

**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 June 30, 2013

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

For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

Large Accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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, 2013, 17,999,791 shares of the 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.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

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

	<u>June 30, 2013</u> (unaudited)	<u>December 31, 2012</u>
ASSETS		
Cash and cash equivalents	\$ 11,411	\$ 3,539
Restricted cash	3,575	3,203
Trade receivables	1,675	1,611
Real estate held for development and sale	28,427	27,781
Property, plant and equipment, net	266	222
Other assets	2,329	2,343
TOTAL ASSETS	<u>\$ 47,683</u>	<u>\$ 38,699</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 7,314	\$ 4,691
Notes payable - secured by real estate held for development and sale	16,784	19,492
Notes payable - due to affiliates, unsecured	4,956	5,041
Notes payable - unsecured	2,838	3,096
Income taxes payable	—	—
TOTAL LIABILITIES	<u>31,892</u>	<u>32,320</u>
Commitments and contingencies (Note 10)	—	—
SHAREHOLDERS' EQUITY		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 18,395,978 and 17,969,345 issued and outstanding, respectively	184	176
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	170,535	170,070
Treasury stock, at cost (426,633 shares Class A common stock)	(2,480)	(2,480)
Accumulated deficit	(162,464)	(162,349)
TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY	5,802	5,444
Non-controlling interest	9,989	935
TOTAL EQUITY	<u>15,791</u>	<u>6,379</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 47,683</u>	<u>\$ 38,699</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Revenue—homebuilding	\$11,987	\$ 3,766	\$23,383	\$ 6,952
Revenue—other	226	478	387	1,227
Total revenue	12,213	4,244	23,770	8,179
Expenses				
Cost of sales—homebuilding	9,621	3,302	18,417	6,056
Cost of sales—other	276	743	497	1,807
Impairment reversal (Note 2)	—	—	(722)	—
Selling, general and administrative	2,215	2,096	4,212	3,982
Interest, real estate taxes and indirect costs related to inactive projects	118	1,192	344	1,792
Operating (loss) income	(17)	(3,089)	1,022	(5,458)
Other income, net	131	8	158	37
Income (loss) before income tax benefit	114	(3,081)	1,180	(5,421)
Income tax benefit	—	1,202	—	2,114
Net income (loss) from continuing operations	114	(1,879)	1,180	(3,307)
Discontinued operations:				
Income (loss) from discontinued operations	—	16	(4)	(106)
(Loss) gain on sale of real estate from discontinued operations	—	(50)	—	6,466
Income tax expense from discontinued operations	—	(1,202)	—	(2,114)
Net (loss) income from discontinued operations	—	(1,236)	(4)	4,246
Net income (loss)	114	(3,115)	1,176	939
Less: Net income from continuing operations attributable to non-controlling interests	952	—	1,291	—
Less: Net income from discontinued operations attributable to non-controlling interests	—	—	—	103
Net (loss) income attributable to Comstock Holding Companies, Inc.	<u>\$ (838)</u>	<u>\$ (3,115)</u>	<u>\$ (115)</u>	<u>\$ 836</u>
Basic (loss) income per share from:				
Continuing operations	\$ (0.04)	\$ (0.09)	\$ (0.01)	\$ (0.16)
Discontinued operations	—	(0.06)	—	0.20
Net (loss) income per share	<u>\$ (0.04)</u>	<u>\$ (0.15)</u>	<u>\$ (0.01)</u>	<u>\$ 0.04</u>
Diluted (loss) income per share from:				
Continuing operations	\$ (0.04)	\$ (0.09)	\$ (0.01)	\$ (0.16)
Discontinued operations	—	(0.06)	—	0.20
Net (loss) income per share	<u>\$ (0.04)</u>	<u>\$ (0.15)</u>	<u>\$ (0.01)</u>	<u>\$ 0.04</u>
Basic weighted average shares outstanding	20,674	20,431	20,599	20,359
Diluted weighted average shares outstanding	20,674	20,431	20,599	20,359
Net (loss) income attributable to Comstock Holding Companies, Inc.:				
(Loss) income from continuing operations	\$ (838)	\$ (1,879)	\$ (111)	\$ (3,307)
(Loss) income from discontinued operations	—	(1,236)	(4)	4,143
Net (loss) income	<u>\$ (838)</u>	<u>\$ (3,115)</u>	<u>\$ (115)</u>	<u>\$ 836</u>

