee of the Board with respect to each and every act that under the Governing Instruments or applicable law may be taken with the approval of a duly appointed and constituted committee of the Board, and references herein to the Board shall be deemed to include references to each such committee.

“*Business Day*” means any day except a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open.

“*CDS Entity*” means CDS and each Affiliate of CDS holding Real Estate Assets which are the subject of a Subsidiary Agreement.

“*CDS Indemnified Party*” has the meaning set forth in Section 9(b).

“*Change of Control*” means a change in the direct or indirect (i) beneficial ownership of more than 50% of the combined voting power of the Manager’s or CHCI’s then outstanding equity interests, or (ii) power to direct or cause the direction of the management and policies of the Manager or CHCI, whether through the ownership of voting securities, by contract or credit arrangement, as trustee or otherwise.

“*Claim*” has the meaning set forth in Section 9(c).

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto, and reference to any provision of the Code shall mean such provision as in effect from time to time, as the same may be amended, and any successor provision thereto, as interpreted by any applicable regulations as in effect from time to time.

“*Common Stock*” means the Common Stock, par value \$0.01 per share, of CHCI.

“*Confidential Information*” has the meaning set forth in Section 6(a).

“*Cost Plus Fee*” has the meaning set forth in Section 7(b).

“*Effective Date*” has the meaning set forth at the head of this Agreement.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Fees Accrued Upon Termination*” means the amounts payable to the Manager or its assignees equal to the aggregate of all earned but unpaid compensation due under [Section 7](#) and all expenses due under [Section 8](#) as of the Termination Date.

“*Financing Transaction*” means any transaction with respect to an Investment in which one or more CDS Entities incurs or assumes any mortgage or other indebtedness, including any line of credit, transaction involving the creation of any commercial mortgage-backed security or mezzanine financing.

“*GAAP*” means United States generally accepted accounting principles, consistently applied.

“*Governing Instruments*” means, with regard to any entity, the articles of incorporation or certificate of incorporation and by-laws in the case of a corporation, the articles of organization, certificate of formation and operating or limited liability company agreement in the case of a limited liability company, the declaration of trust or other comparable trust instrument in the case of a trust, or similar governing documents in the case of another type of entity, in each case, as the same may be amended from time to time.

“*Indemnified Party*” has the meaning set forth in [Section 9\(b\)](#).

“*Independent Director*” means a member of the Board who is “independent” in accordance with the CHCI’s Governing Instruments and the rules of NASDAQ.

“*Investment*” means any investment by any CDS Entity, directly or indirectly, in Real Estate Assets or any other asset.

“*Investment Company Act*” means the Investment Company Act of 1940, as amended.

“*Investment Transaction*” means any purchase, acquisition, exchange, sale or disposition, merger or interest exchange that results in the acquisition or disposition of, or other transaction involving, an Investment.

“*Joint Venture*” means the joint venture or partnership or other similar arrangement (other than between or among any CDS Entities) in which a CDS Entity is a co-venturer, member, partner or other equity holder, which is established to own Investments.

“*Leases*” has the meaning set forth in [Section 14\(b\)\(ii\)](#).

“*Losses*” has the meaning set forth in [Section 9\(a\)](#).

“*Manager*” has the meaning set forth at the head of this Agreement and shall include any permitted successor in interest thereto.

“*Manager Indemnified Party*” has the meaning set forth in [Section 9\(a\)](#).

“*Manager Permitted Disclosure Parties*” has the meaning set forth in [Section 6\(a\)](#).

“*Name Rights*” means intellectual property rights and assets relating to the name of CDS, any CDS Entity or any of their Affiliates, and to any other marks owned or licensed by any of them, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing, however arising, pursuant to the laws of any jurisdiction throughout the world, whether registered or unregistered, including any and all:

(i) trademarks, service marks, trade names, brand names, logos, trade

dress, design rights and other similar designations of source, sponsorship, association or origin, together with the goodwill connected with the use of and symbolized by, and all registrations, applications and renewals for, any of the foregoing; (ii) internet domain names, whether or not trademarks, registered in any top-level domain by any authorized private registrar or governmental authority, web addresses, web pages, websites and related content, accounts with Twitter, Facebook and other social media companies and the content found thereon and related thereto, and URLs; (iii) royalties, fees, income, payments and other proceeds now or hereafter due or payable with respect to any and all of the foregoing; and (iv) all rights to any actions of any nature available or being pursued by CDS, any Affiliate or their agent, to the extent related to the foregoing, whether accruing before, on or after the date hereof, including all rights to and claims for damages, restitution and injunctive relief for infringement, dilution, misappropriation, violation, misuse, breach or default, with the right but no obligation to sue for such legal and equitable relief, and to collect, or otherwise recover, any such damages.

“*Notice*” has the meaning set forth in Section 16(a).

“*NASDAQ*” means the National Association of Securities Dealers Automated Quotations exchange, or any other U.S. national securities exchange upon which CHCI’s Common Stock shall be listed for trading.

“*Person*” or “*person*” means any natural person, corporation, partnership, association, limited liability company, estate, trust or joint venture, any federal, state, county or municipal government or any bureau, department or agency thereof, or any other legal entity.

“*Public Company Costs*” means all costs of maintaining a listing on a securities exchange, including the cash compensation and expenses of the directors and the cost of liability insurance to indemnify the Manager and its officers and the directors; corporate franchise taxes; mandatory legal, tax and accounting expenses directly attributable to being publicly traded; all costs of preparing and filing required reports with the SEC; the costs payable by CHCI to any transfer agent and registrar in connection with the listing and/or trading of CHCI securities on any exchange; the fees payable by the CHCI to any such exchange in connection with its listing; costs of preparing, printing and mailing annual reports to its stockholders and proxy materials with respect to any meeting of stockholders of CHCI; and salary, benefits and other direct cash compensation and expenses of corporate executives of CHCI.

“*Real Estate Assets*” means all Real Property and all lender, participant or similar interests in all Real Estate Related Loans (as applicable), in which any CDS Entity holds an interest, whether directly, through one or more subsidiaries or Affiliates, through a Joint Venture, or otherwise.

“*Real Estate Related Loans*” means all types of real estate related debt obligations, including mezzanine loans, bridge loans, convertible mortgages, wraparound mortgage loans, construction mortgage loans, loans on leasehold interests and participations in such loans.

“*Real Property*” means fee and leasehold interests (and options) in real property, including (i) land only, (ii) land and the buildings located thereon, (iii) buildings only, and (iv) any other asset designated as Real Property by CDS.

“*Regulation FD*” means Regulation FD as promulgated by the SEC.

“*SEC*” means the United States Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended.

