

**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 September 30, 2021

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.)

1900 Reston Metro Plaza, 10th Floor
Reston, Virginia 20190
(703) 230-1985

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.01 per share	CHCI	NASDAQ Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

As of November 15, 2021, 8,100,693 shares of Class A common stock, par value \$0.01 per share, and 220,250 shares of Class B common stock, par value \$0.01 per share, of the registrant were outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,054	\$ 7,032
Trade receivables	14	62
Trade receivables - related parties	4,604	3,568
Prepaid and other assets	342	215
Deposit for investment	3,526	—
Current assets held for sale	3,374	1,477
Total current assets	20,914	12,354
Deferred income taxes, net	11,310	—
Equity method investments at fair value	3,168	6,307
Fixed assets, net	196	170
Operating lease right-of-use assets	7,415	7,914
Long term assets held for sale	—	1,834
TOTAL ASSETS	\$ 43,003	\$ 28,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued personnel costs	\$ 2,320	\$ 2,333
Accounts payable and accrued liabilities	533	854
Short term operating lease liabilities	604	569
Short term notes payable	12	5
Current liabilities held for sale	1,260	742
Total current liabilities	4,729	4,503
Long term notes payable - due to affiliates	5,500	5,500
Long term operating lease liabilities, net of current portion	6,905	7,361
TOTAL LIABILITIES	\$ 17,134	\$ 17,364
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY		
Series C preferred stock \$0.01 par value, 20,000,000 shares authorized, 3,440,690 issued and outstanding and liquidation preference of \$17,203 at September 30, 2021 and December 31, 2020	\$ 6,765	\$ 6,765
Class A common stock, \$0.01 par value, 59,779,750 shares authorized, 8,100,693 and 7,953,729 issued, and 8,015,123 and 7,868,159 outstanding at September 30, 2021 and December 31, 2020, respectively	81	79
Class B common stock, \$0.01 par value, 220,250 shares authorized, issued and outstanding at September 30, 2021 and December 31, 2020	2	2
Additional paid-in capital	200,427	200,147
Treasury stock, at cost (85,570 shares Class A common stock)	(2,662)	(2,662)
Accumulated deficit	(178,744)	(193,116)
TOTAL STOCKHOLDERS' EQUITY	\$ 25,869	\$ 11,215
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 43,003	\$ 28,579

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues	\$ 10,164	\$ 5,891	\$ 23,328	\$ 15,829
Operating expenses				
Direct costs	6,695	5,066	18,275	12,915
General and administrative	329	323	960	1,029
Sales and marketing	3	—	21	1
Operating income	3,137	502	4,072	1,884
Interest expense	(60)	(60)	(176)	(286)
Other income, net	61	5	79	30
Income from continuing operations before income tax	3,138	447	3,975	1,628
Income tax benefit (expense)	(25)	(1)	11,289	(15)
Change in fair value of equity method investments	(56)	(46)	(168)	(134)
Income from continuing operations	3,057	400	15,096	1,479
Income (loss) from discontinued operations, net of taxes	(137)	23	(724)	112
Net income	\$ 2,920	\$ 423	\$ 14,372	\$ 1,591
Income (loss) per share				
Basic:				
Continuing operations	\$ 0.37	\$ 0.05	\$ 1.84	\$ 0.18
Discontinued operations	\$ (0.02)	\$ —	\$ (0.09)	\$ 0.01
Income (loss) per share				
Diluted:				
Continuing operations	\$ 0.34	\$ 0.05	\$ 1.67	\$ 0.18
Discontinued operations	\$ (0.02)	\$ —	\$ (0.08)	\$ 0.01
Basic weighted average shares outstanding	8,234	8,078	8,205	8,046
Diluted weighted average shares outstanding	9,072	8,579	9,030	8,415

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

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

	Series C Preferred Stock		Class A		Class B		Additional paid-in capital	Treasury stock	Accumulated deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	3,441	\$ 6,765	7,953	\$ 79	220	\$ 2	\$200,147	\$ (2,662)	\$ (193,116)	\$ 11,215
Stock compensation and issuances	—	—	143	2	—	—	182	—	—	184
Accrued liability settled through issuance of stock	—	—	1	—	—	—	7	—	—	7
Shares withheld related to net share settlement of restricted stock awards	—	—	(39)	—	—	—	(195)	—	—	(195)
Net income	—	—	—	—	—	—	—	—	247	247
Balance at March 31, 2021	3,441	\$ 6,765	8,058	\$ 81	220	\$ 2	\$200,141	\$ (2,662)	\$ (192,869)	\$ 11,458
Stock compensation and issuances	—	—	51	1	—	—	180	—	—	181
Accrued liability settled through issuance of stock	—	—	1	—	—	—	7	—	—	7
Shares withheld related to net share settlement of restricted stock awards	—	—	(16)	(1)	—	—	(66)	—	—	(67)
Net income	—	—	—	—	—	—	—	—	11,205	11,205
Balance at June 30, 2021	3,441	\$ 6,765	8,094	\$ 81	220	\$ 2	\$200,262	\$ (2,662)	\$ (181,664)	\$ 22,784
Stock compensation and issuances	—	—	7	—	—	—	182	—	—	182
Accrued liability settled through issuance of stock	—	—	1	—	—	—	7	—	—	7
Shares withheld related to net share settlement of restricted stock awards	—	—	(1)	—	—	—	(24)	—	—	(24)
Net income	—	—	—	—	—	—	—	—	2,920	2,920
Balance at September 30, 2021	3,441	\$ 6,765	8,101	\$ 81	220	\$ 2	\$200,427	\$ (2,662)	\$ (178,744)	\$ 25,869

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

	Series C Preferred Stock		Class A		Class B		Additional paid-in capital	Treasury stock	Accumulated deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	3,441	\$ 6,765	7,850	\$ 78	220	\$ 2	\$199,372	\$ (2,662)	\$ (195,198)	\$ 8,357
Stock compensation and issuances	—	—	52	1	—	—	212	—	—	213
Accrued liability settled through issuance of stock	—	—	11	—	—	—	20	—	—	20
Shares withheld related to net share settlement of restricted stock awards	—	—	(16)	—	—	—	(31)	—	—	(31)
Net loss	—	—	—	—	—	—	—	—	(12)	(12)
Balance at March 31, 2020	3,441	\$ 6,765	7,897	\$ 79	220	\$ 2	\$199,573	\$ (2,662)	\$ (195,210)	\$ 8,547
Stock compensation and issuances	—	—	52	—	—	—	204	—	—	204
Accrued liability settled through issuance of stock	—	—	9	—	—	—	20	—	—	20
Shares withheld related to net share settlement of restricted stock awards	—	—	(16)	—	—	—	(30)	—	—	(30)
Net income	—	—	—	—	—	—	—	—	1,180	1,180
Balance at June 30, 2020	3,441	\$ 6,765	7,942	\$ 79	220	\$ 2	\$199,767	\$ (2,662)	\$ (194,030)	\$ 9,921
Stock compensation and issuances	—	—	3	—	—	—	179	—	—	179
Accrued liability settled through issuance of stock	—	—	5	—	—	—	14	—	—	14
Shares withheld related to net share settlement of restricted stock awards	—	—	(1)	—	—	—	(7)	—	—	(7)
Net income	—	—	—	—	—	—	—	—	423	423
Balance at September 30, 2020	3,441	\$ 6,765	7,949	\$ 79	220	\$ 2	\$199,953	\$ (2,662)	\$ (193,607)	\$ 10,530

