

Comstock Holding Companies, Inc.

Form 10-Q

August 13, 2014

**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2014**

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>20-1164345</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>1886 Metro Center Drive, 4<sup>th</sup> Floor</b>	
<b>Reston, Virginia 20190</b>	
<b>(703) 883-1700</b>	

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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

As of August 13, 2014, 18,818,869 shares of Class A common stock, par value \$0.01 per share, and 2,733,500 shares of Class B common stock, par value \$0.01, of the registrant were outstanding.

**Table of Contents**

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

**FORM 10-Q**

**INDEX**

	<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>Page</b>
		<b>1</b>
ITEM 1.	<b><u>FINANCIAL STATEMENTS:</u></b>	<b>1</b>
	<u>Consolidated Balance Sheets (unaudited) June 30, 2014 and December 31, 2013</u>	<b>1</b>
	<u>Consolidated Statements of Operations (unaudited) Three and Six Months Ended June 30, 2014 and 2013</u>	<b>2</b>
	<u>Consolidated Statements of Changes in Stockholders Equity (unaudited) Six Months Ended June 30, 2014 and 2013</u>	<b>3</b>
	<u>Consolidated Statements of Cash Flows (unaudited) Six Months Ended June 30, 2014 and 2013</u>	<b>4</b>
	<u>Notes to Consolidated Financial Statements</u>	<b>5</b>
ITEM 2.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b>16</b>
ITEM 3.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b>20</b>
ITEM 4.	<b><u>CONTROLS AND PROCEDURES</u></b>	<b>20</b>
	<b><u>PART II OTHER INFORMATION</u></b>	
ITEM 1A.	<b><u>RISK FACTORS</u></b>	<b>20</b>
ITEM 2.	<b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	<b>20</b>
ITEM 6.	<b><u>EXHIBITS</u></b>	<b>21</b>
	<b><u>SIGNATURES</u></b>	<b>22</b>

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share and per share data)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,814	\$ 11,895
Restricted cash	2,956	2,458
Trade receivables	1,299	346
Real estate inventories	43,387	39,843
Property, plant and equipment, net	202	243
Other assets	2,848	2,094
<b>TOTAL ASSETS</b>	<b>\$ 55,506</b>	<b>\$ 56,879</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 10,791	\$ 7,506
Notes payable secured by real estate inventories	25,151	22,701
Notes payable due to affiliates, unsecured	4,462	4,687
Notes payable unsecured	2,322	2,580
Income taxes payable	33	346
<b>TOTAL LIABILITIES</b>	<b>42,759</b>	<b>37,820</b>
Commitments and contingencies (Note 8)		
<b>STOCKHOLDERS' EQUITY</b>		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 18,810,281 and 18,629,638 issued and outstanding, respectively	188	186
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	171,021	170,811
Treasury stock, at cost (426,633 shares Class A common stock)	(2,480)	(2,480)
Accumulated deficit	(167,622)	(164,379)
<b>TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY</b>	<b>1,134</b>	<b>4,165</b>
Non-controlling interest	11,613	14,894

TOTAL EQUITY	12,747	19,059
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 55,506	\$ 56,879

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

**Table of Contents****COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS****(Dollars in thousands, except per share data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>				
Revenue homebuilding	\$ 11,657	\$ 11,987	\$ 19,488	\$ 23,383
Revenue other	143	226	266	387
Total revenue	11,800	12,213	19,754	23,770
<b>Expenses</b>				
Cost of sales homebuilding	9,459	9,621	15,715	18,417
Cost of sales other	85	276	178	497
Impairment reversal				(722)
Sales and marketing	559	511	1,097	957
General and administrative	2,318	1,704	4,207	3,259
Interest, real estate taxes and indirect costs related to inactive projects	3	118	5	344
Operating (loss) income	(624)	(17)	(1,448)	1,018
Other income, net	12	131	67	158
(Loss) income before income tax expense	(612)	114	(1,381)	1,176
Income tax expense	(57)		(131)	
Net (loss) income	(669)	114	(1,512)	1,176
Net income attributable to non-controlling interests	995	952	1,731	1,291
Net loss attributable to Comstock Holding Companies, Inc.	\$ (1,664)	\$ (838)	\$ (3,243)	\$ (115)
Basic net loss per share	\$ (0.08)	\$ (0.04)	\$ (0.15)	\$ (0.01)
Diluted net loss per share	\$ (0.08)	\$ (0.04)	\$ (0.15)	\$ (0.01)
Basic weighted average shares outstanding	21,089	20,674	21,012	20,599
Diluted weighted average shares outstanding	21,089	20,674	21,012	20,599

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

**Table of Contents****COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(Dollars in thousands, except per share data)

	Class A		Class B		Additional	Treasury	Retained	Non-	
	Shares	Amount	Shares	Amount	paid-in	stock	earnings	controlling	Total
					capital		(deficit)	interest	
Balance at December 31, 2012	17,628	\$ 176	2,733	\$ 27	\$ 170,070	\$ (2,480)	\$ (162,349)	\$ 935	\$ 6,379
Stock compensation and issuances	754	7			328				335
Warrants	25	1			(1)				
Shares withheld related to net share settlement of restricted stock awards	(11)				(8)				(8)
Non-controlling interest contributions					146			7,763	7,909
Net (loss) income							(115)	1,291	1,176
Balance at June 30, 2013	18,396	\$ 184	2,733	\$ 27	\$ 170,535	\$ (2,480)	\$ (162,464)	\$ 9,989	\$ 15,791
Balance at December 31, 2013	18,629	\$ 186	2,733	\$ 27	\$ 170,811	\$ (2,480)	\$ (164,379)	\$ 14,894	\$ 19,059
Stock compensation and issuances	222	2			272				274
Shares withheld related to net share settlement of restricted stock awards	(41)				(62)				(62)
Non-controlling interest distributions								(5,012)	(5,012)
Net (loss) income							(3,243)	1,731	(1,512)
Balance at June 30, 2014	18,810	\$ 188	2,733	\$ 27	\$ 171,021	\$ (2,480)	\$ (167,622)	\$ 11,613	\$ 12,747

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





**Table of Contents****COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands, except per share data)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net (loss) income	\$ (1,512)	\$ 1,176
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities		
Amortization of loan discount and deferred financing fees	142	305
Depreciation expense	48	25
Provision for bad debt	10	2
Earnings from unconsolidated joint venture, net of distributions	29	42
Impairment reversal		(722)
Amortization of stock compensation	96	278
Changes in operating assets and liabilities:		
Restricted cash purchaser deposits	(296)	(372)
Trade receivables	(963)	(66)
Real estate inventories	(3,528)	132
Other assets	(880)	(482)
Accrued interest	416	(116)
Accounts payable and accrued liabilities	3,447	2,623
Income taxes payable	(313)	
Net cash (used in) provided by operating activities	(3,304)	2,825
Cash flows from investing activities:		
Investment in unconsolidated joint venture		(7)
Purchase of property, plant and equipment	(7)	(69)
Restricted cash	(202)	
Proceeds from sale of Cascades multi-family operating real estate, net		279
Net cash (used in) provided by investing activities	(209)	203
Cash flows from financing activities:		
Proceeds from notes payable	12,841	16,235
Payments on notes payable	(11,290)	(19,170)
Loan financing costs	(45)	(123)
Distributions to non-controlling interests	(5,012)	
Contributions from non-controlling interests		&nbsp;