**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2015**

**or**

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

**Commission File Number 1-32375**

**Comstock Holding Companies, Inc.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-1164345** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**1886 Metro Center Drive, 4th Floor**

**Reston, Virginia 20190**

**(703) 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 x 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 x No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |

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

As of November 16, 2015, 2,981,000 shares of Class A common stock, par value $0.01 per share, and 390,500 shares of Class B common stock, par value $0.01 per share, of the registrant were outstanding.

Table of Contents

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**INDEX**

Table of Contents

## PART 1 FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

### UNAUDITED CONSOLIDATED BALANCE SHEETS

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 1,761 | $ 7,498 |
| Restricted cash | 2,488 | 1,779 |
| Trade receivables | 519 | 110 |
| Real estate inventories | 49,145 | 40,889 |
| Property, plant and equipment, net | 454 | 395 |
| Other assets, net | 5,185 | 5,696 |
| TOTAL ASSETS | $ 59,552 | $ 56,367 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Accounts payable and accrued liabilities | $ 10,107 | $ 8,538 |
| Notes payable - secured by real estate inventories | 27,243 | 28,379 |
| Notes payable - due to affiliates, unsecured, net of discount | 17,959 | 15,488 |
| Notes payable - unsecured | 1,724 | 2,064 |
| Income taxes payable | | 43 |
| TOTAL LIABILITIES | 57,033 | 54,512 |
| Commitments and contingencies (Note 8) | | |
| STOCKHOLDERS EQUITY (DEFICIT) | | |
| Class A common stock, $0.01 par value, 11,038,071 shares authorized, 2,981,000 and 2,696,014 issued and outstanding, respectively | 30 | 27 |
| Class B common stock, $0.01 par value, 390,500 shares authorized, issued and outstanding | 4 | 4 |
| Additional paid-in capital | 173,044 | 171,639 |
| Treasury stock, at cost (85,570 and 60,947 shares Class A common stock, respectively) | (2,662) | (2,583) |
| Accumulated deficit | (174,060) | (171,218) |
| TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT | (3,644) | (2,131) |
| Non-controlling interests | 6,163 | 3,986 |

| | | | | |
|---|---|---|---|---|
| TOTAL EQUITY | | 2,519 | | 1,855 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | $ | 59,552 | $ | 56,367 |

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

Table of Contents

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| Revenues | | | | |
| Revenue homebuilding | $ 12,043 | $ 18,225 | $ 34,168 | $ 37,713 |
| Revenue other | 245 | 142 | 1,001 | 408 |
| Total revenue | 12,288 | 18,367 | 35,169 | 38,121 |
| Expenses | | | | |
| Cost of sales homebuilding | 10,749 | 15,021 | 29,933 | 30,736 |
| Cost of sales other | 103 | 80 | 456 | 258 |
| Sales and marketing | 498 | 600 | 1,412 | 1,697 |
| General and administrative | 1,853 | 1,626 | 5,686 | 5,833 |
| Interest and real estate tax expense | 100 | 18 | 426 | 23 |
| Operating (loss) income | (1,015) | 1,022 | (2,744) | (426) |
| Other income, net | 28 | 106 | 802 | 173 |
| (Loss) income before income tax expense | (987) | 1,128 | (1,942) | (253) |
| Income tax expense | (36) | (137) | (23) | (268) |
| Net (loss) income | (1,023) | 991 | (1,965) | (521) |
| Net income attributable to non-controlling interests | 68 | 1,150 | 877 | 2,881 |
| Net loss attributable to Comstock Holding Companies, Inc. | $ 1,091 | $ (159) | $ 2,842 | $ (3,402) |
| Basic net loss per share | $ (0.33) | $ (0.05) | $ (0.90) | $ (1.13) |
| Diluted net loss per share | $ (0.33) | $ (0.05) | $ (0.90) | $ (1.13) |
| Basic weighted average shares outstanding | 3,284 | 3,021 | 3,166 | 3,008 |
| Diluted weighted average shares outstanding | 3,284 | 3,021 | 3,166 | 3,008 |