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

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

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities attributable to continuing operations:		
Net income	\$ 15,096	\$ 1,479
Adjustment to reconcile net income to net cash provided by operating activities		
Amortization and depreciation expense	65	80
Earnings from unconsolidated joint venture, net of distributions	(45)	114
Stock compensation	454	531
Change in fair value of equity method investments	168	134
Deferred income tax benefit	(11,330)	—
Changes in operating assets and liabilities:		
Trade receivables - related parties	(1,036)	671
Trade receivables	48	(57)
Prepaid and other assets	(82)	(87)
Accrued personnel costs	(13)	(1,434)
Accounts payable and accrued liabilities	(279)	333
Lease liabilities	77	—
Net cash provided by operating activities	3,123	1,764
Cash flows from investing activities attributable to continuing operations:		
Distributions from equity method investments carried at fair value	2,971	1,322
Purchase of fixed assets	(91)	(81)
Deposit paid for investment	(3,526)	—
Net cash (used) provided by investing activities	(646)	1,241
Cash flows from financing activities attributable to continuing operations:		
Proceeds from notes payable	120	5,554
Payments on notes payable	(113)	(5,765)
Taxes paid related to net share settlement of equity awards	(222)	(58)
Net cash used in financing activities	(215)	(269)
Cash flows attributable to discontinued operations:		
Operating cash flows, net	(172)	(425)
Investing cash flows, net	(40)	(32)
Financing cash flows, net	(28)	(1,299)
Net cash used in discontinued operations	(240)	(1,756)
Net increase in cash and cash equivalents	2,022	980
Cash and cash equivalents, beginning of period	7,032	3,511
Cash and cash equivalents, end of period	\$ 9,054	\$ 4,491
Supplemental cash flow information:		
Interest paid	\$ 176	\$ 338
Supplemental disclosure for non-cash investing and financing activities:		
Accrued liability settled through issuance of stock	\$ 21	\$ 54
PPP loan forgiven	\$ 1,954	\$ —

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In our opinion, the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations, comprehensive income, and cash flows. The consolidated balance sheet at December 31, 2020 has been derived from audited financial statements as of that date. The unaudited interim condensed consolidated results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to instructions, rules, and regulations prescribed by the U.S. Securities and Exchange Commission (the "SEC"). We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited interim condensed consolidated financial statements are read in conjunction with the audited financial statements and notes previously distributed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Comstock Holding Companies, Inc., incorporated in 2004 as a Delaware corporation, is a multi-faceted asset management and services company primarily focused in the Washington, D.C. Metropolitan Statistical Area. In February 2021, the Company amended the entity names for several subsidiaries as part of operational efficiency enhancements initiated in the first quarter of 2021. The entity names were changed for the following Company subsidiaries: (a) CDS Asset Management, LC is now CHCI Asset Management, LC, (b) Comstock Commercial Management, LC is now CHCI Commercial Management, LC, (c) Comstock Residential Management, LC is now CHCI Residential Management, LC, and (d) CDS Capital Management, L.C. is now CHCI Capital Management, LC.

The Company operates through five primarily real estate focused subsidiaries – CHCI Asset Management, LC ("CAM"), CHCI Real Estate Services, LC, CHCI Residential Management, LC, CHCI Commercial Management, LC, and Park X Management, LC. References in these Consolidated Financial Statements to "Comstock," "Company," "we," "our" and "us" refer to Comstock Holding Companies, Inc. together in each case with our subsidiaries unless the context suggests otherwise.

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

Certain amounts in the prior period have been reclassified to conform to the current year presentation of combining 'accounts payable' and 'accrued liabilities' on the Condensed Consolidated Balance Sheets. The reclassification had no effect on the previously reported totals of current liabilities.

Recent Developments

In April 2021, the Company received notification from the Small Business Administration ("SBA") that the Company's Paycheck Protection Program ("PPP") Loan had been forgiven and the SBA lender had received payment in full (See Note 8 – Coronavirus Aid and Relief and Economic Security Act).

On June 16, 2021, the Company made the strategic decision to sell the operations of Comstock Environmental Services, LLC ("CES"), a subsidiary of Comstock, based on the continued growth of the asset management business as well as its future prospects. For all periods presented, the related operating results are presented as income (loss) from discontinued operations on the Condensed Consolidated Statement of Operations. The assets and liabilities of CES are also designated as held for sale on the Condensed Consolidated Balance Sheets (See Note 3 - Discontinued Operations).

On September 29, 2021, the Company completed a refinancing transaction of three Trophy Class office towers owned by an affiliate and managed by the Company pursuant to the 2019 AMA (as defined in Note 13 - Related Party Transactions) which generated approximately \$2.6 million in net debt and equity origination fees which were recognized as revenue in the accompanying Condensed Consolidated Statement of Operations.

On October 20, 2021, the Company closed on an investment in a 263-unit stabilized, luxury high-rise apartment building in Rockville, Maryland in a partnership with Comstock Partners, LC ("Partners"), an affiliate. The Company holds a minority membership interest in the purchasing entity with the majority membership interest and management control held by Partners. At closing, the Company received a \$0.5 million acquisition fee and executed market rate asset management, property management, and parking management agreements to manage the property (See note 16 - Subsequent Events).

Use of Estimates

Our condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed 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 revenue recognition, income tax provision or benefit, deferred taxes and valuation allowance, determination of right-of-use assets and lease liabilities, analysis of goodwill impairment, valuation of equity-based compensation, and fair value of financial instruments (including the fair value of our equity method investments).

Recently Adopted Accounting Standards

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740, Income Tax and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for public business entities for annual reporting periods beginning after December 15, 2020, and interim periods within those periods. The Company adopted ASU 2019-12 as of January 1, 2021. The adoption did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments", which modifies how companies recognize expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. Existing GAAP requires an "incurred loss" methodology whereby companies are prohibited from recording an expected loss until it is probable that the loss has been incurred. ASU 2016-13 requires companies to use a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broad range of reasonable and supportable information to record and report credit loss estimates, even when the CECL is remote. Companies will be required to record the allowance for credit losses and deduct that amount from the basis of the asset. The guidance is effective for the Company for financial statement periods beginning after December 15, 2022, although early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

We assessed other accounting pronouncements issued or effective during the three and nine months ended September 30, 2021 and deemed they were either not applicable to us or are not anticipated to have a material effect on our consolidated financial statements. Other standards previously issued and adopted by the Company have been disclosed in previous filings.

2. INVESTMENTS IN UNCONSOLIDATED ENTITIES

Investments carried at fair value

Based upon elections made at the date of investment, the Company may elect to report the equity method investments in real estate ventures at fair value. For such investments, the Company increases or decreases the investment each reporting period by the change in the fair value and the Company reports the fair value adjustments in the Condensed Consolidated Statement of Operations in the 'Loss on equity method investments carried at fair value' line item. Changes in fair value of the Company's investment in Investors X (defined below) are impacted by distributions as the fair value is based on finite cash flows from the wind-down of that entity.

Investors X

The Company has elected to account for the equity method investment in Comstock Investors X, L.C. ("Investors X"), a Variable Interest Entity ("VIE") that owns the Company's residual homebuilding operations, at fair value. Fair value is determined using a discounted cash flow model based on expected future cash flows for income and realization events of the underlying asset. Expected future cash flows include a finite amount of contractually fixed revenues and expenses as well as estimates for future revenues and expenses where contracts do not currently exist. These estimates are based on prior experience as well as comparable, third party data.

As of September 30, 2021 and December 31, 2020, the fair value of the Company's investment in Investors X is \$2.0 million and \$5.1 million, respectively, which by design is expected to decrease as a result of cash flow distributions from the

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underlying assets as remaining development projects are completed. The Company received distributions of \$428 thousand and \$3.0 million during the three and nine months ended September 30, 2021 and recognized a \$56 thousand and \$163 thousand loss in fair value, respectively. Our maximum loss exposure in this entity is limited to our investments.

The Hartford

On December 30, 2019, the Company made an investment related to the purchase of a stabilized commercial office building located at 3101 Wilson Boulevard in the Clarendon area of Arlington County, Virginia (the “Hartford”). The Company owns a 2.5% equity interest in the asset at a cost of approximately \$1.2 million. The Company has elected to account for the equity method investment in the Hartford at fair value. Fair value is determined using an income approach and sales comparable approach models. As of September 30, 2021 and December 31, 2020, the fair value of the Company’s investment in the Hartford was \$1.2 million. During the three and nine months ended September 30, 2021, the Company recognized no change and a loss of \$5 thousand in fair value, respectively. The Company received no distributions during the three and nine months ended September 30, 2021.

Fair value of equity method investments used unobservable inputs that are considered to be Level 3 of the fair value hierarchy. As of September 30, 2021 and December 31, 2020, the Company had equity method investments in real estate ventures at fair value of \$3.2 million and \$6.3 million, respectively. The table below shows the change in the Company’s investments in real estate ventures reported at fair value:

Fair value of investments as of December 31, 2020	\$	6,307
Distributions		(2,971)
Change in fair value		(168)
Fair value of investments as of September 30, 2021	\$	<u>3,168</u>

See Note 13 – *Related Party Transactions* for additional discussion of our investments in real estate ventures at fair value.