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands, except per share data)

	Class A		Class B		Additional paid-in capital	Treasury stock	Retained earnings (deficit)	Non- controlling interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2011	17,945	\$ 179	2,733	\$ 27	\$168,620	\$(2,439)	\$(156,684)	\$ 2,841	\$12,544
Stock compensation and issuances	366	4	—	—	595	—	—	—	599
Warrants	—	—	—	—	—	—	—	—	—
Shares withheld related to net share settlement of restricted stock awards and warrants	—	—	—	—	—	—	—	—	—
Non-controlling interest (distributions)	—	—	—	—	—	—	—	(2,944)	(2,944)
Net income	—	—	—	—	—	—	836	103	939
Balance at June 30, 2012	<u>18,311</u>	<u>\$ 183</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$169,215</u>	<u>\$(2,439)</u>	<u>\$(155,848)</u>	<u>—</u>	<u>\$11,138</u>
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 and warrants	(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	<u>18,396</u>	<u>\$ 184</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$170,535</u>	<u>\$(2,480)</u>	<u>\$(162,464)</u>	<u>\$ 9,989</u>	<u>\$15,791</u>

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

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

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 1,176	\$ 939
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Amortization of loan discount and deferred financing fees	305	1,424
Depreciation expense	25	99
Provision for bad debt	2	—
Earnings from unconsolidated joint venture	42	—
Gain on sale of operating real estate, net	—	(6,466)
Loss on disposal of property, plant and equipment	—	1
Impairment reversal	(722)	—
Amortization of stock compensation	278	599
Changes in operating assets and liabilities:		
Restricted cash	(372)	(32)
Trade receivables	(66)	1,162
Real estate held for development and sale	132	4,294
Other assets	(482)	(952)
Accrued interest	(116)	(709)
Accounts payable and accrued liabilities	2,623	(1,398)
Income taxes payable	—	(10)
Net cash provided by (used in) operating activities	<u>2,825</u>	<u>(1,049)</u>
Cash flows from investing activities:		
Investment in unconsolidated joint venture	(7)	—
Purchase of property, plant and equipment	(69)	—
Proceeds from sale of Cascades Apartments—operating real estate, net	279	18,400
Net cash provided by investing activities	<u>203</u>	<u>18,400</u>
Cash flows from financing activities:		
Proceeds from notes payable	16,235	9,960
Payments on notes payable	(19,170)	(22,995)
Loan financing costs	(123)	—
Contribution from non-controlling interests	614	—
Distribution to non-controlling interests holders	—	(2,944)
Proceeds from Comstock Investor VII, L.C. private placement	7,295	—
Proceeds from exercise of stock options	1	—
Taxes paid related to net share settlement of equity awards	(8)	—
Net cash provided by (used in) financing activities	<u>\$ 4,844</u>	<u>(15,979)</u>
Net increase in cash and cash equivalents	7,872	1,372
Cash and cash equivalents, beginning of period	3,539	5,639
Cash and cash equivalents, end of period	<u>\$ 11,411</u>	<u>\$ 7,011</u>
Supplemental disclosure for non-cash activity:		
Interest paid, net of interest capitalized	\$ 212	\$ 1,334
Reduction in proceeds from sale of Cascades Apartment and increase in other assets related to amounts placed in escrow upon settlement of Cascades Apartments sale	\$ —	\$ 950
Increase in class A common stock par value in connection with issuance of stock compensation and warrants exercise	\$ 8	\$ —

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited financial statements of Comstock Holding Companies, Inc. and subsidiaries ("Comstock" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Comstock Holding Companies, Inc. is a multi-faceted real estate development and services company focused on the Washington, D.C. metropolitan area. The Company has substantial experience with building a diverse range of products including single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums, apartments and mixed-use (residential and commercial) developments. References in this Form 10-Q to "Comstock," "Company," "we," "our" and "us" refer to Comstock Holding Companies, Inc. together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Comstock Companies, Inc. was incorporated on May 24, 2004 as a Delaware corporation. On June 30, 2004, the Company changed its name to Comstock Homebuilding Companies, Inc. On December 17, 2004, the Company completed an initial public offering ("IPO") of its Class A common stock. On June 25, 2012, the Company changed its name to Comstock Holding Companies, Inc. to better reflect the Company's multi-faceted strategy and capabilities.