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

Table of Contents

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

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

| | Class A Shares | Class A Amount | Class B Shares | Class B Amount | Additional paid-in capital | Treasury stock | Retained earnings (deficit) | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | 2,661 | $ 27 | 390 | $ 4 | $ 170,993 | $ (2,480) | $ (164,379) | $ 14,894 | $ 19,059 |
| Stock compensation and issuances | 38 | | | | 434 | | | | 434 |
| Shares withheld related to net share settlement of restricted stock awards | (5) | | | | (62) | | | | (62) |
| Non-controlling interest distributions | | | | | | | | (8,290) | (8,290) |
| Net (loss) income | | | | | | | (3,402) | 2,881 | (521) |
| Balance at September 30, 2014 | 2,694 | $ 27 | 390 | $ 4 | $ 171,365 | $ (2,480) | $ (167,781) | $ 9,485 | $ 10,620 |
| Balance at December 31, 2014 | 2,726 | $ 27 | 390 | $ 4 | $ 171,639 | $ (2,583) | $ (171,218) | $ 3,986 | $ 1,855 |
| Stock compensation and issuances | 255 | 3 | | | 1,195 | | | | 1,198 |
| Warrants | 12 | | | | 242 | | | | 242 |
| Shares withheld related to net share settlement of restricted stock awards | (12) | | | | (32) | | | | (32) |
| Stock repurchases | | | | | | (79) | | | (79) |
| Non-controlling interest contributions | | | | | | | | 2,450 | 2,450 |
| Non-controlling interest distributions | | | | | | | | (1,150) | (1,150) |
| Net (loss) income | | | | | | | (2,842) | 877 | (1,965) |
| Balance at September 30, 2015 | 2,981 | $ 30 | 390 | $ 4 | $ 173,044 | $ (2,662) | $ 174,060 | $ 6,163 | $ 2,519 |

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

5

Table of Contents

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

| | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,965) | $ (521) |
| Adjustment to reconcile net loss to net cash used in operating activities | | |
| Amortization of loan discount and deferred financing fees | 240 | 234 |
| Deferred income tax benefit | (79) | |
| Depreciation expense | 109 | 73 |
| Provision for bad debt | | 20 |
| Gain on derivative | (696) | |
| Earnings from unconsolidated joint venture, net of distributions | (9) | (34) |
| Amortization of stock compensation | 193 | 195 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (259) | (39) |
| Trade receivables | (409) | (9) |
| Real estate inventories | (8,231) | (1,711) |
| Other assets | 401 | (2,254) |
| Accrued interest | 694 | 660 |
| Accounts payable and accrued liabilities | 2,702 | 4,411 |
| Income taxes payable | (43) | (273) |
| Net cash (used in) provided by operating activities | (7,352) | 752 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (168) | (90) |
| Note receivable | 27 | (181) |
| Restricted cash | (450) | (331) |
| Net cash used in investing activities | (591) | (602) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 27,367 | 23,528 |
| Payments on notes payable | (26,258) | (22,154) |
| Loan financing costs | (92) | (166) |
| Distributions to non-controlling interests | (1,150) | (8,290) |
| Contributions from non-controlling interests | 2,450 | |
| Proceeds from exercise of stock options | | 26 |
| Taxes paid related to net share settlement of equity awards | (32) | (62) |
| Repurchase of stock | (79) | |