Investments using equity method

The Company accounts for its interest in its title insurance joint venture using the equity method of accounting and adjusts the carrying value for its proportionate share of earnings, losses and distributions. The investment in the unconsolidated joint venture was \$74 thousand and \$29 thousand as of September 30, 2021 and December 31, 2020, respectively, and is included within ‘Prepaid and other assets, net’ in the accompanying Condensed Consolidated Balance Sheets.

The Company’s share of earnings for the three and nine months ended September 30, 2021 from this unconsolidated joint venture of \$57 thousand and \$75 thousand, respectively, is included in ‘Other income (loss), net’ in the accompanying Condensed Consolidated Statement of Operations. The Company’s share of earnings for the three and nine months ended September 30, 2020 was \$1 thousand and \$16 thousand, respectively.

During the three and nine months ended September 30, 2021, the Company collected distributions of \$0 and \$30 thousand, respectively from this joint venture as a return on investment. During the three and nine months ended September 30, 2020, the Company collected distributions of \$22 thousand and \$130 thousand, respectively, from this joint venture as a return on investment.

3. DISCONTINUED OPERATIONS

On June 16, 2021, the Company made the strategic decision to pursue the sale of CES, the service offerings of which include consulting, environmental studies, remediation services, and site-specific solutions for projects that may have an environmental impact. The Company made this decision to focus on its core asset management operations based on the continued growth and future prospects of the asset management business. CES met the criteria to be classified as a discontinued operation in June 2021. The sale of CES is expected to be completed within the next 12 months.

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The major classes of assets and liabilities designated as held for sale in the Condensed Consolidated Balance Sheets are as follows:

	September 30, 2021	December 31, 2020
ASSETS		
Trade receivables	1,731	1,420
Trade receivables - related parties	63	30
Prepaid and other assets	90	27
Total current assets held for sale	1,884	1,477
Fixed assets, net	110	96
Goodwill	1,377	1,702
Intangible assets, net	3	36
Total assets held for sale	\$ 3,374	\$ 3,312
LIABILITIES		
Accrued personnel costs	\$ 184	\$ 109
Accounts payable and accrued liabilities	1,048	633
Notes payable	28	—
Total liabilities held for sale	\$ 1,260	\$ 742

The following are the operating results for CES which have been reflected within income (loss) from discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 1,518	\$ 1,439	\$ 5,621	\$ 4,930
Operating expenses				
Direct costs - real estate services	1,089	630	4,134	3,109
General and administrative	431	705	1,470	1,231
Sales and marketing	134	127	414	506
Operating income	(136)	(23)	(397)	84
Interest expense	(1)	(4)	(2)	(35)
Other income	—	50	—	63
Income (loss) from discontinued operations, before loss on classification	(137)	23	(399)	112
Loss on classification as held for sale	—	—	(325)	—
Income (loss) from discontinued operations	\$ (137)	\$ 23	\$ (724)	\$ 112

The income tax expense associated with the results of CES is not material.

4. GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in the Company's business acquisition of CES in 2017. Following the acquisition, we performed an analysis to value the acquired company's tangible and identifiable intangible assets and liabilities. 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. Due to the classification of CES as a discontinued operation during the second quarter of 2021, the Company

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measured CES at its fair value less costs to sell and recognized a \$325 thousand impairment expense as a loss on classification as held for sale in income (loss) from discontinued operations and an adjustment to goodwill.

As of September 30, 2021 and December 31, 2020, the balance of goodwill was \$1.4 million and \$1.7 million, respectively, and is classified as held for sale on the Condensed Consolidated Balance Sheets.

5. LEASES

The determination of whether an arrangement contains a lease and the classification of a lease, if applicable, is made at lease commencement, at which time the Company also measures and recognizes an ROU asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments under the terms of the arrangement.

For the purposes of recognizing ROU assets and lease liabilities associated with the Company's leases, the Company has elected the practical expedient to not recognize a ROU asset or lease liability for short-term leases, which are leases with a term of twelve months or less. The lease term is defined as the non-cancelable portion of the lease term plus any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised.

ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The rates implicit within the Company's leases are generally not determinable; therefore, the Company's incremental borrowing rate is used to determine the present value of lease payments. The determination of the Company's incremental borrowing rate requires judgment. The Company looks to similar corporate credit ratings and bond yields when determining the incremental borrowing rate. As of November 1, 2020, at the lease commencement of the new ten year lease agreement for the new corporate office in Reston, VA, the Company's incremental borrowing rate was determined to be 4.25%. The lease is with an affiliate controlled and owned by our Chief Executive Officer and family, as landlord. This lease is classified as an operating lease and has a remaining term of nine years. This lease requires us to make fixed annual rental payments plus pay our share of common area, real estate, and utility expenses.

The Company's leases can contain various renewal and termination options. The period which is subject to an option to extend the lease is included in the lease term if it is reasonably certain that the option will be exercised. The period which is subject to an option to terminate the lease is included if it is reasonably certain that the option will not be exercised. Lease costs related to the Company's operating leases are generally recognized as a single ratable lease cost over the lease term.

Lease costs related to the Company's operating leases are reflected within 'Direct costs' in the Condensed Consolidated Statements of Operations as it is a reimbursable cost under the 2019 AMA. The lease costs were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating Lease Cost				
Fixed lease cost	\$ 249	\$ —	\$ 746	\$ —
Variable lease cost	78	—	241	—
Total operating lease cost	<u>\$ 327</u>	<u>\$ —</u>	<u>\$ 987</u>	<u>\$ —</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	Nine Months Ended September 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 422	\$ —

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Maturities of operating lease liabilities at September 30, 2021 were as follows (in thousands):

2021	\$	227
2022		917
2023		939
2024		961
2025		984
Thereafter		5,099
Total lease payments		9,127
Less: imputed interest		1,618
Present Value of lease liabilities	\$	7,509

6. REVENUE

The Company's revenues consist primarily of

- Asset Management;
- Property Management;
- Capital Markets;
- Leasing; and
- Project & Development Services.

Asset Management

Asset Management primarily provides comprehensive real estate asset management services to the CDS Portfolio, representing a series of daily performance obligations delivered over time. Pricing includes a cost-plus management fee or a market-rate fee or a market-rate fee form of variable consideration. The Company earns whichever is higher. See Note 13 – Related Party Transactions.

The amount of revenue recognized is presented on a gross basis for any services provided by our employees, as we control them. This is evidenced by our obligation for their performance and our ability to direct and redirect their work, as well as negotiate the value of such services. In the instances where we do not control third-party services delivered to the client, we report revenues net of the third-party reimbursements. Consistent with the transfer of control for distinct, daily services to the customer, revenue is typically recognized at the end of each period for the fees associated with the services performed.

Property Management

Property Management provides on-site day-to-day management services for owners of office, retail, multifamily residential and various other types of properties, representing a series of daily performance obligations delivered over time. Pricing is generally in the form of a monthly management fee based upon property-level cash receipts, square footage under management or some other variable metric. Revenues from project management may also include reimbursement of payroll and related costs for personnel providing the services and subcontracted vendor costs. Project management services represent a series of distinct daily services rendered over time. Consistent with the transfer of control for distinct, daily services to the customer, revenue is typically recognized at the end of each period for the fees associated with the services performed.

The amount of revenue recognized is presented gross for any services provided by our employees, as we control them. This is evidenced by our obligation for their performance and our ability to direct and redirect their work, as well as negotiate the value of such services. In the instances where we do not control third-party services delivered to the client, we report revenues net of the third-party reimbursements.

Capital Markets

We offer clients commercial mortgage and structured financing services. We are compensated for our services via a fee paid upon successful commercial financing from third party lenders. The fee earned is contingent upon the funding of the

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loan, which represents the transfer of control for services to the customer. Therefore, we typically satisfy our performance obligation at the point in time of the funding of the loan, when there is a present right to payment.

Leasing

We provide strategic advice and execution for owners, investors, and occupiers of real estate in connection with the leasing of office, industrial and retail space. We are compensated for our services in the form of a commission. Our commission is paid upon signing of the lease by the tenant. We satisfy our performance obligation at a point in time; generally, at the time of the contractual event where there is a present right to payment.

Project & Development Services

We provide project and construction management services for owners and occupiers of real estate in connection with the management and leasing of office, industrial and retail space. The fees that we earn are typically variable based upon a percentage of project cost. We are compensated for our services in the form of management fees. Project and construction management services represent a series of performance obligations delivered over time and revenue is recognized over time.