“*Staffing Requirements*” means all personnel reasonably required to deliver services in accordance with this Agreement to the CDS Entities and the Real Estate Assets as set forth in the Annual Business Plan and Budget, whether related to each individual Real Estate Asset or on a collective basis.

“*Subsidiary Agreement*” means any written or oral agreement pursuant to which CDS provides or causes to be provided certain services, procured hereunder, to a CDS Entity with respect to Real Estate Assets.

“*Term*” has the meaning set forth in Section 12(a).

“*Termination Date*” means the effective date of termination of the Agreement whether established pursuant to a Termination without Cause Notice, a Termination for Cause Notice, or any other provision hereof.

“*Termination for Cause*” has the meaning set forth in Section 13(a).

“*Termination for Cause Notice*” has the meaning set forth in Section 13(a).

“*Termination without Cause*” has the meaning set forth in Section 12(b).

“*Termination without Cause Notice*” has the meaning set forth in Section 12(b).

“*Termination Notice*” means a Termination without Cause Notice, a Termination for Cause Notice or any other notice of termination of this Agreement.

(b) As used herein, accounting terms relating to any CDS Entity not defined in Section 1(a), and accounting terms partly defined in Section 1(a), to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) As used herein, “calendar quarters” shall mean the periods from January 1 to March 31, April 1 to June 30, July 1 to September 30 and October 1 to December 31 of the applicable year.

(d) The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section references are to this Agreement unless otherwise specified.

(e) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(f) The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation.”

(g) A reference to any gender shall be deemed to be a reference to all genders.

Section 2 Appointment and Duties of the Manager.

(a) CDS hereby appoints the Manager to manage and administer the Investments and the day-to-day operations of the CDS Entities, subject at all times to the terms and conditions set forth in this Agreement. The Manager will use commercially reasonable efforts to provide the services contemplated hereunder and otherwise to perform each of its duties set forth herein, provided that funds are made or caused to be made available by CDS as set forth in Section 8. CDS shall not appoint any other Person except the Manager to perform the duties and carry out the responsibilities of the Manager described herein, except as may otherwise be permitted by this Agreement.

(b) The Manager, in performance of its duties hereunder, at all times will act in a manner that is consistent with the provisions of the Governing Instruments of each CDS Entity, and will use commercially reasonable efforts to perform its duties hereunder, including to present to CDS potential investment opportunities and to manage CDS's business affairs in conformity with the investment parameters and other policies that are established by CDS. The Manager hereby acknowledges and agrees that any proposed changes to CDS's investment strategy shall require the prior written approval of CDS. CDS shall notify the Manager promptly of any amended, restated or supplemented investment strategies from time to time.

(c) The Manager will be responsible for the day-to-day operations of the CDS Entities and will perform (or cause to be performed) such services and activities relating to their respective Investments and Real Estate Assets, as may be appropriate, which may include:

(i) (A) proposing modifications to the investment strategy of CDS, (B) periodically reviewing the CDS Investment portfolio for compliance with its investment strategy and reporting its findings to CDS, (C) periodically reviewing and reporting to CDS regarding the diversification of the CDS Investment portfolio and the financing strategies, and (D) conducting or overseeing the provision of the services and activities set forth in this Agreement;

(ii) investigating, analyzing, selecting, conducting due diligence with respect to, negotiating the terms and conditions of (including negotiating the forms of definitive agreements), arranging financing for and recommending to CDS, possible Investment Transactions consistent with CDS's investment strategy;

(iii) with respect to prospective Investment Transactions and Financing Transactions, conducting negotiations (including negotiation of definitive agreements) with sellers, purchasers, prospective Joint Venture or merger candidates, lenders and other financing sources and their respective agents and representatives, and, if applicable, closing the Investment Transactions and Financing Transactions as may be approved by CDS;

(iv) effecting any private placement of interests in Investments, as may be approved by CDS;

(v) delivering to or maintaining on behalf of CDS copies of all appraisals or marketing reports obtained in connection with the Real Estate Assets as may be desired or required by CDS;

(vi) negotiating, within the discretionary limits and authority granted by CDS in this Agreement, repurchase agreements, agreements relating to borrowings under programs established by the U.S. Government and other agreements and instruments required to conduct the business of the CDS Entities;

(vii) engaging and supervising Affiliates of the Manager and independent contractors approved by CDS that provide investment banking, securities brokerage, equity capital, mortgage brokerage, real estate brokerage services, other financial services, due diligence services, underwriting review services, legal and accounting services, professional services, including engineering and architectural services, and all other services (including transfer agent and registrar services) as may be required relating to the Real Estate Assets, CDS Entities' operations, Investments, Investment Transactions or Financing Transactions;

(viii) reserved;

(ix) as directed by CDS, coordinating and managing operations of any Joint Venture or co-investment interests held by the CDS Entities and conducting all matters with the Joint Venture or co-investment partners;

(x) providing executive, management, and administrative personnel, office space and office services required in rendering services hereunder;

- (xi) negotiating leases and service contracts in connection with the Investments and administering the day-to-day operations and performing and supervising the performance of such other administrative functions, including the collection of revenues and the payment of debts and obligations, and maintenance of appropriate computer services to perform such functions;
- (xii) as directed by CDS, communicating with the holders of any equity or debt of CDS as required to satisfy the reporting and other requirements of any governmental body or agency or trading market and to maintain effective relations with such holders;
- (xiii) evaluating and recommending hedging strategies and, as directed by CDS, engaging in hedging activities within the discretionary limits and authority specifically granted by CDS within its investment strategy;
- (xiv) providing counsel regarding potential qualification as a REIT and, if implemented, thereafter monitoring compliance with the various REIT qualification tests and related rules set out in the Code and Treasury Regulations, and using commercially reasonable efforts to cause the applicable CDS Entities to continue to qualify for taxation as a REIT;
- (xv) providing counsel regarding exemptions from the status of an investment company required to register under the Investment Company Act, monitoring compliance with the requirements for maintaining such exemption and using commercially reasonable efforts to cause the applicable CDS Entities to maintain such exemption;
- (xvi) furnishing reports and statistical and economic research regarding Investments and potential Investments, as well as disclosing any potential conflicts of interest involving the Manager or any of its Affiliates not already disclosed in public filings made pursuant to SEC regulations;
- (xvii) monitoring the performance of the Investments and providing periodic reports with respect thereto, including comparative information with respect to such operating performance and budgeted or projected operating results;
- (xviii) providing advice with respect to equity and debt capitalization and financing strategies related to the Investments;
- (xix) assisting the CDS Entities to retain qualified accountants and legal counsel, as applicable, to advise in developing appropriate accounting procedures and systems, internal controls and other compliance procedures, to provide sound tax and legal advice and to conduct annual compliance reviews with respect thereto;
- (xx) assisting the CDS Entities in qualifying to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;
- (xxi) assisting the CDS Entities in complying with all laws and regulatory requirements applicable to their business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and maintaining reports and documents to the extent required by applicable law;
- (xxii) assisting the CDS Entities in taking all necessary action to make required tax filings and reports in accordance with the Code;
- (xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which a CDS Entity may be involved, or to which any CDS Entity or Real Estate Asset or other interest may be subject, arising out of the CDS Entity's day-to-day operations (other than with the Manager or its Affiliates), subject to such limitations or parameters as may be imposed from time to time by CDS;