| | | | | |
|---|---|---|---|---|
| Net cash provided by (used in) financing activities | | 2,206 | | (7,118) |
| Net decrease in cash and cash equivalents | | (5,737) | | (6,968) |
| Cash and cash equivalents, beginning of period | | 7,498 | | 11,895 |
| Cash and cash equivalents, end of period | $ | 1,761 | $ | 4,927 |
| Supplemental cash flow information: | | | | |
| Interest paid, net of interest capitalized | $ | (245) | $ | (660) |
| Income taxes paid | $ | 319 | $ | |
| Supplemental disclosure for non-cash activity: | | | | |
| Increase in class A common stock par value in connection with vesting and issuance of stock compensation | $ | 1 | $ | |
| Increase in class A common stock par value in connection with CGF Private Placement | $ | 2 | $ | |
| Increase in additional paid-in capital in connection with issuance of class A common stock under the CGF Private Placement | $ | 903 | $ | |
| Discount on notes payable | $ | (543) | $ | |
| Accrued liability settled through issuance of stock | $ | 75 | $ | 194 |

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

6

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## 1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited financial statements of Comstock Holding Companies, Inc. and subsidiaries ( Comstock or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies, other than discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

For the three and nine months ended September 30, 2015 and 2014, comprehensive loss equaled net loss; therefore, a separate statement of comprehensive loss is not included in the accompanying consolidated financial statements.

**Recent Developments**

On April 20, 2015, the Company received a deficiency letter from The Nasdaq Stock Market LLC ( Nasdaq ) notifying the Company that the minimum bid price per share for its common stock was below $1.00 for a period of 30 consecutive business days and, accordingly, that the Company did not comply with the minimum bid price requirement of $1.00 per share, as required by Listing Rule 5550(a)(2). On September 25, 2015, to regain compliance with the NASDAQ listing requirement, the Company effected a 1-for-7 reverse stock split of its issued and outstanding shares of Class A common stock and Class B common stock and proportionately decreased the number of authorized shares of Common Stock. The reverse stock split was authorized by our Board of Directors and approved by our stockholders at the annual meeting of stockholders that was held on June 17, 2015. Every seven shares of issued and outstanding Class A common stock, including treasury shares, were exchanged into one share of the Company s common stock. As a result of the reverse stock split, the number of authorized shares of Class A common stock was reduced from 77,266,500 shares to 11,038,071 shares and the number of authorized shares of Class B common stock was reduced from 2,733,500 shares to 390,500 shares. No fractional shares were issued in connection with the reverse stock split; instead, stockholders who otherwise would have received fractional shares received, in lieu of such fractional shares, an amount of cash based on the closing price of the Company s common stock on the date of the reverse stock split.

All shares related and per share information has been adjusted to give the effect to the reverse stock split from the beginning of the earliest period presented. The par value per share was not adjusted as a result of the reverse stock split.

On October 7, 2015, the Company received a letter from Nasdaq indicating that the Company had regained compliance with the stockholders equity requirement in Listing Rule 5550(b)(1) and that this matter is now closed. On October 12, 2015, the Company received a letter from Nasdaq indicating that the Company had regained compliance with the minimum bid price requirement of $1.00 per share, as required by Listing Rule 5550(a)(2) and that this matter is now closed. The Company is now compliant with all required Nasdaq listing requirements.

**Liquidity and Capital Resources**

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. We require capital to operate, to post deposits on new deals, 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 should 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 have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate projects. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each of our projects or collection of our projects to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. As of September 30, 2015, the Company had $9.7 million of its credit facilities and project related loans scheduled to mature during the remainder of 2015. On October 15, 2015, subsequent to quarter end, the Company paid off the mezzanine note obtained to acquire the land for the development of the NHA Project (defined below), which had an outstanding balance of $0.3 million.

Due to the fact that certain of our credit facilities mature during the fourth quarter of 2015 and during various periods in 2016, we are in active discussions with our lenders and are seeking long term extensions and modifications to the loans. We are anticipating that with successful resolution of those discussions with our lenders, expected proceeds from future private placements, current available cash on hand and additional cash from settlement proceeds at existing and under development communities, the Company should have sufficient financial resources to sustain its operations through the next twelve months, though no assurances can be made that the Company will be successful in its efforts. The Company will also focus on its cost structure in an effort to conserve cash and manage expenses. Such actions may include cost reductions and/or deferral arrangements with respect to current operating expenses.