The Company's Class A common stock is traded on the NASDAQ Capital Market ("NASDAQ") under the symbol "CHCI" and has no public trading history prior to December 17, 2004. The Company continues to be in compliance with all NASDAQ continued listing requirements.

For the three and six month periods ended June 30, 2013 and 2012, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying consolidated financial statements.

2. REAL ESTATE HELD FOR DEVELOPMENT AND SALE

Real estate held for development and sale includes land, land development costs, construction and other costs. Real estate held for development and use is stated at cost, or when circumstances or events indicate that the real estate is impaired, at estimated fair value. Real estate held for sale is carried at the lower of cost or fair value less estimated costs to sell. Land, land development and indirect land development costs are accumulated by specific project and allocated to various units within that project using specific identification and allocation based upon the relative sales value, unit or area methods. Direct construction costs are assigned to units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of fees, capitalized interest and real estate taxes. Costs incurred to sell real estate are capitalized to the extent they are both reasonably expected to be recovered from the sale of the project and are tangible assets, or services performed to obtain regulatory approval of sales. Other selling costs are expensed as incurred.

If the project is considered held for sale, it is valued at the lower of cost or fair value less estimated selling costs. For assets held for development and use, estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances that may affect fair value, including management's plans for the property. A write-down to estimated fair value is recorded when the net carrying value of the property exceeds its estimated undiscounted future cash flows. These evaluations are made on a property-by-property basis whenever events or changes in circumstances indicate that the net book value may not be recoverable.

As of December 31, 2012, the Company classified its Eclipse at Potomac Yard and Penderbrook projects ("Eclipse" or "Potomac Yard" and "Penderbrook") as held for sale and accordingly, carried the project at fair value less costs to sell as determined by discounted cash flow models, reference to comparable market transactions, or relevant purchase offers. Discounted cash flow models are dependent upon several subjective factors, including estimated average sales prices, estimated sales pace, and the selection of an appropriate discount rate. The estimates of sales prices, sales pace and discount rates used by the Company are based on the best information available at the time the estimates are made. As of June 30, 2013, the Company sold all remaining units at the Eclipse and Penderbrook projects to prospective home buyers.

In 2012, management evaluated its strategic alternatives with respect to its real estate projects classified as held for sale with the objective of creating additional near term liquidity. As a result, a decision was made to market the Eclipse project in a bulk sale transaction, rather than by selling directly to prospective home buyers, significantly accelerating absorption. The impairment charge of \$2,358 for the year ended December 31, 2012, reflected the write down to estimated fair value less costs to sell under the bulk sale disposition strategy. During the six months ended June 30, 2013, the Company continued selling to prospective home buyers in the absence of a prospective bulk sale buyer and as a result of the increased sales activity, revised its previous strategy. As a result of the revised disposition strategy and the increased sales activity, the Company recorded a reversal of previously recorded impairment charges of \$722 during the six months ended June 30, 2013, to properly reflect the for sale project at fair market value less costs to sell, consistent with the provisions of Accounting Standards Codification ("ASC") 360. There were no impairment charges, or reversals, recorded during the three and six months ended June 30, 2012 and the three months ended June 30, 2013.

Real estate held for development and sale consists of the following:

	June 30, 2013	December 31, 2012
Land and land development costs	\$20,651	\$ 19,378
Cost of construction (including capitalized interest and real estate taxes)	7,776	8,403
	<u>\$28,427</u>	<u>\$ 27,781</u>

In the three and six months ended June 30, 2013, the Company sold one and five model home units, respectively, to third parties and concurrently executed market rate leasebacks of the units. The terms of the leasebacks provided for market rate rents ranging from \$3 to \$5 monthly over 6 to 12 month leases, containing extension options. The Company reviewed each transaction in accordance with the guidance in ASC 840-40, *Leases – Sale-Leaseback Transactions*, and determined that as “seller-lessee,” the Company relinquished the right to *substantially* all of the remaining use of the property sold, retaining only a minor portion of use in the model homes leased back and the leases contained no prohibited terms of continued involvement, therefore, accounted for the sale and leaseback as separate transactions in accordance with the guidance. There were no sale and leaseback transactions for the three and six months ended June 30, 2012. The sale of the model homes is included within ‘Revenue-homebuilding’ in the Consolidated Statements of Operations. The rental expenses related to the model home sale-leasebacks are capitalized to ‘Real estate held for development and sale’ in accordance with ASC 970-340-25, *Real Estate Project Costs*.