(xxiv) using commercially reasonable efforts to cause expenses incurred on behalf of any CDS Entity to be commercially reasonable or usual and customary and within any budgeted parameters or expense guidelines proposed by the Manager and approved by CDS from time to time;

(xxv) advising on the appropriateness of leverage ratios, cash positions and long-term capital reserves;

(xxvi) providing portfolio management services;

(xxvii) arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote CDS Entities' businesses;

(xxviii) performing such other services as may be required from time to time for management and other activities relating to CDS assets and business as reasonably requested by CDS or as the Manager shall deem appropriate under the particular circumstances; and

(xxix) providing or causing to be provided all due diligence, design, development, construction management, property management, asset management, analytical, accounting, financial, and other services necessary for the development and operation of the Real Estate Assets.

(d) The Manager may retain, for and on behalf of CDS, such Persons as the Manager deems necessary or advisable for the provision of services referred to in Section 8 in connection with the management and operations of CDS.

(e) The Manager shall refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance with the investment strategy of CDS, (ii) would adversely and materially affect the qualification of a CDS Entity as an entity excluded from investment company status under the Investment Company Act, or (iii) would conflict with or violate (A) any law, rule or regulation of any governmental body or agency having jurisdiction over any CDS Entity, or (B) any applicable Governing Instruments. The Manager may proceed with taking an action described above if expressly instructed to do so by CDS. Notwithstanding the foregoing, neither the Manager nor any of its Affiliates shall be liable to any CDS Entity, any Joint Venture, or the members or other holders of equity interests in any CDS Entity, for any act or omission by the Manager or any of its Affiliates, except as provided in Section 9. In performing its duties under this Section 2, the Manager shall be entitled to rely reasonably on qualified experts and professionals (including accountants, legal counsel and other professional service providers).

(f) Without limiting any other reporting requirement, Manager shall notify CDS of all contemplated Investment Transactions not less than 30 days prior to the anticipated date of completion of the transaction. The Manager shall seek and obtain CDS prior approval of any Investment Transaction, regardless of whether it meets the investment strategy of CDS. In all transactions requiring approval by CDS, the Manager will deliver to CDS all documents and other information reasonably required to evaluate properly the proposed transaction.

(g) CDS will take or cause all actions reasonably required to permit and enable the Manager to carry out its duties and obligations under this Agreement, including all steps reasonably necessary to allow the Manager and its Affiliates to make any filing required to be made under the Securities Act, Exchange Act, NASDAQ regulations, the Code or other applicable law, rule or regulation in a timely manner. CDS will use commercially reasonable efforts to make available to the Manager all resources, information and materials reasonably requested by the Manager to enable the Manager to satisfy its legal obligations hereunder.

(h) As frequently as the Manager may deem necessary or advisable, or at the direction of CDS, the Manager shall prepare (or cause to be prepared) reports and other information relating to any proposed Investment.

(i) The Manager shall prepare (or cause to be prepared) all reports, financial or otherwise, reasonably required by CDS in order for the CDS Entities to comply with their respective Governing Instruments or as otherwise reasonably requested by CDS, including an annual audit or review of any CDS Entity consolidated financial statements by a nationally recognized independent accounting firm.

(j) The Manager shall prepare (or cause to be prepared) regular reports for CDS to enable it to review CDS Entity acquisitions, Investment portfolio composition and characteristics, credit quality, performance and compliance with the investment strategy and policies approved by it from time to time.

(k) Officers, employees and agents of the Manager and its Affiliates may serve as directors, officers, agents, nominees or signatories for any CDS Entity, but only to the extent permitted by their respective Governing Instruments, or by any resolutions duly adopted by the CDS Entity. When executing documents or otherwise acting in such capacities for any CDS Entity, such Persons shall indicate they are executing or acting on behalf of such CDS Entity. Without limiting the foregoing, while this Agreement is in effect, the Manager will establish an executive management team and such other positions, along with appropriate support personnel, to provide the management services to be provided by the Manager to the CDS Entities hereunder, who shall devote such of their time to the management of the Investments and consideration of the investment strategy and policies and day-to-day operations of the CDS Entities, as may be necessary and appropriate, commensurate with the level of activity of CDS from time to time.

(l) The Manager, if directed by CDS and at CDS's expense, shall obtain and maintain reasonable and customary "errors and omissions" insurance coverage and other customary insurance coverage in respect to its obligations and activities under, or pursuant to, this Agreement, naming the CDS Entities as additional insureds.

(m) The Manager shall provide such internal audit, compliance and control services as may be required for the Manager and its Affiliates to comply with applicable law (including the Securities Act and Exchange Act), regulations (including SEC regulations) and the rules and requirements of NASDAQ and as otherwise reasonably requested by CDS from time to time.

(n) If required by applicable statute in the performance of this Agreement, the Manager shall maintain any required registration of the Manager or any Affiliate with the SEC under the Investment Advisers Act of 1940, as amended, or with any state securities authority in any state in which the Manager or its Affiliate is required to be registered as an investment advisor under applicable state securities laws. The Manager does not currently expect such a registration is required.

Section 3 Affiliates and Contractual Relationship.

The Manager and the CDS Entities conduct their business in and through a number of business units and Affiliates. The Manager and CDS shall use commercially reasonable efforts to require the Persons and Affiliates who are affected by this Agreement to enter into such additional contractual arrangements, including Subsidiary Agreements (which Manager shall join in from time to time upon CDS's written request), as may be reasonably necessary to provide the services contemplated hereunder, and to document appropriately the fees charged therefor. The Manager and CDS shall provide each other with such further assurances as may be reasonably required by each other and third parties from time to time.

Section 4 Additional Activities of the Manager.

(a) Subject to Section 4(c), nothing in this Agreement shall prevent the Manager, any of its Affiliates or any of their respective officers, directors or employees, from engaging in other businesses or from rendering services of any kind to any other Person, regardless of whether the investment objectives or policies of any such other Person are similar to those of CDS; provided, however, that the Manager shall devote sufficient resources to discharge its obligations under this Agreement.