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

**Use of Estimates**

Our financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts for the reporting periods. We base these estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. We evaluate these estimates and judgements on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions.

**Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, Revenue from Contracts with Customers ( ASU 2014-09 ). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 for one year, which would make the guidance effective for the Company s first fiscal year beginning after December 15, 2017. Additionally, the FASB has also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements.

We assessed other accounting pronouncements issued or effective during the three months ended September 30, 2015 and deemed they were not applicable to us and are not anticipated to have a material effect on our financial statements.

**2. REAL ESTATE INVENTORIES**

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Land and land development costs | $ 27,020 | $ 22,487 |
| Cost of construction (including capitalized interest and real estate taxes) | 22,125 | 18,402 |
| | $ 49,145 | $ 40,889 |

Table of Contents

### 3. WARRANTY RESERVE

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

The following table is a summary of warranty reserve activity which is included in accounts payable and accrued liabilities:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Balance at beginning of period | $ 294 | $ 722 | $ 492 | $ 510 |
| Additions | 48 | 70 | 140 | 414 |
| Releases and/or charges incurred | (80) | (275) | (370) | (407) |
| Balance at end of period | $ 262 | $ 517 | $ 262 | $ 517 |

### 4. CAPITALIZED INTEREST AND REAL ESTATE TAXES

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate inventories during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive. A project becomes inactive when development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate inventories are expensed as a component of cost of sales as related units are sold. 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Total interest incurred and capitalized | $ 887 | $ 619 | $ 2,514 | $ 1,699 |
| Total real estate taxes incurred and capitalized | 125 | 69 | 314 | 173 |
| Total interest and real estate taxes incurred and capitalized | $ 1,012 | $ 688 | $ 2,828 | $ 1,872 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Interest expensed as a component of cost of sales | $ | 471 | $ | 325 | $ | 1,227 | $ | 466 |
| Real estate taxes expensed as a component of cost of sales | | 64 | | 70 | | 156 | | 126 |
| Interest and real estate taxes expensed as a component of cost of sales | $ | 535 | $ | 395 | $ | 1,383 | $ | 592 |

The amount of interest from entity level borrowings that we are able to capitalize in accordance with the accounting standards is dependent upon the average accumulated expenditures that exceed project specific borrowings. Additionally, when a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period they are incurred. The following is a breakdown of the interest and real estate taxes expensed in the consolidated statement of operations for the periods presented:

| | **Three Months Ended September 30,** | | | | **Nine Months Ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | **2014** | | **2015** | | **2014** | |
| Interest incurred and expensed from entity level borrowings | $ | 97 | $ | | $ | 414 | $ | |
| Interest incurred and expensed for inactive projects | | | | | | 4 | | |
| Real estate taxes incurred and expensed for inactive projects | | 3 | | 18 | | 8 | | 23 |
| | $ | 100 | $ | 18 | $ | 426 | $ | 23 |

9

Table of Contents

## 5. LOSS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted income per share for the three and nine months ended September 30, 2015 and 2014, respectively, are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three and nine months ended September 30, 2015 and 2014 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the periods, unless the restricted stock awards, stock options and warrants would be anti-dilutive.

As a result of net losses for the three and nine months ended September 30, 2015 and 2014, respectively, the following shares have been excluded from the diluted share computation as their inclusion would be anti-dilutive:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Restricted stock awards | 5 | 40 | 7 | 42 |
| Stock options | | 23 | 7 | 30 |
| Warrants | | 39 | 1 | 67 |
| | 5 | 102 | 15 | 139 |

## 6. SEGMENT DISCLOSURES

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

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

In our Multi-family segment, we focus on projects ranging from approximately 75 to 200 units in locations that are supply constrained with demonstrated demand for stabilized assets. We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We will either position the assets for sale when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future.