Contract Costs

Expenses, primarily employee commissions, incurred on leasing and capital markets transactions represent substantially all of our incremental costs to obtain revenue contracts. Since the amortization period is one year or less we recognize these costs as an operating expense as they are incurred.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue by customer				
Related party	\$ 10,110	\$ 5,863	\$ 23,203	\$ 15,753
Commercial	54	28	125	76
Total Revenue by customer	<u>\$ 10,164</u>	<u>\$ 5,891</u>	<u>\$ 23,328</u>	<u>\$ 15,829</u>
Revenue by contract type				
Fixed-price	\$ 4,463	\$ 840	\$ 6,151	\$ 2,864
Cost-plus	4,001	4,675	12,216	10,866
Time and Material	1,700	376	4,961	2,099
Total Revenue by contract type	<u>\$ 10,164</u>	<u>\$ 5,891</u>	<u>\$ 23,328</u>	<u>\$ 15,829</u>

For the three and nine months ended September 30, 2021, \$6.5 million and \$19.6 million, respectively, of our revenues were earned for contracts where revenue is recognized over time. For the three and nine months ended September 30, 2020, \$5.9 million and \$15.3 million, respectively, of our revenues were earned for contracts where revenue is recognized over time.

For the three and nine months ended September 30, 2021, \$3.6 million and \$3.7 million, respectively, of our revenues were earned for contracts where revenue is recognized at a point in time. For the three and nine months ended September 30, 2020, \$0 thousand and \$571 thousand, respectively, of our revenues were earned for contracts where revenue is recognized at a point in time.

7. DEBT

Notes payable consists of the following:

	September 30, 2021	December 31, 2020
Notes payable - due to affiliates, unsecured	5,500	5,500
Unsecured financing	12	5
Total notes payable	<u>\$ 5,512</u>	<u>\$ 5,505</u>

As of September 30, 2021, net maturities and/or curtailment obligations of all borrowings are as follows:

2021	\$ 12
2022	—
2023	5,500
Total	<u>\$ 5,512</u>

Unsecured financing

The Company finances its professional liability insurance policies that renew on March 1 of each year under a premium finance agreement payable within a one year term. At December 31, 2020, the balance on this loan was \$5 thousand and the interest rate was 3.3%. As of September 30, 2021, the balance on this loan was \$12 thousand and the interest rate was 2.4%.

Notes payable, due to affiliates – unsecured

Revolving Capital Line of Credit

On March 19, 2020, the Company entered into a Revolving Capital Line of Credit Agreement (the “Loan Documents”) with CP Real Estate Services, LC (formerly known as Comstock Development Services, LC) (“CDS”), pursuant to which the Company secured a \$10.0 million capital line of credit (the “Revolver”). Under the terms of the Loan Documents, the Revolver provides for an initial variable interest rate of the Wall Street Journal Prime Rate plus 1.00% per annum on advances made under the Revolver, payable monthly in arrears. The five-year term facility allows for interim draws that carry a maturity date of 12 months from the initial date of the disbursement unless a longer initial term is agreed to by CDS. On March 27, 2020, the Company borrowed \$5.5 million under the Revolver. The \$5.5 million borrowed has a maturity date of April 30, 2023. The effective interest rate at September 30, 2021 and December 31, 2020 was 4.25%.

Comstock Growth Fund

On October 17, 2014, the Company entered into an unsecured promissory note with Comstock Growth Fund, L.C. (“CGF”) whereby CGF made a loan to the Company in the initial principal amount of \$10.0 million and a maximum amount available for borrowing of up to \$20.0 million with a three year term. On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. On May 23, 2018, the Company entered into a Membership Interest Exchange and Subscription Agreement (the “Membership Exchange Agreement”), together with a revised promissory note agreement, in which a note (“CGF Note”) with an outstanding principal and accrued interest balance of \$7.7 million was exchanged for 1,482,300 shares of the Company’s Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated liquidation value of \$5.00 per share (the “Series C Preferred Stock”), issued by the Company to CDS. The Company exchanged the preferred equity for 91.5% of CDS membership interest in the CGF promissory note. Concurrently, the face amount of the CGF promissory note was reduced to \$5.7 million. The CGF Note was repaid prior to maturity during the year ended December 31, 2020.

For the three and nine months ended September 30, 2021, the Company made interest payments for all debt facilities of \$59 thousand and \$176 thousand, respectively. For the three and nine months ended September 30, 2020, the Company made interest payments for all debt facilities of \$131 thousand and \$256 thousand, respectively.

During the three and nine months ended September 30, 2021, the Company did not make principal payments on the Revolver. During the nine months ended September 30, 2020, the Company retired \$5.7 million of outstanding borrowings for the CGF Note.

8. CORONAVIRUS AID RELIEF AND ECONOMIC SECURITY ACT

Paycheck Protection Plan Loan

In response to the COVID-19 pandemic, the Paycheck Protection Program (the “PPP”) was established under the CARES Act and administered by the U.S. Small Business Administration (“SBA”). Companies who met the eligibility requirements set forth by the PPP could qualify for PPP loans provided by local lenders, which supports payroll, rent and utility expenses (“qualified expenses”). If the loan proceeds are fully utilized to pay qualified expenses over the covered period, as further defined by the PPP, the full principal amount of the PPP loan may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization during the covered period as compared to a baseline period.

In April 2020, the Company received proceeds of \$1.95 million under the PPP (the “PPP Loan”) provided by Mainstreet Bank (the “Lender”). Based on the term and conditions of the loan agreement, the term of the PPP loan is two years with an annual interest rate of 1% and principal and interest payments will be deferred for the first six-months of the loan term, which has been updated according to the Paycheck Protection Program Flexibility Act of 2020 (“Flexibility Act”). The Company recognized PPP funding as a contra-expense during the three months ended June 30, 2020, when qualified expenses were incurred. The Lender received notice that the PPP Loan was fully forgiven by the SBA in April 2021.

9. COMMITMENTS AND CONTINGENCIES

Litigation

Currently, we are not subject to any material legal proceedings. From time to time, we are named as a defendant in legal actions arising from our normal business activities. Although we cannot accurately predict the amount of our liability, if any, that could arise with respect to legal actions pending against us, we do not believe it is reasonably possible that 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.

10. FAIR VALUE DISCLOSURES

The carrying amounts reported in the Condensed Consolidated Balance Sheets for 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. Based on the analysis, the fair value of the fixed and floating rate debt approximated carrying value.

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.

Investments in Real Estate Ventures at Fair Value

We report our two investments in real estate ventures at fair value. For such investments, we increase or decrease our investment each reporting period by the change in the fair value and we report these fair value adjustments in the Condensed Consolidated Statements of Operations.

For our investments in real estate ventures at fair value, we estimate the fair value using the level 3 Income Approach or a sales comparable approach to determine a fair value. Critical inputs to fair value estimates include various level 3 inputs such as valuations of the underlying real estate assets and borrowings, which incorporate investment-specific assumptions such as discount rates, capitalization rates, rental and expense growth rates, and asset-specific market borrowing rates. As of September 30, 2021 and December 31, 2020, investments in the real estate ventures at fair value were approximately \$3.2 million and \$6.3 million, respectively.

Non-Recurring Fair Value Measurements

The Company may also value its non-financial assets and liabilities, including items such as 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.

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Due to the classification of CES as a discontinued operation in the second quarter of 2021, the Company performed an interim test of goodwill to determine if the carrying amount exceeded its fair value less costs to sell. The fair value of CES was determined using both the market and income based methods. The market approach estimates value based on what other purchasers and sellers in the market have agreed to as a price for comparable businesses. The Company used a range of EBITDA multiples as significant inputs in the valuation. The income approach utilizes assumptions such as discount rates, future cash flow, and revenue growth rates. All of the inputs used are significant unobservable inputs classified as Level 3. The Company then weighted the values using the market and income based approaches to determine the overall fair value of CES. The carrying value of \$1.7 million exceeded the fair value less costs to sell of \$1.4 million resulting in a loss on classification as held for sale of \$325 thousand (See Note 3 - Discontinued Operations). At September 30, 2021, the Company has determined that the carrying value of CES does not exceed its estimated fair value and therefore no further impairment is required during the three months ended September 30, 2021.

11. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

During the three and nine months ended September 30, 2021 and 2020 the Company issued no stock options. During the three and nine months ended September 30, 2021, the Company issued 0 and 165,809 restricted stock awards to employees, respectively. During the three and nine months ended September 30, 2020, the Company issued 14,500 and 644,852 restricted stock awards to employees, respectively.

Stock-based compensation expense associated with restricted stock and stock options is recognized based on the grant date fair value of the award over its vesting period. The following table reflects the Condensed Consolidated Statements of Operations line items for stock-based compensation reflected in continuing operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
General and administrative	\$ 147	\$ 158	\$ 454	\$ 531

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 September 30, 2021, the weighted-average remaining contractual term of unexercised stock options was 6 years. As of September 30, 2021 and December 31, 2020, there was \$1.0 million and \$1.1 million, respectively, of unrecognized compensation cost related to stock options and restricted stock awards.

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

12. INCOME (LOSS) PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted (loss) income from both continuing operations and discontinued operations for the three and nine months ended September 30, 2021 and 2020 are presented in the accompanying Condensed Consolidated Statements of Operations. Restricted stock awards, stock options and warrants for the three and nine months ended September 30, 2021 and 2020 are included in the diluted income (loss) per share calculation using the treasury stock method and average market prices during the periods, unless their inclusion would be anti-dilutive.

The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2021	2020	2021	2020
Numerator:				
Income from continuing operations	\$ 3,057	\$ 400	\$ 15,096	\$ 1,479
Income (loss) from discontinued operations, net of taxes	\$ (137)	\$ 23	\$ (724)	\$ 112
Denominator:				
Basic net income per share - weighted-avg. outstanding shares	8,234	8,078	8,205	8,046
Effect of dilutive securities:				
Restricted stock awards, stock options and warrants	838	501	825	369
Diluted net income per share - weighted-avg. outstanding shares	9,072	8,579	9,030	8,415
Net income per share continuing operations - basic	\$ 0.37	\$ 0.05	\$ 1.84	\$ 0.18
Income (loss) per share discontinued operations - basic	\$ (0.02)	\$ —	\$ (0.09)	\$ 0.01
Net income per share continuing operations - diluted	\$ 0.34	\$ 0.05	\$ 1.67	\$ 0.18
Income (loss) per share discontinued operations - diluted	\$ (0.02)	\$ —	\$ (0.08)	\$ 0.01

The following share equivalents have been excluded from the continuing operations dilutive share computation for the three and nine months ended September 30, 2021 and 2020 as their inclusion would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Restricted stock awards	—	—	—	3
Stock options	34	118	37	159
Warrants	51	449	59	589
	85	567	96	751

13. RELATED PARTY TRANSACTIONS

Lease for Corporate Headquarters

The Company previously leased its corporate headquarters from an affiliate controlled and owned by our CEO and his family. On November 1, 2020, the Company relocated its corporate headquarters to a new office space pursuant to a ten year lease agreement with an affiliate controlled and owned by our Chief Executive Officer and family, as landlord.

Asset Management Agreement ("AMA")

On March 30, 2018, CAM, an entity wholly owned by the Company, entered into the AMA with CDS. The effective date of the AMA is January 2, 2018. Pursuant to the AMA, CDS has engaged CAM to manage and administer the CDS' commercial real estate portfolio and the day to-day operations of CDS and each property-owning subsidiary of CDS (the "CDS

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Portfolio"). Pursuant to the terms of the AMA, CAM will provide investment advisory, development and asset management services necessary to build out, stabilize and manage certain assets.

Pursuant to the AMA, CDS will pay CAM an annual cost-plus fee (the "Annual Fee") in an aggregate amount equal to the sum of (i) the employment expenses of personnel dedicated to providing services to the CDS 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.

2019 Amended Asset Management Agreement ("2019 AMA")

On April 30, 2019, CAM entered into the 2019 AMA with CDS, which amended and restated in its entirety the AMA. Pursuant to the 2019 AMA, CDS will engage CAM to manage and administer the Anchor Portfolio and the day to-day operations of CDS and each property-owning subsidiary of CDS (collectively, the "CDS Entities"). The "Anchor Portfolio" consists of a majority of the properties we currently manage.

Pursuant to the 2019 AMA, the Company provides asset management services related to the build out, lease-up and stabilization, and management of the Anchor Portfolio. CDS pays the Company and its subsidiaries annual fees equal to the greater of either (i) an aggregate amount equal to the sum of (a) an asset management fee equal to 2.5% of revenues generated by properties included in the Anchor Portfolio; (b) a construction management fee equal to 4% of all costs associated with Anchor Portfolio projects in development; (c) a property management fee equal to 1% of the Anchor Portfolio revenues, (d) an acquisition fee equal to up to 0.5% of the purchase price of acquired assets; and (f) a disposition fee equal to 0.5% of the sales price of an asset on disposition; or (ii) an aggregate amount equal to the sum of (x) the employment expenses of personnel dedicated to providing services to the Anchor Portfolio pursuant to the 2019 AMA, (y) the costs and expenses of the Company related to maintaining the public listing of its shares and complying with related regulatory and reporting obligations, and (z) a fixed annual payment of \$1,000,000.

In addition to the annual payment of the greater of either the Market Rate Fee or the Cost Plus Fee (as defined in the 2019 AMA), the Company also is entitled on an annual basis to the following additional fees: (i) an incentive fee equal to 10% of the free cash flow of each of the real estate assets comprising the Anchor Portfolio after calculating a compounding preferred return of 8% on CDS invested capital; (ii) an investment origination fee equal to 1% of raised capital, (iii) a leasing fee equal to \$1.00/sf for new leases and \$0.50/sf for renewals; and (iv) mutually agreeable loan origination fees related to the Anchor Portfolio.

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

As of September 30, 2021 and December 31, 2020, the Company had \$4.6 million and \$3.6 million, respectively, of receivables from related parties, primarily related to the 2019 AMA and payroll and expense reimbursements from affiliated properties. The Company does not record an allowance for doubtful accounts due to the related party nature of the receivables.

Residential, Commercial and Parking Property Management Agreements

The Company entered into separate residential property management agreements with properties owned by CDS Entities under which the Company receives fees to manage and operate the properties, including tenant communications, leasing of apartment units, rent collections, building maintenance and day-to-day operations, engagement and supervision of contractors and vendors providing services for the buildings, and budget preparation and oversight.

The Company entered into separate commercial property and parking management agreements with properties owned by CDS Entities under which the Company receives fees to manage and operate the office and retail portions of the properties, including tenant communications, rent collections, building maintenance and day-to-day operations, engagement and supervision of contractors and vendors providing services for the buildings, and budget preparation and oversight.

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These property management agreements are each for one year initial terms with successive, automatic one year renewal terms, unless sooner terminated. The Company generally receives base management fees under these agreements based upon a percentage of gross rental revenues for the portions of the buildings being managed in addition to reimbursement of specified expenses, including employment expenses of personnel employed by the Company in the management and operation of each property.

Construction Management Agreements

The Company has construction management agreements with properties owned by CDS Entities under which the Company receives fees to provide certain construction management and supervision services, including construction supervision and management of the buildout of certain tenant premises. The Company receives a flat construction management fee for each engagement under a work authorization based upon the construction management or supervision fee set forth in the applicable tenant's lease, which fee is generally 1% to 4% of the total costs (or total hard costs) of construction of the tenant's improvements in its premises, or as otherwise agreed to by the parties.

Business Management Agreement

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

Financing Arrangements

To the extent not contemplated in the 2019 AMA, CDS Entities will, from time to time, directly engage the Company, under separate written agreements, to source and procure debt and/or equity financing for the CDS Entities' real property assets, and the Company receives market rate advisory or finder's fees from the CDS Entities in connection with the Company's provision of such services as further set forth in the separate written agreements.

The Hartford Investment

On December 30, 2019, the Company made an investment related to the purchase of the Hartford, a stabilized commercial office building located at 3101 Wilson Boulevard in the Clarendon area of Arlington County, Virginia. The Company's initial investment related to the purchase of the Hartford is \$1.2 million.

In conjunction with the investment, the Company entered into an operating agreement ("Original Operating Agreement") with Partners to form Comstock 3101 Wilson, LC (the "Hartford Owner"), to purchase the Hartford. Pursuant to the Original Operating Agreement, the Company holds a minority membership interest in the Hartford Owner and the remaining membership interests of the Hartford Owner is held by Partners, who is further the Manager of the Hartford Owner. At the closing of the acquisition of the Hartford, the Company received an acquisition fee of \$500 thousand and is entitled to asset management, property management, construction management and leasing fees for its management of the Property pursuant to separate agreements between the Hartford Owner, or its affiliates, and the Company, or its affiliates. The Company is also entitled to an incentive fee related to the performance of the investment.