(b) While information and recommendations supplied to CDS shall, in the Manager's good faith judgment, be appropriate under the circumstances and in light of the investment objectives and policies of CDS, they may be different from the information and recommendations supplied by the Manager or any Affiliate of the Manager to others. CDS shall be entitled to equitable treatment under the circumstances in receiving information, recommendations and any other services, but CDS recognizes that CDS is not entitled to receive preferential treatment as compared with the treatment given by the Manager or any Affiliate of the Manager to others.

(c) The Manager shall report to CDS and to the Board any condition or circumstance, existing or anticipated, of which it has knowledge, which creates or could create a conflict of interest between the Manager's obligations to CDS and its obligations to or its interest in any other Person, including its Affiliates. If the Manager or any of its Affiliates sponsored any other investment program with similar investment objectives to CDS that has investment funds available at the same time as CDS or engages in any activity that could be considered in potential competition with CDS, the Manager shall inform the Board of the method to be applied by the Manager in allocating investment opportunities among CDS and competing investment entities and shall provide regular updates to the Board of the investment opportunities provided by the Manager to competing programs in order for the Board (including the Independent Directors) to evaluate that the Manager is allocating such opportunities in accordance with such method. All such evaluation will be conducted in accordance with CHCI's existing Corporate Opportunity, Code of Conduct policies and applicable laws and regulations governing related party transactions, as may be amended from time to time. Any executive officer of the Manager or any Affiliate holding an interest in CDS shall adhere to process set forth in this [Section 4\(c\)](#).

Section 5 Bank Accounts.

The Manager, at the direction of CDS, may establish and maintain one or more separate bank accounts in the name of one or more CDS Entities, and may collect and deposit funds into and disburse funds from any such account or accounts, under such policies, terms and conditions as CDS may establish, provided that no funds shall be commingled with the funds of the Manager or its Affiliates. The Manager shall from time to time render appropriate accountings of such collections and payments to CDS and, upon request, shall provide information regarding such account to CDS's auditors.

Section 6 Records; Confidentiality.

(a) The Manager shall maintain appropriate books of accounts and records relating to services performed hereunder, and such books of account and records shall be accessible for inspection by representatives of CDS at any time during normal business hours. The Manager shall keep confidential any and all non-public information, written or oral, obtained by it in connection with the services rendered hereunder ("*Confidential Information*") and shall not use Confidential Information except in furtherance of its duties under this Agreement, nor disclose Confidential Information, in whole or in part, to any Person other than (i) to Manager's Affiliates and the officers, directors, employees, agents, representatives or advisors of the Manager or its Affiliates who need to know such Confidential Information for the purpose of rendering services hereunder, (ii) to appraisers, financing sources and other consultants in the ordinary course of business undertaken on behalf of a CDS Entity ([clauses \(i\) and \(ii\)](#) above, collectively, "*Manager Permitted Disclosure Parties*"), (iii) in connection with any governmental or regulatory filings of the Manager or its Affiliates, or filings with the NASDAQ or other applicable securities market, (iv) in presentations or other disclosures to CDS investors (subject to compliance with Regulation FD), (v) to governmental officials having jurisdiction over CDS Entities, (vi) as required by law or legal process to which the Manager or any Person to whom disclosure is permitted hereunder is a party, or (vii) with the written consent of CDS. The Manager will inform each of its Manager Permitted Disclosure Parties of the non-public nature of the Confidential Information and to obtain agreement from such Persons to treat such Confidential Information in accordance with the terms hereof.

(b) Nothing herein shall prevent any Manager Permitted Disclosure Party from disclosing Confidential Information (i) upon the order of any court or administrative agency having jurisdiction, (ii) upon the request or demand of, or pursuant to any law or regulation to, any regulatory agency or authority having jurisdiction, or (iii) to the extent reasonably required, to its legal counsel or independent auditors; provided, however, that with respect to clauses (i) and (ii) above, it is agreed that, so long as not legally prohibited, the Manager will provide CDS with prompt written notice of such order, request or demand so that CDS may seek, at its sole expense, an appropriate protective order and/or waive any Manager Permitted Disclosure Party's compliance with the provisions of this Agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder, the Manager is required to disclose Confidential Information, the Manager Permitted Disclosure Party may disclose only that portion of such information that is legally required without liability hereunder; provided further, however, that the Manager Permitted Disclosure Party agrees to exercise commercially reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information.

(c) Notwithstanding anything herein to the contrary, the following types of Confidential Information shall be deemed to be excluded from provisions hereof: (i) any Confidential Information that is available to the public from a source other than the Manager or its Affiliates; (ii) any Confidential Information that is released in writing by any of the CDS Entities to the public (except to the extent exempt under, and in compliance with, Regulation FD) or to persons who are not under similar obligation of confidentiality to any of the CDS Entities; and (iii) any Confidential Information that is obtained by the Manager from a third party which, to the Manager's knowledge, does not constitute a breach by such third party of an obligation of confidence with respect to the Confidential Information disclosed.

(d) The provisions of this Section 6 shall survive the expiration or earlier termination of this Agreement for a period of two years thereafter, provided that the Manager will maintain trade secrets of CDS identified in writing as trade secrets, and which in fact constitute trade secrets, for a period of five years, unless a court of competent jurisdiction determines in a final non-appealable ruling that a lesser period should apply.

Section 7 Compensation.

(a) Deposit. Manager acknowledges receipt, prior to the Execution Date, of Five Hundred Fifteen Thousand Dollars (\$515,000) from CDS. Upon full execution and delivery of the Agreement, CDS shall deliver to the Manager an additional One Million Nine Hundred Eighty Five Thousand Dollars (\$1,985,000). These two payments constitute a total cash deposit in the sum of Two Million Five Hundred Thousand Dollars (\$2,500,000) (the "*Deposit*") as an advance against the fees to be charged for services to be provided pursuant to this Agreement. The Deposit shall be applied against the Cost Plus Fee due on a pro rata basis over four quarters commencing with the last quarter of 2018 if not returned at an earlier date by Manager.

(b) Cost Plus Fee Structure.

(i) During the initial Term of this Agreement, the Manager shall be entitled to receive, per annum and prorated for partial years, an asset management fee in an aggregate amount equal to the sum of (A) its Base Costs, plus (B) the Public Company Costs, to the extent the same are not allocated to other subsidiaries or operating divisions of CHCI, plus (C), the Annual Fee (such aggregate amount, the "*Cost Plus Fee*"). Commencing with the Effective Date, CDS shall remit to the Manager the Cost Plus Fee, which shall be payable in quarterly installments, in advance. A true-up of Base Costs shall be conducted on an annual basis to adjust for and reconcile variances between the Annual Business Plan and Budget and actual employment expenses, amounts paid directly by CDS and to adjust for actual Public Company Costs.