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

Table of Contents

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

| | Homebuilding | Multi-family | Real Estate Services | Total |
|---|---|---|---|---|
| **Three Months Ended September 30, 2015** | | | | |
| Gross revenue | $ 12,043 | $ | $ 245 | $ 12,288 |
| Gross profit | 1,294 | | 142 | 1,436 |
| Net (loss) income | (1,165) | | 142 | (1,023) |
| Depreciation and amortization | 122 | | | 122 |
| Interest expense | 97 | | | 97 |
| Total assets | 59,251 | | 301 | 59,552 |
| **Three Months Ended September 30, 2014** | | | | |
| Gross revenue | $ 18,225 | $ | $ 142 | $ 18,367 |
| Gross profit | 3,204 | | 62 | 3,266 |
| Net (loss) income | 950 | | 41 | 991 |
| Depreciation and amortization | 25 | | | 25 |
| Interest expense | | | | |
| Total assets | 54,103 | | 315 | 54,418 |
| **Nine Months Ended September 30, 2015** | | | | |
| Gross revenue | $ 34,168 | $ | $ 1,001 | $ 35,169 |
| Gross profit | 4,235 | | 545 | 4,780 |
| Net (loss) income | (2,510) | | 545 | (1,965) |
| Depreciation and amortization | 327 | | | 327 |
| Interest expense | 418 | | | 418 |
| Total assets | 59,251 | | 301 | 59,552 |
| **Nine Months Ended September 30, 2014** | | | | |
| Gross revenue | $ 37,713 | $ | $ 408 | $ 38,121 |
| Gross profit | 6,977 | | 150 | 7,127 |
| Net (loss) income | (650) | | 129 | (521) |
| Depreciation and amortization | 73 | | | 73 |
| Interest expense | | | | |
| Total assets | 54,103 | | 315 | 54,418 |

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

## 7. INCOME TAX

During the three months ended September 30, 2015, the Company recognized income tax expense of $36. During the nine months ended September 30, 2015, the Company recorded an out of period adjustment to reverse the valuation allowance, resulting in the recognition of a deferred tax benefit of $121, offset by year-to-date income tax expense of $144, both related to the NHA project in Washington, DC. Because this error was not material to any previously filed consolidated financial statements and the impact of correcting this error in the current fiscal year is not material, the Company recorded the correction in the first quarter of 2015. The effective tax rate for the three and nine month periods ended September 30, 2015 was 3% and 1%, respectively.

The Company currently has approximately $128 million in federal and state net operating losses (NOLs), which, based on current statutory tax rates, represents approximately $50 million in tax savings. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 ( Section 382 ), if an ownership change is triggered, the Company s ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected and possibly certain other deferred tax assets may be impaired. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders over a specified time period (generally three years). Given Section 382 s broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company s stock that is outside of the Company s control. In an effort to preserve the availability of these NOLs, Comstock initially adopted a Section 382 stockholder rights plan in May 2011 that expired in May 2014. On March 27, 2015, Comstock s board of directors adopted a new Section 382 stockholder rights plan (the Rights Plan ) and it was approved by the Company s stockholders at the annual meeting of stockholders that was held on June 17, 2015. The Rights Plan was adopted to reduce the likelihood of such an unintended ownership change and thus assist in preserving the value of these potential tax benefits. We estimate that as of September 30, 2015, the cumulative shift in ownership of the Company s stock would not cause 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 September 30, 2015, because of the Company s full valuation allowance on its net deferred tax assets, excluding the NHA Project deferred tax asset described above.

Table of Contents

The Company has not recorded any accruals for tax uncertainties as of September 30, 2015 and 2014. We file U.S. and state and local income tax returns in jurisdictions with varying statutes of limitations. The 2012 through 2014 tax years remain subject to examination by federal and state tax authorities.