3. OPERATING REAL ESTATE, NET

In February 2011, the Company began construction on a 103 unit apartment rental project located in the Cascades master planned community in Loudoun County, Virginia (the “Cascades Apartments”). Accordingly, upon the initiation of construction, the value of the existing land upon which the project was constructed (approximately \$2.5 million) was reclassified from real estate held for development and sale to operating real estate, net. The total construction costs capitalized in addition to the land and land development costs were approximately \$9.8 million. The apartment project consisted of two buildings, the first of which was placed in service in July 2011 and the second of which was placed in service in September 2011. Accordingly, depreciation was recorded on the buildings placed in service. As further discussed in Note 13, the Cascades Apartments were sold on March 7, 2012, and the Consolidated Balance Sheets no longer include ‘Operating real estate, net’ as of June 30, 2013 and December 31, 2012.

Depreciation is calculated on buildings and improvements using the straight-line method over estimated useful lives, which range from seven to thirty years. Furniture, fixtures and equipment are generally depreciated using the straight-line method over estimated useful lives, which range from three years (primarily computer-related equipment) to seven years. Depreciation of \$82 was recorded for the three and six months ended June 30, 2012 and is included in net loss on discontinued operations. No such charges were recorded for the three and six months ended June 30, 2013.

4. GENERAL CONTRACTING REVENUE

The Company undertakes short-term general contracting projects within its real estate services segment. These contracts are typically no more than 12 months in length. Revenue and earnings on these general contracting contracts are recognized under the percentage of completion method using the ratio of costs incurred to estimated total costs. There are estimates used in determining profits and total costs inherent in the percentage of completion method and actual results could differ from the estimates used by the Company. The revenues and costs associated with these projects are included in ‘Revenue – other’ and ‘Cost of sales – other,’ respectively, in the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2013 and 2012. Total revenue and gross profit recognized for the three months ended June 30, 2013 was \$102 and \$16, respectively. Total revenue and gross profit recognized for the three months ended June 30, 2012 was \$363 and \$46, respectively. During the six months ended June 30, 2013, total revenue and gross profit recognized were \$111 and \$25, respectively. During the six months ended June 30, 2012, total revenue and gross profit recognized were \$952 and \$126, respectively. Trade receivables and accounts payable were approximately \$773 and \$758, respectively, related to completed general contracting projects at June 30, 2013. Trade receivables and accounts payable were approximately \$1,313 and \$1,308, respectively, related to general contracting projects at December 31, 2012.

5. WARRANTY RESERVE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 984	\$ 1,001	\$ 963	\$ 1,009
Additions	44	13	84	27
Releases and/or charges incurred	(16)	(26)	(35)	(48)
Balance at end of period	<u>\$ 1,012</u>	<u>\$ 988</u>	<u>\$ 1,012</u>	<u>\$ 988</u>

6. CAPITALIZED INTEREST AND REAL ESTATE TAXES

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate held for development and sale during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive. A project becomes inactive when development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate held for development and sale are expensed as a component of cost of sales as related units are sold. The following table is a summary of interest and real estate taxes incurred and capitalized and interest and real estate taxes expensed for units settled:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total interest incurred and capitalized	\$ 439	\$ 8	\$ 904	\$ 52
Total real estate taxes incurred and capitalized	20	34	96	126
Total interest and real estate taxes incurred and capitalized	<u>\$ 459</u>	<u>\$ 42</u>	<u>\$ 1,000</u>	<u>\$ 178</u>
Interest expensed as a component of cost of sales	\$ 1,071	\$ 627	\$ 1,975	\$ 1,245
Real estate taxes expensed as a component of cost of sales	100	55	205	117
Interest and real estate taxes expensed as a component of cost of sales	<u>\$ 1,171</u>	<u>\$ 682</u>	<u>\$ 2,180</u>	<u>\$ 1,362</u>