(ii) The Manager shall provide CDS with its annual Staffing Plan no later than thirty (30) days prior to the end of each calendar year to establish the Base Costs for the subsequent calendar year.

(iii) CDS acknowledges that Manager's Affiliate provides loan origination services, which shall be provided solely pursuant to a separate agreement to be negotiated and executed by a CDS Entity and Manager's Affiliate. The Cost Plus Fee shall be exclusive of any loan origination fee that may be payable thereunder.

(c) **Modifications to Fee Structure.** The Manager and CDS acknowledge and agree that market rate fee structures may vary from time to time based on a variety of factors, including the types of assets under management, the valuation of assets under management, the institutional investors or venture partners associated with such assets, the incentive or carried interest fees associated with certain assets and the number of assets under management. The Manager and CDS acknowledge that the desire for modifications to the Agreement may arise prior to the expiration of the Term and, in such a circumstance, the parties agree to negotiate in good faith regarding whether it is of mutual benefit to modify the Cost Plus Fee structure in favor of a negotiated, market-rate or alternative fee structure.

Section 8 Expenses of the Manager and CDS.

(a) The Manager shall be responsible for payment of all expenses related to personnel of the Manager and its Affiliates who provide services to CDS Entities pursuant to this Agreement, including salaries, bonus and other wages, payroll taxes, the cost of employee benefit plans of such personnel, and costs of insurance with respect to such personnel. For the avoidance of doubt, the costs of any equity incentive plan of CHCI in which any person referred to above participates shall be payable by Manager under this Section 8(a).

(b) CDS shall pay (or cause to be paid) all the costs and expenses of each CDS Entity and shall reimburse the Manager or its Affiliates for expenses of the Manager and its Affiliates reasonably incurred on behalf of any CDS Entity in accordance with this Agreement, excepting only those expenses that are specifically the responsibility of the Manager pursuant to Section 8(a). Without limiting the generality of the foregoing, the following costs and expenses of the CDS Entities shall be paid (or caused to be paid) by CDS and shall not be paid by the Manager or Affiliates of the Manager:

(i) Acquisition and Development Expenses incurred in connection with Investments and the Real Estate Assets;

(ii) Reserved.

(iii) expenses in connection with any Financing Transaction and other costs incident to the acquisition, disposition and financing of the Investments;

(iv) costs of legal, tax, accounting, consulting, auditing and other similar services rendered to CDS by providers retained by the Manager, or, if provided by the Manager's personnel, in amounts (or rates, as applicable) approved in advance by CDS which shall be no greater than those which would be payable to reasonably comparable outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis;

(v) Reserved.

(vi) expenses connected with communications to owners or investors of any CDS Entity and other bookkeeping and clerical work necessary in maintaining relations with such owners or investors and in complying with the continuous reporting and other requirements of governmental bodies or agencies;

(vii) costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for the CDS Entities;

(viii) travel and other out-of-pocket expenses incurred by managers, officers, personnel and agents of the Manager in connection with the purchase, financing, refinancing, operation, sale or other disposition of an Investment or in connection with any Financing Transaction, except as may otherwise be agreed to by the Manager and CDS, or their Affiliates, in separate written agreements;

- (ix) costs and expenses incurred with respect to market information systems and publications, research publications and materials obtained for CDS Entities;
- (x) the costs of maintaining compliance by CDS Entities with all federal, state and local rules and regulations or any other regulatory agency;
- (xi) all taxes, and license fees due from CDS Entities;
- (xii) all insurance costs incurred in connection with the operation of CDS Entities' business except for the costs attributable to the professional errors and omissions liability insurance that the Manager elects to carry for itself and its personnel;
- (xiii) costs and expenses incurred in contracting with third-parties related to Investments and the Real Estate Assets;
- (xiv) all other costs and expenses relating to CDS Entities' business and investment operations, including the costs and expenses of owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;
- (xv) expenses relating to any offices or facilities, including equipment leases, disaster backup recovery sites and facilities, maintained for CDS Entities or Investments;
- (xvi) any judgment, award or amount paid in settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against any CDS Entity, or against any trustee, director, partner, member or officer of such CDS Entity in his capacity as such for which such CDS Entity is required to indemnify such trustee, director, partner, member or officer pursuant to the applicable Governing Instruments or any agreement or other instrument, or by any court or governmental agency; and
- (xvii) all other expenses actually incurred by the Manager for or on behalf of a CDS Entity (except as otherwise specified herein) which are reasonably necessary or advisable for the performance by the Manager of its duties and functions under this Agreement.

(c) Costs and expenses incurred by the Manager on behalf of CDS shall be reimbursed monthly to the Manager or as may be otherwise agreed to by the parties from time to time. The Manager shall prepare and deliver to CDS a written statement in reasonable detail documenting the costs and expenses incurred by the Manager on behalf of CDS during each month, together with such supporting documentation reasonably requested by CDS, within 30 days after the end of each month. CDS shall pay all amounts payable to the Manager pursuant to this Section 8(c) within thirty (30) days after the receipt of the written statement without demand, deduction, offset or delay. Cost and expense reimbursement to the Manager shall be subject to adjustment at the end of each calendar year and in connection with the findings of any audit or review that CDS may require. The provisions of this Section 8 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

Section 9 Limits of the Manager's Responsibility; Indemnification.

(a) The Manager, its Affiliates and their respective directors, officers, employees, partners, members, stockholders, other equity holders agents and representatives (each, a "*Manager Indemnified Party*"), will not be liable to any CDS Entity or any of

the stockholders, partners, members or other holders of equity interests of any CDS Entity for any acts or omissions by any Manager Indemnified Party performed in accordance with and pursuant to this Agreement, except by reason of any act or omission constituting bad faith, willful misconduct or gross negligence on the part of such Manager Indemnified Party. CDS shall, to the fullest lawful extent, reimburse, indemnify and hold harmless each Manager Indemnified Party, of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys' fees and costs of investigation) (collectively "*Losses*") in respect of or arising from any acts or omissions of such Manager Indemnified Party performed in good faith under this Agreement and not constituting bad faith, willful misconduct or gross negligence on the part of such Manager Indemnified Party. In addition, CDS shall advance funds to a Manager Indemnified Party for legal fees and other costs and expenses incurred as a result of any claim, suit, action or proceeding for which indemnification is being sought, provided that such Manager Indemnified Party undertakes to repay the advanced funds to CDS, together with the applicable legal rate of interest thereon, in cases in which such Manager Indemnified Party is found pursuant to a final and non-appealable order or judgment not to be entitled to indemnification.