**8. COMMITMENTS AND CONTINGENCIES**

***Litigation***

Currently, we are not subject to any material legal proceedings. From time to time, however, we are named as a defendant in legal actions arising from our normal business activities. Although we cannot accurately predict the amount of our liability, if any, that could arise with respect to legal actions pending against us; we do not expect that any such liability will have a material adverse effect on our financial position, operating results and cash flows. We believe that we have obtained adequate insurance coverage, rights to indemnification, or where appropriate, have established reserves in connection with 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 September 30, 2015 and 2014, the Company had $3.5 million and $4.8 million in letters of credit, respectively. At September 30, 2015 and 2014, the Company had $5.0 million and $4.3 million in outstanding performance and payment bonds, respectively. No amounts have been drawn against the outstanding letters of credit or performance bonds.

We are required to maintain compensating balances in escrow accounts as collateral for certain letters of credit, which are funded upon settlement and release of units. The cash contained within these escrow accounts is subject to withdrawal and usage restrictions. As of September 30, 2015 and December 31, 2014, we had approximately $0.8 million and $0.4 million, respectively, in these escrow accounts, which are included in Restricted cash in the consolidated balance sheets.

**9. RELATED PARTY TRANSACTIONS**

The Company leases its corporate headquarters from an affiliate wholly-owned by our Chief Executive Officer. Future minimum lease payments under this lease are as follows:

| | |
|---|---|
| 2015 | $ 81 |
| 2016 | 329 |
| 2017 | 167 |
| Total | $ 577 |

For the three months ended September 30, 2015 and 2014, total payments made under this lease agreement were $81 and $80, respectively. For the nine months ended September 30, 2015 and 2014, total payments under this lease agreement were $239 and $232, respectively. As of September 30, 2015 and December 31, 2014, the Company recorded a straight line rent payable of $26, which is included in Accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

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 September 30, 2015 and 2014, the Company billed Comstock Asset Management, L.C. $244 and $142, respectively, for services and out-of-pocket expenses. For the nine months ended September 30, 2015 and 2014, Comstock Asset Management, L.C. was billed $617 and $375, respectively, for services and out-of-pocket expenses incurred. Revenues from this arrangement are included within Revenue other in the accompanying consolidated statements of operations. As of September 30, 2015 and December 31, 2014, the Company was owed $293 and $38, respectively, under this contract, which is included in Trade receivables in the accompanying consolidated balance sheets.

On March 14, 2013, Stonehenge Funding, LC ( Stonehenge ), an entity wholly-owned by our Chief Executive Officer, entered into an Extension Agreement of the Amended and Restated Senior Note with the Company to extend the maturity date of the financing arrangement to January 1, 2016. Under the terms of the Extension Agreement, the Company is required to pay $50 a month to Stonehenge, to be allocated first to accrued and unpaid interest and then to outstanding principal. For the three and nine months ended September 30, 2015 and 2014, the Company made payments of $150 and $450, respectively, under this Note.

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 (the CGF Private Placement ). Other Purchasers who purchased interest in the CGF Private Placement included members of the Company s management, board of directors and third party accredited investors for an additional principal amount of $6.2 million.

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 additional principal loan amount of $6.2 million under the Amended and Restated CGF promissory note bringing the total aggregate principal amount borrowed to $16.2 million. The CGF loan has a three year term carrying a floating interest rate of LIBOR plus 9.75% with a 10% floor. The loan requires an annual principal repayment in the amount of 10% of the average outstanding balance and a monthly interest payment that will be made in arrears. As of September 30, 2015, $14.1 million was outstanding in principal and accrued interest, net of discounts. For the three and nine months ended September 30, 2015, the Company made interest payments of $0.3 million and $1.1 million, respectively.

Additionally, on December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, members of the Company s management, board of directors and 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 under Note 13 to the accompanying consolidated financial statements, the Company entered into a commitment to grant 226,857 shares of the Company s Class A common stock to purchasers of membership interest of CGF in the Amended CGF Private Placement. On May 12, 2015, the Company issued the 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.