On February 7, 2020, the Company, Partners and DWF VI 3101 Wilson Member, LLC ("DWF"), an unaffiliated, third party, equity investor in the Hartford, entered into a limited liability company agreement (the "DWC Operating Agreement") to form DWC 3101 Wilson Venture, LLC ("DWC") to, among other things, acquire, own and hold all interests in the Hartford Owner. In furtherance thereof, on February 7, 2020, the Original Operating Agreement for the Hartford Owner was amended and restated (the "A&R Operating Agreement") to memorialize the Company's and Partners' assignment of 100% of its membership interests in the Hartford Owner to DWC. As a result thereof, DWC is the sole member of the Hartford Owner. The Company and Partners, respectively, hold minority membership interests in, and DWF holds the majority membership interest in, DWC. The Company's ownership interest in the Hartford remains at 2.5%.

Private Placements and Promissory Notes

On March 19, 2020, the Company entered into the Loan Documents with CDS, pursuant to which the Company secured the Revolver. Under the terms of the Loan Documents, the Revolver provides for an initial variable interest rate of the WSJ Prime Rate plus 1.00% per annum on advances made under the Revolver, payable monthly in arrears. The five-year term

facility allows for interim draws that carry a maturity date of 12 months from the initial date of the disbursement unless a longer initial term is agreed to by CDS. On March 27, 2020 the Company borrowed \$5.5 million under the Revolver. On April 10, 2020, the capital provided to the Company by the Revolver was utilized to retire all of the Company's 10% corporate indebtedness owed to CGF.

See Note 6 - *Revenue* for detail regarding revenue earned from related parties and Note 7 - *Debt* for further description of the CGF Private Placement and the Revolver.

14. INCOME TAXES

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Prior to the quarter ended June 30, 2021, the Company recorded a valuation allowance to reduce its deferred tax assets to zero. Based upon the available evidence on June 30, 2021, the Company determined it was more likely than not that a portion of deferred tax assets related to the NOL carryforwards would be utilized in future periods. The Company considered all available evidence, including cumulative income in recent years and its current forecast of future income in its analysis. The Company concluded that sufficient positive evidence exists due to the cumulative positive results achieved since the Company's revised business strategy launched in 2018 and associated long-term related party contract (2019 AMA), which establishes a reasonable expectation of future taxable income. As a result, the Company partially released the valuation allowance against these deferred tax assets and recorded a deferred income tax benefit of \$11.3 million in the second quarter of 2021. While the Company believes its forecast of future income is reasonable, it is inherently uncertain. If the Company's projections of future income are lower than expected, the Company may need to reestablish the valuation allowance.

As of September 30, 2021, we have provided a valuation allowance against consolidated net deferred tax assets of \$26.6 million, related primarily to deferred tax assets for Federal and state net operating loss carryforwards not expected to be used within their carryforward periods.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. We have not identified any uncertain income tax positions that could have a material impact on the consolidated financial statements. We recognize interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense; we did not have any such amounts accrued as of September 30, 2021 and December 31, 2020. We are subject to taxation in various U.S. jurisdictions and all of our income tax returns remain subject to examination by tax authorities due to the availability of NOL carryforwards.

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate, calculated for all taxing jurisdictions on a consolidated basis, expected for the entire year. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in valuation allowance and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in valuation allowance, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur.

Prior to the adoption of new accounting guidance that we adopted on a prospective basis on January 1, 2021, during periods when we incurred net losses before income taxes, our annual estimated effective tax rate was at times adjusted based on the "loss limitation" requirements applicable to interim tax provisions, resulting in a limited income tax benefit recognized in that period. The "loss limitation" requirements were removed by the new accounting guidance and, therefore, we were not required to assess any such limitation for 2021.

For the nine months ended September 30, 2021, we recognized an income tax benefit of \$11.3 million. The income tax benefit resulted from applying an estimated annual effective tax rate of 0.85% to pre-tax consolidated income reported during the period, as well as the net effects of certain discrete items occurring which impact our income tax provision in the period in which they occur primarily related to the release of \$11.3 million valuation allowance in the second quarter of 2021. There were no other material discrete items occurring during the nine months ended September 30, 2021.

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For the three months ended September 30, 2021, we recognized an income tax expense of \$25 thousand. The income tax expense resulted from applying an estimated annual effective tax rate of 0.80% to pre-tax consolidated income reported during the period, as well as the net effects of certain discrete items occurring which impact our income tax provision in the period in which they occur. There were no material discrete items occurring during the three months ended September 30, 2021.

For the three and nine months ended September 30, 2020, the Company recognized deferred income tax expense of \$1 thousand and \$15 thousand, respectively. The effective tax rate for the three and nine months ended September 30, 2020 was 0% and (0.11)%, respectively.

The Company currently has approximately \$146 million in federal and state NOLs. If unused, these NOLs will begin expiring in 2027. Under Internal Revenue Code Section 382, if a change in ownership is triggered, the Company's NOL assets and possibly certain other deferred tax assets may be impaired.

A reconciliation of the statutory rate and the effective tax rate is as follows:

	Nine Months Ended September 30,	
	2021	2020
Federal statutory rate	21.00%	21.00%
State income taxes - net of federal benefit	0.85%	4.74%
Permanent differences	—%	0.16%
Return to provision adjustments	(0.21%)	(2.45%)
Change in valuation allowance	(389.13%)	(18.43%)
Other, net	(2.44)%	(5.87)%
Effective tax rate	<u>(369.93)%</u>	<u>(0.85)%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax assets and liabilities at September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss and tax credit carryforwards	\$ 36,841	\$ 37,899
Stock based compensation	690	648
Investment in affiliates	382	264
Other	24	14
Depreciation and amortization	—	37
	<u>37,937</u>	<u>38,862</u>
Less - valuation allowance	<u>(26,625)</u>	<u>(38,780)</u>
Net deferred tax assets	11,312	82
Deferred tax liabilities:		
Depreciation and amortization	14	—
Goodwill amortization	(16)	(103)
Net deferred tax liabilities	<u>(2)</u>	<u>(103)</u>
Net deferred tax assets (liabilities)	<u>\$ 11,310</u>	<u>\$ (21)</u>

15. SEGMENT DISCLOSURES

Prior to June 30, 2021, we operated our business through two segments: Asset Management and Real Estate Services. After the classification of CES as a discontinued operation as described in Note 3 - Discontinued Operations, which was included in the Real Estate Services segment, we now operate our business through one reportable segment: Asset Management.

In our Asset Management segment, we focus on providing management services to a wide range of real estate owners 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. The properties and businesses we currently manage are located primarily along the Washington, D.C. Metro Silver Line in Fairfax and Loudoun Counties, but we also manage projects in other jurisdictions including Maryland and Virginia. We also provide capital markets and brokerage services.

16. SUBSEQUENT EVENTS

On October 20, 2021, the Company closed on an investment in a stabilized, luxury high-rise apartment building located at 44 Maryland Avenue in the City of Rockville, which is within the I-270 Technology and Life Science Corridor in Montgomery County, Maryland (the “Property”) pursuant to a purchase and sale agreement dated July 16, 2021 (as amended, the “Agreement”).

In conjunction with the entry into the Agreement, the Company entered into an operating agreement (“Operating Agreement”) with Partners to form Comstock 44 Maryland, LC (the “Purchaser”) to purchase the Property. Pursuant to the Operating Agreement, the Company holds a minority membership interest in the Purchaser and management control and the remaining membership interests are held by Partners. At September 30, 2021, the Company maintained a deposit in escrow pursuant to the Agreement totaling approximately \$3.5 million. At closing, the Company’s investment related to the purchase of the Property was reduced to approximately \$2.1 million in accordance with the Company’s initial capital contribution due under the Operating Agreement.

At the closing of the acquisition of the Property, the Company received an acquisition fee of \$500 thousand. The Company, or its affiliates, are further entitled to market rate asset management, property management, parking management, construction management and leasing fees for their management of the Property pursuant to separate agreements between the Purchaser, or its affiliates, and the Company, or its affiliates.