(b) The Manager shall, to the fullest lawful extent, reimburse, indemnify and hold harmless each CDS Entity, and their respective directors, officers, employees, partners, members, stockholders, other equity holders agents and representatives (each, a "*CDS Indemnified Party*") of and from any and all Losses in respect of or arising from (i) any acts or omissions constituting bad faith, willful misconduct or gross negligence on the part of a Manager Indemnified Party, or (ii) any claims by the Manager's employees relating to the terms and conditions of their employment by the Manager. Except as otherwise expressly provided herein, the Manager assumes no responsibility under this Agreement other than to render in good faith the services to be provided by the Manager hereunder. A Manager Indemnified Party and a CDS Indemnified Party are each sometimes hereinafter referred to as an "*Indemnified Party*."

(c) In case any such claim, suit, action or proceeding (a "*Claim*") is brought against any Indemnified Party in respect of which indemnification may be sought by such Indemnified Party pursuant hereto, the Indemnified Party shall give prompt written notice thereof to the indemnifying party, which notice shall include all documents and information in the possession of or under the control of such Indemnified Party reasonably necessary for the evaluation and/or defense of such Claim and shall specifically state that indemnification for such Claim is being sought under this Section 9; provided, however, that the failure of the Indemnified Party to so notify the indemnifying party shall not limit or affect such Indemnified Party's rights except to the extent that the indemnifying party is actually prejudiced thereby. Upon receipt of such notice of Claim (together with such documents and information from such Indemnified Party), the indemnifying party shall, at its sole cost and expense, in good faith defend any such Claim with counsel reasonably satisfactory to such Indemnified Party, which counsel may, without limiting the rights of such Indemnified Party pursuant to the next succeeding sentence of this Section, also represent the indemnifying party in such investigation, action or proceeding. In the alternative, such Indemnified Party may elect to conduct the defense of the Claim, if (i) such Indemnified Party reasonably determines that the conduct of its defense by the indemnifying party could be materially prejudicial to its interests, (ii) the indemnifying party refuses to assume such defense (or fails to give written notice to the Indemnified Party within ten days of receipt of a notice of Claim that the indemnifying party assumes such defense), or (iii) the indemnifying party shall have failed, in such Indemnified Party's reasonable judgment, to defend the Claim in good faith. The indemnifying party may settle any Claim against such Indemnified Party without such Indemnified Party's consent, provided (A) such settlement is without any Losses whatsoever to such Indemnified Party, (B) the settlement does not include or require any admission of liability or culpability by such Indemnified Party, (C) the indemnifying party obtains an effective written release of liability for such Indemnified Party from the party to the Claim with whom such settlement is being made, which release must be reasonably acceptable to such Indemnified Party, and a dismissal with prejudice with respect to all claims made by the party against such Indemnified Party in connection with such Claim, and (D) such settlement does not provide for any equitable relief. The applicable Indemnified Party shall reasonably cooperate with the indemnifying party, at the indemnifying party's sole cost and expense, in connection with the defense or settlement of any Claim in accordance with the terms hereof. If such Indemnified Party is entitled pursuant to this Section 9 to elect to defend such Claim by counsel of its own choosing and so elects, then the indemnifying party shall be responsible for any good faith settlement of such Claim entered into by such Indemnified Party. Except as provided in the immediately preceding sentence, no Indemnified Party may pay or settle any Claim and seek reimbursement therefor under this Section 9.

(d) The provisions of this Section 9 shall survive the expiration or earlier termination of this Agreement.

Section 10 No Joint Venture.

The parties to this Agreement are not partners or joint venturers with each other and nothing herein shall be construed to make them partners or joint venturers or impose any liability as such on either of them.

Section 11 Assignments.

(a) Assignments by the Manager. This Agreement shall be terminable upon written notice without payment of the Fees Accrued Upon Termination in the event of its assignment, in whole or in part, by the Manager, unless such assignment has been consented to in writing by CDS. Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound, and the Manager shall be liable to CDS for all acts or omissions of the assignee under any such assignment to the same extent had such delegation not occurred. In addition, the assignee shall execute and deliver to CDS a counterpart of this Agreement naming such assignee as the Manager. Notwithstanding the foregoing, the Manager may, upon written notice but without the approval of CDS, (A) assign this Agreement to an Affiliate of the Manager, and (B) delegate to one or more of its Affiliates the performance of any of its responsibilities hereunder so long as it remains liable for any such Affiliate's performance to the same extent as had such delegation not occurred, in each case so long as assignment or delegation does not require CDS approval under the Investment Company Act (but if such approval is required, CDS shall not unreasonably withhold, condition or delay its consent). Nothing contained in this Agreement shall preclude any pledge, hypothecation, assignment or other transfer of any amounts payable to the Manager under this Agreement.

(b) Assignments by CDS. This Agreement shall not be assigned by CDS without the prior written consent of the Manager (which shall not be unreasonably withheld conditioned or delayed), except in the case of assignment by CDS to an Affiliate or other organization which is a successor (by merger, consolidation, purchase of assets, or other transaction) to CDS, in which case such successor organization shall be bound under this Agreement and by the terms of such assignment in the same manner as CDS is bound under this Agreement.

Section 12 Term; Renewal; Termination without Cause.

(a) This Agreement shall become effective as of the Effective Date and shall continue in operation, unless terminated in accordance with the terms of this Agreement, until 11:59 p.m. (Washington DC time) on December 31, 2022 (the "*Term*"); and shall automatically be deemed renewed for additional one-year periods thereafter unless notice of non-renewal is provided as required herein.

(b) Notwithstanding any other provision of this Agreement to the contrary, CDS may terminate this Agreement for convenience effective upon written notice to the Manager (the "*Termination without Cause Notice*") which termination shall be effective at 11:59 p.m. (Washington D.C. time) on the day that is 180 days after the date of written notice (any such termination, a "*Termination without Cause*"). In the event of a Termination without Cause, CDS shall pay the Manager the Fees Accrued Upon Termination on or before the Termination Date. In addition, if a Termination without Cause shall result in a Termination Date occurring prior to January 1, 2020, then CDS shall also pay to Manager an additional termination fee in an amount equal to fifty percent (50%) of the Annual Fee. Notwithstanding the foregoing, CDS may terminate this Agreement for cause pursuant to Section 13(a) even after a delivery of a Termination without Cause Notice and, in such case, the only fees due to the Manager under this Agreement shall be those set forth in Section 13(a) of this Agreement.