During the second quarter of 2014, the Company entered into a Separation Agreement in connection with the departure of Gregory V. Benson, our former Chief Operating Officer and former member of our board. See Note 16 to the consolidated financial statements for a summary of the Separation Agreement.

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

**10. NOTE RECEIVABLE**

The Company originated a note receivable to a third party in the amount of $180 in September 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest. This note bears a fixed interest rate of 6% per annum. As of September 30, 2015 and December 31, 2014, the outstanding balance of the note was $145 and $173, respectively, and is included within Other assets in the accompanying consolidated balance sheets. The interest income of $2 and $7 for the three and nine months ended September 30, 2015, respectively, is included in Other income, net in the consolidated statements of operations. Interest income of $1 was recorded for the three and nine months ended September 30, 2014.

**11. VARIABLE INTEREST ENTITY**

Included within the Company s real estate inventories at September 30, 2015 and December 31, 2014 are several projects that are determined to be VIEs. These entities have been established to own and operate real estate property and were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. The Company determined that it was the primary beneficiary of these VIEs as a result of its majority voting and complete operational control of the entities.

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a joint venture of its subsidiary, Comstock Ventures XVI, L.C, and 6000 New Hampshire Avenue, LLC, for the purpose of acquiring, developing and constructing a 111-unit project (the NHA Project ) in Washington, D.C. The Company evaluated the joint venture and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the economic performance and obligation to absorb losses, or receive benefits. The Company contributed its ownership interest in Comstock Ventures XVI, L.C. to Comstock Investors VII, L.C. ( Comstock VII ) on March 13, 2013. During the nine months ended September 30, 2015 and 2014, New Hampshire Ave. Ventures, LLC distributed $1.1 million and $3.1 million, respectively to its non-controlling interest member, 6000 New Hampshire Avenue, LLC.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a joint venture of the Company and BridgeCom Development II, LLC, for the purpose of acquiring, developing and constructing 66 condominium units in Loudoun County, Virginia. The Company evaluated the joint venture and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and obligation to absorb losses, or receive benefits. During the nine months ended September 30, 2015 and 2014, Comstock Eastgate, L.C. distributed $50 and $1.9 million, respectively to its non-controlling interest member, BridgeCom Development II, LLC. The Company exited the Eastgate project in the second quarter of 2014 after closing on all 66 units.

On March 14, 2013, Comstock VII entered into subscription agreements with certain accredited investors ( Comstock VII Class B Members ), pursuant to which the Comstock VII Class B Members purchased membership interests in Comstock VII for an aggregate amount of $7.3 million (the Comstock VII Private Placement ). The Comstock VII Private Placement was exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended (the Securities Act ) and Rule 506 of Regulation D promulgated under the Securities Act. In connection with the Comstock VII Private Placement, the Company issued 112 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 $146. Comstock VII Class B Members included unrelated third-party accredited investors along with members of the Company s board of directors and the Chief Financial Officer, the General Counsel and the former Chief Operating Officer, of the Company. The Subscription Agreement provides that the Comstock VII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. After six months from the issuance date, the Company has the right to repurchase the interests of the Comstock VII Class B Members, provided that (i) all of the Comstock VII Class B Members interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VII Class B Members capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Comstock VII Private Placement provided capital related to the current and planned construction of the Company s following projects: Townes at Shady Grove Metro in Rockville, Maryland consisting of 36 townhomes, Momentum | Shady Grove consisting of 117 condominium units, City Homes at the Hampshires in Washington D.C. consisting of 38 single family residences, Townes at the Hampshires in Washington, D.C. consisting of 73 townhomes, Single Family Homes at the Falls Grove project in Prince William County, Virginia consisting of 19 single family homes and Townes at the Falls Grove project in Prince William County, Virginia consisting of 110 townhomes (collectively, the Projects ). Proceeds of the Comstock VII Private Placement were utilized (A) to provide capital needed to complete the Projects in conjunction with project financing for the Projects, (B) to reimburse the Company for prior expenditures incurred on behalf of the Projects, and (C) for general corporate purposes of the Company. The Company evaluated Comstock VII 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. During the nine months ended September 30, 2014, the Company paid distributions in the amount of $3.2 million, to its non-controlling interest member, Comstock VII Class B Members. In October 2014, the Company fully redeemed the equity interest of the Comstock VII Class B Members.