When a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. Following is a breakdown of the interest, real estate taxes and indirect costs related to inactive projects.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total interest incurred and expensed for inactive projects	\$ 16	\$ 1,088	\$ 73	\$ 1,743
Total real estate taxes incurred and expensed for inactive projects	14	47	47	95
Total production overhead incurred and expensed for inactive projects	88	57	224	108
	118	1,192	344	1,946
Amounts reclassified to discontinued operations	—	—	—	(154)
	<u>\$ 118</u>	<u>\$ 1,192</u>	<u>\$ 344</u>	<u>\$ 1,792</u>

7. INCOME (LOSS) PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted income per share for the three and six months ended June 30, 2013 and 2012 are presented on the Consolidated Statements of Operations. Restricted stock awards, stock options and warrants for three and six months ended June 30, 2013 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the restricted stock awards, stock options and warrants would be anti-dilutive. As a result of net losses attributable to Comstock Holding Companies, Inc. for the three months ended June 30, 2013, approximately 662, 370 and 1,057 of restricted stock awards, stock options and warrants, respectively, were excluded from the computation of dilutive earnings per share because their inclusion would have been anti dilutive. As a result of the net losses from continuing operations attributable to Comstock Holding Companies, Inc. for the six months ended June 30, 2013, approximately 593, 293 and 863 of restricted stock awards, stock options and warrants, respectively, were excluded from the computation of dilutive earnings per share because their inclusion would have been anti dilutive. As a result of the net losses from continuing operations for the three months ended June 30, 2012, approximately 895, 206 and 517 of restricted stock awards, stock options and warrants, respectively, were excluded from the computation of the dilutive earnings per share because their inclusion would have been anti dilutive. As a result of the net losses from continuing operations for the six months ended June 30, 2012, approximately 971, 216 and 593 of restricted stock awards, stock options and warrants, respectively, were excluded from the computation of the dilutive earnings per share because their inclusion would have been anti dilutive. The computation of basic and diluted shares outstanding is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Computation of basic shares outstanding				
Weighted average common shares outstanding—basic	<u>20,674</u>	<u>20,431</u>	<u>20,599</u>	<u>20,359</u>
Computation of diluted shares outstanding				
Weighted average common shares outstanding—diluted	<u>20,674</u>	<u>20,431</u>	<u>20,599</u>	<u>20,359</u>

8. SEGMENT DISCLOSURES

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

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

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

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

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

	Homebuilding	Apartment Buildings	Real Estate Services	Total
Three Months Ended June 30, 2013				
Gross revenue	\$ 11,990	\$ —	\$ 223	\$12,213
Gross profit	2,201	—	115	2,316
Operating profit from continuing operations	12	—	102	114
Operating profit from discontinued operations	—	—	—	—
Net income	12	—	102	114
Total assets	46,647	—	1,036	47,683
Depreciation and amortization	121	—	—	121
Interest expense	16	—	—	16
Three Months Ended June 30, 2012				
Gross revenue	\$ 3,881	\$ —	\$ 363	\$ 4,244
Gross profit	153	—	46	199
Operating (loss) income profit from continuing operations	(3,172)	—	91	(3,081)
Operating (loss) from discontinued operations	—	(34)	—	(34)
Net (loss) income	(3,172)	(34)	91	(3,115)
Total assets	28,996	1,159	874	31,029
Depreciation and amortization	272	—	—	272
Interest expense	1,088	—	—	1,088
Six Months Ended June 30, 2013				
Gross revenue	\$ 23,439	\$ —	\$ 331	\$23,770
Gross profit	4,620	—	236	4,856
Operating profit from continuing operations	958	—	222	1,180
Operating (loss) from discontinued operations	—	(4)	—	(4)
Net income (loss)	958	(4)	222	1,176
Total assets	46,647	—	1,036	47,683
Depreciation and amortization	303	—	—	303
Interest expense	73	—	—	73
Six Months Ended June 30, 2012				
Gross revenue	\$ 7,227	\$ —	\$ 952	\$ 8,179
Gross profit	190	—	126	316
Operating (loss) income profit from continuing operations	(5,533)	—	112	(5,421)
Operating profit from discontinued operations	—	6,360	—	6,360
Net (loss) income	(5,533)	6,360	112	939
Total assets	28,996	1,159	874	31,029
Depreciation and amortization	616	—	—	616
Interest expense	1,579	—	—	1,579

The Company allocates selling, general and administrative expenses to the individual segments based upon specifically allocable costs and, in the absence of direct allocations, based upon its estimate of time allocable to the segment or based upon overall pro rata revenue generation.