(c) Reserved.

(d) Subject to Section 13(b), the Manager may unilaterally terminate this Agreement upon no less than 180 days' prior written notice to CDS informing CDS of the Manager's intention to discontinue performance of services pursuant to this Agreement, in which event, CDS shall pay the Fees Accrued Upon Termination through the Termination Date.

(e) Except as set forth in this Section 12, a termination of this Agreement pursuant to this Section 12 shall be without any further liability or obligation of any party to the others under this Agreement, except those provisions which expressly survive, as provided in Sections 6, 8, 9, 15 and 16.

(f) CDS may give its written notice of non-renewal of the Agreement no less than 180 days prior to the expiration of the Term or any annual extension thereof, whereupon this Agreement shall not thereafter be renewed and extended and this Agreement shall terminate effective as of the date last day of the Term or annual extension.

(g) The Manager shall cooperate reasonably with CDS in executing an orderly transition of the management of the day-to-day operations of the CDS Entities and Real Estate Assets to a new manager.

Section 13 Termination for Cause; Termination by Manager.

(a) Except for a Bankruptcy Event of the Manager or an Affiliate for which termination shall be deemed automatic as of the date of filing at the option of CDS, CDS may terminate this Agreement for cause ("*Termination for Cause*") effective upon 30 days' prior written notice to the Manager (a "*Termination for Cause Notice*") upon the occurrence of:

(i) a reasonably articulated written determination by CDS that there has occurred a breach by the Manager, its agents or its assignees of any material provision of this Agreement that had a material adverse effect on the business, operations or financial condition of any CDS Entity or any Real Estate Asset, and such breach continued for a period of 60 days after written notice thereof specifying such breach and requesting that the same be remedied in such 60-day period (or 90 days after written notice of such breach if the Manager took steps to cure such breach within 60 days of the written notice);

(ii) the dissolution of the Manager;

(iii) a Change of Control with respect to the Manager or CHCI; or

(iv) (A) a reasonably articulated written determination by CDS that the Manager or an Affiliate has committed fraud, the Manager or an Affiliate has misappropriated funds or the Manager has otherwise acted, or failed to act, in a manner constituting bad faith, willful misconduct, gross negligence or reckless disregard in the performance of its duties under this Agreement, and (B) which act of fraud, misappropriation or other act or failure to act described in clause (A) of this Section 13(a)(iv) has had a material adverse effect on the business, operations or financial condition of any CDS Entity or any Real Estate Asset.

In the event of a Termination for Cause, CDS shall pay the Fees Accrued Upon Termination through the Termination Date.

(b) The Manager may terminate this Agreement (or this Agreement shall terminate automatically, as applicable) if (i) CDS shall have assigned this Agreement without consent of the Manager other than as permitted by Section 11(b), (ii) the CDS Entities sell all of the Real Estate Assets to unrelated third-parties, or (iii) there is a reasonably articulated written determination by the Manager that CDS has defaulted in the performance or observance of any material term, condition or covenant contained in this Agreement and such default continued for a period of 60 days after written notice thereof to CDS from the Manager specifying such default and requesting that the same be remedied in such 60-day period (or 90 days after written notice of such breach if CDS took

steps to cure such breach within 60 days of the written notice). Such termination will be effective (A) automatically at 11:59 p.m. (Washington D.C. Time) on the 30th day following the closing or occurrence of a transaction of the type referred to in clause (i) or (ii), above in this Section 13(b), or (B) upon 30 days' prior written notice of termination to CDS from the Manager if the termination is made pursuant to clause (iii), above in this Section 13(b).

Prior to the closing or occurrence of any transaction of the type referred to in clause (i) or (ii) above in this Section 13(b), CDS shall give the Manager 30 days' prior notice and shall provide adequate assurance to the Manager for the payment of the Fees Accrued Upon Termination (assuming a Termination Date at the end of the 30th day after the closing or occurrence thereof) concurrently with the closing or occurrence of any such transaction. In such event, payment of the Fees Accrued Upon Termination shall be made by CDS to the Manager at, and concurrently with, the closing or occurrence of a transaction of the type referred to in clause (i) or (ii) above in this Section 13(b). In the case of clause (iii) above in this Section 13(b), CDS shall be required to pay to the Manager the Fees Accrued Upon Termination upon the Termination Date.

Section 14 Action Upon Termination.

(a) From and after the Termination Date, the Manager shall not be entitled to compensation for further services hereunder. Upon any termination, the Manager shall forthwith:

(i) after deducting any accrued compensation and reimbursement for its expenses to which it is then entitled, pay over to each CDS Entity all money collected and held for the account of such CDS Entity pursuant to this Agreement;

(ii) deliver to CDS a full accounting, including a statement showing all payments collected by it and a statement of all money held by it, covering the period following the date of the last accounting furnished to CDS with respect to the CDS Entities;

(iii) deliver to CDS all property and documents of the CDS Entities then in the custody of the Manager; and

(iv) cooperate with the CDS Entities to provide an orderly management transition.

(b) Notwithstanding anything in this Agreement to the contrary:

(i) On the Termination Date, the Manager shall repay or cause to be repaid to CDS, or its Affiliates, the then-outstanding principal balance and any accrued and unpaid interest or dividend thereon of any note, line of credit facility or preferred security made or issued by CHCI or its Affiliates and held by CDS or to its Affiliates.

(ii) On the Termination Date, the Manager shall transfer to CDS or its designee, and CDS or such designee shall assume, all rights, obligations and liabilities of the Manager under any outstanding leases for office space or furniture, fixtures and equipment of which the Manager or an Affiliate may then be a party, whether as lessee, sublessor, obligor or guarantor, and that relate solely to the business of any CDS Entity (the "*Leases*"). From and after the time of such assumption, the Manager shall have no rights or privileges with respect to the Leases and shall immediately transfer possession of such office space and furniture, fixtures and equipment to CDS, with both the Manager and CDS specifically acknowledging and agreeing that there needs to be an orderly transfer of computer and similar electronic equipment that may then be leased in order not to damage or corrupt any electronic data of Manager or any CDS Entity; provided, that CDS shall indemnify and hold harmless the Manager to the fullest extent permitted by law for claims arising under or with respect to any Leases so transferred or attempted to be transferred to CDS under this Section 14(b)(ii).