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 ). The Comstock VIII Private Placement was exempt from registration under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act. In connection with the Comstock VIII Private Placement, the Company issued 102 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 Chief Financial Officer and the Company s former Chief Operating 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 are being used for the current and planned construction of the following projects: The Townes at HallCrest in Sterling, Virginia consisting of 42 townhome units, and Townes at Maxwell Square Condominium in Frederick, Maryland consisting of 45 townhome condominium units (collectively, the Investor VIII Projects ). Proceeds of the Comstock VIII Private Placement are being utilized (A) to provide capital needed to complete the Investor VIII Projects in conjunction with project financing for the Investor VIII Projects, (B) to reimburse the Company for prior expenditures incurred on behalf of the Investor VIII Projects, and (C) for general corporate purposes of the Company. The Company evaluated Comstock VIII and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits. Accordingly, the Company consolidates this entity. No distributions were paid to the Comstock VIII Class B Members during the nine months ended September 30, 2015 and 2014.

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 Private Placement was exempt from registration under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act. The Comstock IX Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock IX Class B Members at any time, provided that (i) all of the Comstock IX Class B Members interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock IX Class B Members capital accounts plus any amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The proceeds from the Comstock IX Private Placement are being utilized (A) for the current and planned construction of the Stone Ridge project of 35 single family homes in Loudoun County Virginia; (B) to reimburse the Company for prior expenditures incurred on behalf of the Stone Ridge project; and (C) for general corporate purposes of the Company. The Company evaluated Comstock IX and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses or receive benefits. Accordingly, the Company consolidates this entity. No distributions have been paid to the Comstock IX Class B Members through September 30, 2015.

The distributions to and contributions from the VIEs discussed above are included within the non-controlling interest in the consolidated statement of changes in stockholder s equity for the periods presented.

At September 30, 2015 and December 31, 2014 total assets of these VIEs were approximately $24.5 million and $19.5 million, respectively, and total liabilities were approximately $16.1 million and $13.5 million, respectively. The classification of these assets is primarily within Real estate inventories and the classification of liabilities are primarily within Accounts payable and accrued liabilities and Notes payable secured by real estate inventories in the accompanying consolidated balance sheets.

## 12. UNCONSOLIDATED JOINT VENTURE

The Company accounts for its interest in its title insurance joint venture using the equity method of accounting and periodically adjusts the carrying value for its proportionate share of earnings, losses and distributions. The carrying value of the investment is included within Other assets in the accompanying consolidated balance sheets and our proportionate share of the earnings from the investment are included in Other income, net in the accompanying consolidated statement of operations for the period presented. Our share of the earnings for the three and nine months ended September 30, 2015, are $23 and $77, respectively. During the nine months ended September 30, 2015, the Company collected total distributions of $67 as a return on investment. During the three and nine months ended September 30, 2014, our share of the earnings from this joint venture was $89 and $126, respectively. During the nine months ended September 30, 2014, the Company collected total distributions of $91 as a return on investment.

Table of Contents

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Statement of Operations:** | | | | |
| Total net revenue | $ 76 | $ 206 | $ 248 | $ 338 |
| Total expenses | 30 | 28 | 95 | 87 |
| Net income | $ 46 | $ 178 | $ 153 | $ 251 |
| Comstock Holding Companies, Inc. share of net income | $ 23 | $ 89 | $ 77 | $ 126 |