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Segment operating income (loss) from continuing operations	\$ 114	\$ (3,081)	\$1,180	\$ (5,421)
Income tax benefit	—	1,202	—	2,114
Income (loss) from continuing operations	\$ 114	\$ (1,879)	\$1,180	\$ (3,307)
Segment operating (loss) income from discontinued operations	\$ —	\$ (34)	\$ (4)	\$ 6,360
Income tax expense	—	(1,202)	—	(2,114)
(Loss) income from discontinued operations	\$ —	\$ (1,236)	\$ (4)	\$ 4,246

9. INCOME TAX

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, "Accounting for Income Taxes" ("ASC 740"). Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities indicated in the financial statement and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on the deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

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. The Company recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance. This resulted in a zero deferred tax benefit or expense for the three and six months ended June 30, 2013 and 2012, respectively.

The Company currently has approximately \$116 million in federal and state NOLs, which based on current statutory tax rates, has a potential fair value of approximately \$45 million in tax savings. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 ("Section 382") rules, if a change of ownership is triggered, the Company's NOL assets and possibly certain other deferred tax assets may be impaired. We estimate that as of June 30, 2013, the cumulative shift in ownership of the Company's stock would not cause an impairment of our NOL asset. However, if an ownership change were to occur, the Section 382 limitation would not be expected to materially impact the Company's financial position or results of operations as of June 30, 2013, because of the Company's full valuation allowance on its net deferred tax assets.

The Company's ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an "ownership change" as defined under Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% shareholders over a specified time period (generally three years). Given Section 382's broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company's stock that is outside of the Company's control. In an effort to preserve the availability of these NOLs, Comstock adopted a Section 382 stockholder rights plan (the "Rights Plan"). The Rights Plan was adopted to reduce the likelihood of such an unintended "ownership change" and thus assist in preserving the value of these tax benefits. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years. This plan was submitted to a vote of the Company's shareholders on June 17, 2011 and the plan was approved at that meeting.

The Company has not recorded any accruals for tax uncertainties as of June 30, 2013 and 2012, respectively. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2009 through 2012 tax years generally remain subject to examination by federal and most state tax authorities.

10. COMMITMENTS AND CONTINGENCIES

Litigation

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

Letters of credit and performance bonds

The Company has commitments as a result of contracts entered into with certain third parties, primarily local governmental authorities, to meet certain performance criteria as outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that such commitments entered into are met by the Company. The letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. In some circumstances we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds. We cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds. At June 30, 2013 and 2012, the Company had issued \$3,613 and \$0 in letters of credit, respectively, and \$986 and \$2,007 in performance and payment bonds, respectively, to these third parties. No amounts have been drawn against these letters of credit or performance bonds.

11. RELATED PARTY TRANSACTIONS

On December 31, 2009, the Company, through an affiliate, Comstock Property Management, L.C., entered into a three-year lease for approximately 7,620 square feet of office space for its corporate headquarters at 1886 Metro Center Drive, Reston, Virginia from Comstock Asset Management, L.C., an affiliate wholly-owned by our Chief Executive Officer. On September 19, 2012, the Company amended the lease for an additional 2,436 square feet of office space, or a total 10,056 square feet, for its corporate headquarters, with an effective date of July 1, 2012. Concurrent with the amendment, the Company agreed to extend the lease for five-years from the effective date and future minimum lease payments are as follows:

2013	\$ 153
2014	310
2015	320
2016	329
2017	167
Total	<u>\$1,279</u>

For the three months ended June 30, 2013 and 2012, total payments made under this lease agreement were \$49 and \$51, respectively. For the six months ended June 30, 2013 and 2012, total payments under this lease agreement were \$124 and \$99. As of June 30, 2013 and December 31, 2012, the Company recorded a straight-line rent payable of \$18 and \$9, which is included in 'Accounts payable and accrued liabilities.