(iii) On the Termination Date, the Manager shall execute such documents as reasonably requested by CDS, verifying ownership of all Name Rights and assigning any license or use rights of Manager or its Affiliates to CDS or its designee; and

(iv) Following delivery of a Termination Notice for any reason (x) CDS may contact the employees of Manager and its Affiliates who have provided services for the benefit of CDS for the purpose of seeking to hire such employees commencing immediately following the Termination Date, (y) the Manager will make such employees available to CDS for purposes of clause (x) of this paragraph during normal business hours so long as such access does not disrupt the ongoing business activities of the Manager, and (z) to the extent permitted by law, the Manager will provide CDS with the compensation and employment personnel records of such employees. Toward this end, CDS and the Manager acknowledge and agree that there is significant value to CDS to be allowed to contact such employees of CDS and its affiliates prior to the Termination Date in order to, *inter alia*, promote an orderly transition of management, know-how, systems and expertise related to CDS assets, business and operations. In no event, however, shall CDS interfere with the Manager's obligations and responsibilities to perform its duties under this Agreement through the Termination Date.

Section 15. Release of Monies or Custodial Property.

The Manager agrees that any money or other property of the CDS Entities (which, for the purposes of this Section 15, shall be deemed to include any and all of their respective Affiliates and subsidiaries, if any) held by the Manager shall be held by the Manager as custodian, and the Manager's records shall be appropriately and clearly marked to reflect the ownership of such money or other property by the CDS Entity. Upon the receipt by the Manager of a written request signed by a duly authorized officer of CDS requesting the Manager to release to CDS any money or other property then held by the Manager for the account of a CDS Entity under this Agreement, the Manager shall release such money or other property or within a reasonable period of time, but in no event later than 10 days following such request. Upon delivery of such money or other property to CDS, the Manager shall not be liable to the CDS Entity, or any of its members or owners for any acts or omissions by CDS in connection with the money or other property released to CDS in accordance with this Section 16. CDS shall indemnify the Manager Indemnified Parties against any and all Losses which arise in connection with the Manager's proper release of such money or other property to CDS in accordance with the terms of this Section 15. Indemnification pursuant to this provision shall be in addition to any right of the Manager Indemnified Parties to indemnification under Section 9.

Section 16 Miscellaneous.

(a) Notices. All notices, requests, communications and demands (each a "Notice") to, with or upon any of the respective parties shall be in writing and sent by (i) personal delivery, (ii) reputable overnight courier, (iii) electronic transmission (provided that such Notice also is sent contemporaneously by another method provided for in this Section 16(a)), or (iv) registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below (or to such other address as may be hereafter notified by the respective parties hereto in accordance with this Section 16(a)):

Manager: CDS Asset Management, LC
1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
Attn: Chief Financial Officer

with a copy to: c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
Attn: General Counsel

CDS: Comstock Development Services, LC
1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
Attn: Christopher Clemente

with a copy to: Comstock Development Services, LC
10029 Windy Hollow Road
Great Falls, Virginia 22066
Attn: Christopher Clemente

with a copy to: Comstock Development Services, LC
1886 Metro Center Drive, 4th Floor
Reston, Virginia 20190
Attn: General Counsel

Any Notice sent as aforesaid shall be deemed given and effective upon actual receipt (or refusal of receipt).

(b) Binding Nature of Agreement; Successors and Assigns; No Third Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and permitted assigns. Except as provided in this Agreement with respect to indemnification of Indemnified Parties hereunder, nothing in this Agreement shall confer any rights upon any Person other than the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

(c) Integration. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof.

(d) Amendments. This Agreement, nor any terms hereof, may not be amended or supplemented except in an instrument in writing executed by the parties hereto.

(e) FORUM. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE COMMONWEALTH OF VIRGINIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. EACH OF THE PARTIES HERETO IRREVOCABLY SUBMITS TO BINDING ARBITRATION AND SUCH PROCEEDINGS SHALL BE CONDUCTED BY THE MCCAMMON GROUP, LTD., OR SUCH SIMILAR BODY AS MAY BE AGREED TO BY THE PARTIES, ACCORDING TO ITS STANDARD ARBITRATION RULES GOVERNING AT THE TIME ONE OF THE PARTIES INITIATES A CLAIM.

(f) No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of a party hereto, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

(g) Costs and Expenses. Each party hereto shall bear its own costs and expenses (including the fees and disbursements of counsel and accountants) incurred in connection with the negotiations and preparation of this Agreement, and all matters incident

thereto. If any party hereto initiates any legal action arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the other party all reasonable attorneys' fees, expert witness fees and expenses incurred by the prevailing party in connection therewith.

(h) Further Assurances; Conflicts of Interest. Each party acknowledges the inherent nature of real and potential conflicts of interest in the negotiation and administration of agreements for related party transactions. The parties hereto shall provide such further assurances to the other as may be required from time to time to satisfy the legal requirements imposed on the Manager or its Affiliates by applicable law and their internal policies, as the same may be adopted or amended from time to time.

(i) Section Headings; Plurals. The Section and subsection headings in this Agreement are for convenience in reference only and shall not be deemed to alter or affect the interpretation of any provisions hereof. All references to the singular shall include the plural, and all references to the plural shall include the singular.

(j) Counterparts. This Agreement may be executed (including by electronic transmission) with counterpart signature pages or in any number of separate counterparts, and all of which taken together shall be deemed to constitute one and the same instrument.

(k) Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement as of the date first written above.

CDS ASSET MANAGEMENT, LC
A Virginia limited liability company

By: COMSTOCK HOLDING COMPANIES, INC.
A Delaware Corporation, its Manager

By: /s/ Christopher Conover _____
Name: Christopher Conover
Title: Chief Financial Officer

COMSTOCK DEVELOPMENT SERVICES, LC
A Virginia limited liability company

By: /s/ Christopher Clemente _____
Name: Christopher Clemente
Title: Manager

CHCI joins in this Agreement for the purpose of acknowledging its obligation, under Section 14(b)(i), upon the Termination Date, to repay or cause to be repaid to CDS, or its Affiliates, the then-outstanding principal balance and any accrued and unpaid interest or dividend thereon of any note, line of credit facility or preferred security made or issued by CHCI or its Affiliates and held by CDS or to its Affiliates.

COMSTOCK HOLDING COMPANIES, INC.

A Delaware Corporation, its Manager

By: /s/ Christopher Conover
Name: Christopher Conover
Title: Chief Financial Officer

**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 16, 2018

/s/ Christopher Clemente

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

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

I, Christopher L. Conover, 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 16, 2018

/s/ Christopher L. Conover

Christopher L. Conover
Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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, 2018, 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 L. Conover, 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 16, 2018

/s/ Christopher Clemente

Christopher Clemente
Chairman and Chief Executive Officer

Date: May 16, 2018

/s/ Christopher L. Conover

Christopher L. Conover
Chief Financial Officer