COMSTOCK HOLDING COMPANIES, INC.

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

Cautionary Notes Regarding Forward-looking Statements

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “estimate,” “may,” “likely,” “intend,” “expect,” “will,” “should,” “seeks” or other similar words or expressions. Forward-looking statements are based largely on our expectations and involve inherent risks and uncertainties, many of which are beyond our control. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply specifically to us.

Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include: general economic and market conditions, including interest rate levels; changes in the real estate markets; inherent risks in investment in real estate; our ability to attract and retain clients; our ability to compete in the markets in which we operate; regulatory actions; fluctuations in operating results; shortages and increased costs of labor or materials; adverse weather conditions and natural disasters; public health emergencies, including potential health risks and economic uncertainties relating to the coronavirus (COVID-19) pandemic; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates.

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

Comstock Holding Companies, Inc. (“CHCI” or “the Company”) is a developer, operator, and asset manager of mixed-use and transit-oriented development properties in the greater Washington, D.C. metropolitan area, where we focus primarily on select high-growth urban and transitioning “sub-urban” markets. We provide a broad range of real estate asset management services, including development and construction management services, leasing and property management services, debt and equity financing origination, and other real estate related services. Our customers primarily include private and institutional owners and investors in the real estate properties that we manage and various governmental bodies that have a vested interest in public-private partnerships responsible for the development of certain properties that we develop and manage. We also invest capital on behalf of our asset management clients and institutional real estate investors in office, retail, residential and mixed-use properties, generally retaining an economic interest for the Company and providing management services to those properties, thereby enabling the Company to increase its assets under management (“AUM”) in order to realize competitive advantages of scale and enhance our overall returns. The Company also provides additional fee-based real estate services, including capital markets, brokerage, and title insurance to properties in the Company’s managed portfolio.

As of September 30, 2021, our AUM consisted of 28 operating assets comprising 13 commercial assets totaling approximately 1.9 million square feet and 4 multifamily assets totaling 1,123 units, and 11 commercial garages comprised of over 10,000 parking spaces. Additionally, we have: (i) one commercial asset currently under-construction and scheduled for delivery in

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2022 totaling approximately 250,000 square feet that is 100% pre-leased; and (ii) 18 development pipeline assets consisting of approximately 2.0 million square feet of additional planned commercial development, approximately 1,700 multifamily units and 2 hotel assets that will include 370 keys.

As a vertically integrated real estate operating and investment company, we earn revenue from multiple sources, including fees generated from asset management services that we provide to our managed portfolio of real estate assets on behalf of our asset management clients, and fees from additional real estate related services.

The services we provide pursuant to the asset management agreements covering our AUM properties vary by property, and include property management, development and construction management, leasing management, acquisition and disposition management, origination and negotiation of debt and equity facilities, risk management, and various other property-specific services. Substantially all of the properties included in our managed portfolio are covered by full-service asset management agreements encompassing substantially all aspects of development, construction, and operations management relating to the subject properties. Our long-term asset management contracts generally include material early termination payments to us in the event the contract is prematurely terminated by the asset owner. A limited number of properties in our managed portfolio are covered by service-specific asset management contracts that focus our services on defined critical elements of operations, such as marketing, leasing, and construction management, where the property owner continues to manage other operating functions. Our limited-service asset management agreements generally are anticipated to be short term in nature and do not include material early termination penalties.

Anchoring the Company's asset management services platform is a long-term full service asset management agreement (the "2019 AMA") with an affiliated company owned by the Company's Chief Executive Officer, Christopher Clemente, that encompasses the majority of the properties we currently manage, including two of the largest transit-oriented, mixed-use developments in the Washington, DC area: Reston Station, a 5 million square foot transit-oriented, mixed-use development located in Reston, VA, and Loudoun Station, a nearly 2.5 million square foot transit-oriented, mixed-use development in Ashburn, VA, as well as other additional development assets, which together constitute our anchor portfolio (the "Anchor Portfolio"). The 2019 AMA for our Anchor Portfolio is a long-term agreement with an original term of 10 years that provides for significant financial payments to Comstock in the case of early termination by the asset owner. In addition to the various recurring asset management fee-based revenue received by the Company, we also generate additional revenue from co-investments with our investment partners in certain property acquisitions and expect to receive performance-based incentive compensation from assets in our Anchor Portfolio and other assets in our managed portfolio. The Company can earn these incentive-based fees upon the occurrence of certain transaction-related events, including asset acquisitions or dispositions, asset related capital market transactions, leasing, marketing and property management, development and construction management, real title services, and when the performance of a subject property meets defined performance metrics. The co-investment business plans are property specific and therefore vary in expected duration but are generally expected to be between four and seven years; but may be accelerated or extended depending upon market conditions or the strategic objectives of the subject joint venture.

Outlook

Although the long-term impact of the COVID-19 pandemic on the commercial real estate market in the greater Washington, DC area remains uncertain, we believe that our Anchor Portfolio is well positioned to withstand potential negative impact of the COVID-19 pandemic. We also believe that our management team is properly aligned with the interests of the Company and its shareholders and is committed to the Company's objectives of providing exceptional experiences for those that we do business with while enhancing shareholder value. Further, we believe that we are properly staffed for current market conditions and the foreseeable future and that our Company has the ability to manage risk and pursue opportunities for additional growth as market conditions warrant. Our real estate development and management operations are primarily focused on the greater Washington, D.C. region, where we believe our 30-plus years of experience provides us the best opportunity to continue leveraging our significant experience acquiring, developing, and managing high quality real estate assets and capitalizing on positive growth trends.

Managed Portfolio

Reston Station

Reston Station, located at the terminus of Phase I of Metro's Silver Line, is strategically located midway between Tysons Corner and Dulles International Airport. Reston Station is among the largest mixed-use, transit-oriented developments in the Washington, DC area and the Reston Station neighborhood spans the Dulles Toll Road and surrounds the first, and currently only, Metro rail station in the Dulles Corridor. Covering a total of approximately 60 acres, assets included in Comstock's managed

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portfolio cover approximately 37 of the 60-acre neighborhood and will, upon full build-out, include approximately five million square feet of mixed-used development. Currently, Comstock's managed portfolio of Reston Station has approximately 1.7 million square feet of mixed-use development completed, including 448 residential units, approximately 1.2 million square feet of office, approximately 40,000 square feet of retail and more than 6,000 parking spaces, including one of the largest underground commuter parking garages and bus transit facilities in the region. The Company is providing a wide variety of its real estate and asset management services to the project pursuant to the 2019 AMA, including development and construction management services, leasing management services, property management services, and capital markets services.

Loudoun Station

Loudoun Station, located at the terminus of Phase II of Metro's Silver Line, is Loudoun County's first Metro connected development and represents Loudoun County's beginning transformation into a transit connected community with direct metro rail connectivity to Dulles International Airport, Reston, Tysons Corner, and downtown Washington, D.C. Currently, Loudoun Station has approximately 1,000,000 square feet of mixed-use development completed, including 675 residential units, approximately 50,000 square feet of Class-A office space, approximately 150,000 thousand square feet of retail spaces including an 11-screen AMC Cinema, and a 1,500-space Metro commuter parking garage. The Metro Garage is the focus of a public-private partnership between an affiliate of the Company and Loudoun County, Virginia and is managed by a subsidiary of the Company. Phase II of Metro's Silver Line is under construction and expected to commence passenger service in early to mid 2022. The Company is providing a variety of its real estate and asset management services related to the existing buildings and the future development pursuant to the 2019 AMA, including development and construction management services, leasing management services, property management services, and capital markets services.

Herndon Station

Herndon Station will include up to approximately 340,000 square feet of residential, retail and entertainment spaces, including a performing arts center, and an approximately 700 space parking garage in the historic downtown portion of the Town of Herndon in western Fairfax County, Virginia. The commercial Garage is the focus of a public private partnership between an affiliate of the Company and the Town of Herndon. The development will also include improvements to existing connections to the adjacent WO&D trail, a popular pedestrian and bicycle route managed by Northern Virginia Regional Parks Authority and Fairfax County Parks Department. The Company is providing a variety of asset management and development services related to the Herndon Station development pursuant to the 2019 AMA.

International Gateway

Since 2018 the Company has, pursuant to an asset management agreement with an unaffiliated property owner, provided asset management, property management, leasing management, and consulting services for a privately owned portfolio of two mixed-use retail/office buildings in Tysons Corner, Virginia, known as International Gateway.