Comstock Services, L.C., a subsidiary of the Company, entered into a Subcontract Agreement with Davis Construction, LLC to perform site work and land development for a project known as Loudoun Station in Loudoun County, Virginia. Comstock Partners, L.C., an entity wholly-owned by the Chief Executive Officer of the Company, is the owner of the Loudoun Station project. The total contract value was \$5.2 million and was completed in October 2012. For the three and six months ended June 30, 2012, the Company recognized \$0.1 million and \$0.5 million of revenue, respectively, from the contract, which is included in 'Revenue-other' in the consolidated income statement. The Company did not recognize any revenues from the contract for the three and six months ended June 30, 2013. As of June 30, 2013 and December 31, 2012, the Company was owed \$0.7 million and \$1.3 million, respectively, under this contract, which is included in 'Trade receivables' in the Consolidated Balance Sheet.

On January 31, 2011, Comstock Cascades II, L.C., a subsidiary of the Company ("Cascades II") entered into a private placement for the sale of membership interests in Cascades II whereby Cascades II raised working capital in the amount of \$2.35 million (the "Private Placement") related to the planned construction of the Cascades Apartments. Proceeds of the Private Placement were utilized (i) to provide sufficient capital needed to secure project financing for the Cascades Apartments, (ii) to retire a portion of the existing indebtedness, and (iii) to reimburse the Company for prior expenditures incurred on behalf of the project. Participants in the Private Placement included unrelated third party investors along with several members of the Company's board of directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company. In March 2012, upon completion of the sale of the Cascades Apartments, the Company repaid the participants in the Private Placement \$3.0 million, including the preferred returns, in full.

Pursuant to a Credit Enhancement Agreement entered into on February 17, 2011 by and between Comstock Holding Companies, Inc. and Gregory Benson, the Chief Operating Officer, and Christopher Clemente, the Chief Executive Officer of the Company (each, a "Guarantor"), the Guarantors agreed to provide credit enhancement and personal guarantee of loans with Cardinal Bank and Eagle Bank in exchange for payment by the Company of a credit enhancement fee. As a result of this credit enhancement the Guarantors on an aggregate basis are entitled to a credit enhancement fee calculated at a rate of four percent (4%) per annum. One-half of the credit enhancement fee is payable monthly, in arrears, and the remaining half is deferred and payable on an annual basis. During the three and six months ended June 30, 2012, the Company made guarantee payments under this agreement of approximately \$130, respectively. No such payments were made for the three and six months ended June 30, 2013. The financing with SunBridge Capital Management, LLC eliminated the need for personal guarantees on the applicable projects and accordingly this agreement was terminated on July 12, 2011 with respect to the fees paid on the Eagle Bank loan. On March 7, 2012, the Cardinal Bank loan was repaid and, accordingly, the agreement was terminated with respect to the fees paid on the Cardinal Bank loan and the accrued fees were paid in full. Messrs. Clemente and Benson periodically provide personal guaranties for the Company for which a credit enhancement fee could be charged.

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by the Chief Executive Officer, to provide services related to real estate development and improvements, including legal, accounting, marketing, information technology and other additional support services. Pursuant to the Services Agreement, the Company shall not be responsible for any out-of-pocket or third party costs associated with the services provided. For the three months ended June 30, 2013 and 2012, the Company billed Comstock Asset Management, L.C. \$114 and \$88, respectively, for services and out-of-pocket expenses incurred. For the six months ended June 30, 2013 and 2012, the Company billed Comstock Asset Management, L.C. \$226 and \$169, respectively, for services and out-of-pocket expenses incurred. Revenues from this arrangement are included within 'Revenue – other' within the Consolidated Statement of Operations.

On March 14, 2013, Stonehenge Funding, LC (“Stonehenge”), an entity wholly-owned by the Chief Executive Officer of the Company, entered into an Extension Agreement of the Amended and Restated Senior Note with the Company to extend the maturity date of the financing arrangement to January 1, 2016. Under the terms of the Extension Agreement, the Company is required to pay \$50 monthly to Stonehenge, to be allocated first to accrued and unpaid interest and then to unpaid principal outstanding, beginning on April 1, 2013. For the three months ended June 30, 2013, the Company made payments of \$150. No similar payments were made during the three and six months ended June 30, 2012.