The Hartford Building

In late 2019, the Company partnered with Partners, an entity that is controlled by our CEO, and wholly owned by Mr. Clemente and certain family members, to acquire a Class-A office building immediately adjacent to Clarendon Station on Metro's Orange Line in Arlington County's premier transit-oriented office market, the Rosslyn-Ballston Corridor. Built in 2003, the 211,000 square foot mixed-use building is LEED GOLD certified. In February 2020, the Company arranged for DivcoWest to purchase a majority ownership stake in the Hartford Building and secured a \$87 million loan facility from MetLife. As part of the transaction, the Company entered into asset management and property management agreements to manage the property.

Results of Operations

The following discussion relates to our results from continuing operations.

Three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020

Revenue

Revenue for the three months ended September 30, 2021 and 2020 was \$10.2 million and \$5.9 million, respectively. This represents an increase of \$4.3 million, or 72.5%, compared to prior year. Revenue for the nine months ended September 30, 2021 and 2020 was \$23.3 million and \$15.8 million, respectively. This represents an increase of \$7.5 million, or 47.4%, compared to prior year. Revenue increased in all periods primarily due to \$2.6 million of capital markets fees earned in the third quarter of 2021 along with increased costs that are reimbursable from CDS under the 2019 AMA and recognized as revenue along with the growth in the number of managed commercial properties and parking facilities. The prior year to date revenue was also reduced by \$1.4 million due to the PPP Loan.

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Direct costs

Direct costs for the three months ended September 30, 2021 and 2020 was \$6.7 million and \$5.1 million, respectively. This 32.2% increase amounts to a \$1.6 million increase to direct costs and is primarily attributable to co-broker fees incurred in connection with the capital markets transaction that closed in the third quarter of 2021 as well as an increase in rent expense for the Company's new headquarters and personnel expenses due to the growth of our property management and asset management businesses.

Direct costs for the nine months ended September 30, 2021 and 2020 was \$18.3 million and \$12.9 million, respectively. This 41.5% increase amounts to a \$5.4 million increase to direct costs. This is primarily attributable to co-broker fees incurred in connection with the capital markets transaction that closed during the third quarter of 2021 as well as an increase in rent expense for the Company's new headquarters and personnel expenses due to the growth of our property management and asset management businesses. The prior period payroll and rent expense was also reduced by \$1.9 million due to the PPP Loan.

General and administrative

General and administrative expenses for the three months ended September 30, 2021 and 2020 was \$329 thousand and \$323 thousand, respectively. For the nine months ended September 30, 2021 and 2020, general and administrative costs decreased \$69 thousand or 6.7% primarily attributable to a decrease in stock compensation expense.

Selling and marketing

Selling & marketing expenses for the three months ended September 30, 2021 and 2020 was \$3 thousand and \$0, respectively. The expenses for the nine months ended September 30, 2021 and 2020 was \$21 thousand and \$1 thousand, respectively. The increase is attributable to an increase in selling and marketing expenses as the Company invests in further expansion of its property management business.

Interest expense

For the three months ended September 30, 2021 and 2020, the Company's interest expense was approximately equivalent. For the nine months ended September 30, 2021 and 2020, the Company's interest expense was \$176 thousand and \$286 thousand, respectively. The 38.5% reduction to interest expense amounts to an \$110 thousand decrease in interest expense as a result of the repayment of the Comstock Growth Fund loan during the three months ended March 30, 2020.

Income taxes

For the nine months ended September 30, 2021, the Company recognized an income tax benefit of \$11.3 million. The income tax benefit resulted from applying an estimated annual effective tax benefit rate of 0.85% to pre-tax consolidated loss reported during the period, as well as the net effects of certain discrete items occurring which impact our income tax provision in the period in which they occur primarily related to the release of \$11.3 million valuation allowance in the second quarter of 2021. There were no other material discrete items occurring during the nine months ended September 30, 2021.

For the three months ended September 30, 2021, the Company recognized an income tax expense of \$25 thousand. The income tax expense resulted from applying an estimated annual worldwide effective tax benefit rate of 0.80% to pre-tax consolidated loss reported during the period, as well as the net effects of certain discrete items occurring which impact our income tax provision in the period in which they occur. There were no material discrete items occurring during the three months ended September 30, 2021.

For the three and nine months ended September 30, 2020, the Company recognized deferred income tax expense of \$1 thousand and \$15 thousand, respectively. The effective tax rate for the three and nine months ended September 30, 2020 is 0% and -0.11%, respectively.

Income (loss) from discontinued operations

For the three and nine months ended September 30, 2021, the loss from discontinued operations of \$137 thousand and \$724 thousand, respectively, represents the loss generated by CES primarily due to the impairment loss recognized on the reclassification to held for sale. The income from discontinued operations of \$23 thousand and \$112 thousand for the three and nine months ended September 30, 2021, respectively, represents the income generated by CES primarily due to the reduction of payroll expense as a result of the PPP Loan.

Liquidity and Capital Resources

We finance our Asset Management operations, capital expenditures, and business acquisitions with internally generated funds, distributions from our equity method investments, and borrowings from our credit facilities. See Note 7 in the accompanying condensed consolidated financial statements for more details on our debt and credit facilities.

Cash Flow from Continuing Operations

For the nine months ended September 30, 2021, net cash provided by operating activities was \$3.1 million, which is primarily related to fees earned in the quarter for the capital markets transaction offset by an increase in related party receivables. For the nine months ended September 30, 2020, net provided by operating activities was \$1.8 million, primarily related to non-cash stock compensation and increases in trade receivables offset by a decrease in personnel costs.

Net cash used in investing activities of \$0.6 million for the nine months ended September 30, 2021 is primarily due to deposits paid for the Company's multifamily acquisition in Rockville, Maryland offset by distributions from Investors X. Net cash provided by investing activities of \$1.2 million for the nine months ended September 30, 2020 was primarily related to distributions from equity method investments.

Net cash used in financing activities for the nine months ended September 30, 2021 was \$215 thousand which was primarily related to taxes paid related to net share settlement of equity awards net of proceeds from notes payable. Net cash provided by financing activities was \$269 thousand for the nine months ended September 30, 2020 which was primarily related to proceeds from the Revolver of \$5.5 million offset by the repayment of the Comstock Growth Fund loan.

Critical Accounting Policies and Estimates

There have been no other significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2021 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Recently Issued Accounting Standards

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

Off Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2021.

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.

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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 over Financial Reporting

No changes have occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 9 - *Commitments and Contingencies* to the accompanying condensed consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q.

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ITEM 6. EXHIBITS

- 3.1 [Amended and Restated Certificate of Incorporation \(incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 16, 2015\).](#)
- 3.2 [Amended and Restated Bylaws \(incorporated by reference to an Exhibit 3.2 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005\).](#)
- 3.3 [Certificate of Elimination of the Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 27, 2015\).](#)
- 3.4 [Certificate of Designation of Series A Junior Participating Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 26, 2015 \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 27, 2015\).](#)
- 3.5 [Certificate of Designation of Series B Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on December 29, 2015 \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed on January 4, 2016\).](#)
- 3.6 [Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc., filed with the Secretary of the State of Delaware on March 22, 2017 \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on March 28, 2017\).](#)
- 3.7 [Certificate of Amendment of Certificate of Designation of Series C Non-Convertible Preferred Stock of Comstock Holding Companies, Inc. filed with the Secretary of State of the State of Delaware on February 15, 2019 \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on February 19, 2019\).](#)
- 3.8 [Certificate of Amendment of Amended and Restated Certificate of Incorporation of Comstock Holding Companies, Inc. \(incorporated by reference to an exhibit to the Registrant's Current Report on Form 8-K filed with the Commission on February 19, 2019\).](#)
- 4.1 [Specimen Stock Certificate \(incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 \(File No. 333-118193\)\).](#)
- 31.1* [Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002](#)
- 31.2* [Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002](#)
- 32.1* [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002](#)
- 101.IN
S* Inline XBRL Instance Document
- 101.SC
H* Inline XBRL Taxonomy Extension Schema Document
- 101.C
AL* Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101,D
EF* Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.L
AB* Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PR
E* Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104* The cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (included in Exhibit 101)

* Filed herewith.

SIGNATURES

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

COMSTOCK HOLDING COMPANIES, INC.

Date: November 15, 2021

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

Date: November 15, 2021

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