On March 14, 2013, Comstock Investors VII, L.C., a subsidiary of the Company (“INV”) entered into subscription agreements with certain accredited investors for the sale of membership interests in INV whereby INV raised working capital. Participants in the Private Placement included unrelated third party investors along with several members of the Company’s board of directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company. Refer to Note 13 for further details of the Private Placement offering.

12. DISCONTINUED OPERATIONS

As described in Note 13, on March 7, 2012, the Company’s subsidiary sold the Cascades Apartments. As the Cascades Apartments represented a component of the Company’s business, the consolidated financial statements have been reclassified for all periods presented to appropriately reflect the discontinued operations of the Cascades Apartments and the continuing operations of the Company. Revenues, costs and expenses directly associated with the Cascades Apartments have been reclassified as discontinued operations in the Consolidated Statements of Operations. Corporate expenses, such as general corporate overhead, have not been allocated to discontinued operations. The guidance in ASC 740-20-45-7 requires that the income recorded in discontinued operations be considered when determining the amount of benefit allocable to continuing operations in circumstances when continuing operations result in a net loss position for the period presented. Accordingly, the Company had allocated a tax benefit of \$1,202 to continuing operations and a tax expense of \$1,202 to discontinued operations for the three month period ended June 30, 2012. The Company had allocated a tax benefit of \$2,114 to continuing operations and a tax expense of \$2,114 to discontinued operations for the six month period ended June 30, 2012. No tax benefit or expense was allocated to continuing operations or discontinued operations for the three and six month periods ended June 30, 2013.

Summarized financial information for the Cascades Apartments is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	\$ —	\$ 4	\$ —	\$ 171
Cost of sales	—	(6)	(1)	123
Selling, general and administrative	—	—	5	10
Interest, real estate taxes and indirect costs related to inactive projects	—	—	—	154
Other (income) expenses, net	—	(6)	—	(10)
Income (loss) from discontinued operations before gain on sale of real estate and income tax expense	—	16	(4)	(106)
Net (loss) gain on sale of real estate	—	(50)	—	6,466
Net (loss) income from discontinued operations before income tax expense	—	(34)	(4)	6,360
Income tax expense	—	(1,202)	—	(2,114)
Net (loss) income from discontinued operations	<u>\$ —</u>	<u>\$ (1,236)</u>	<u>\$ (4)</u>	<u>\$ 4,246</u>

Discontinued operations have not been segregated in the consolidated statement of cash flows. Therefore, amounts for certain captions will not agree with the respective data in the Consolidated Statement of Operations.

13. VARIABLE INTEREST ENTITY

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

Consolidated Real Estate Held for Development and Sale

Included within the Company's real estate held for development and sale at June 30, 2013 are the following projects that are determined to be VIEs.

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a joint venture of its subsidiary, Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, for the purpose of acquiring, developing and constructing a 111-unit project in Washington, D.C. The Company evaluated the joint venture and determined that it was a VIE concluding that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the VIE's economic performance and its obligation to absorb losses, or receive benefits, from the VIE that could be significant to the VIE. The Company contributed its ownership interest in Comstock Ventures XVI, L.C. to its Comstock Investor VII, L.C. subsidiary on March 13, 2013 as more fully described below.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a joint venture of Comstock Holding Companies, Inc. and BridgeCom Development II, LLC, for the purpose of acquiring, developing and constructing 66 condominium units (the "Eastgate Project") in Loudoun County, Virginia. The Company evaluated the joint venture and determined that it was a VIE concluding that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the VIE's economic performance and its obligation to absorb losses, or receive benefits, from the VIE that could be significant to the VIE. During the current quarter, the Company and BridgeCom Development I, LLC., each contributed additional equity of \$614. The proceeds from the contribution will be utilized to construct the remaining units at the "Eastgate Project."

On March 14, 2013, Comstock Investors VII, L.C., a subsidiary of the Company, entered into subscription agreements with certain accredited investors ("Comstock VII Class B Members"), pursuant to which the Comstock VII Class B Members purchased membership interests in Comstock Investors VII, L.C. for an aggregate amount of \$7,295. Concurrently, the Company issued 112 warrants for the purchase of Class A shares of the Company's common stock to the non-affiliated accredited investors, having an aggregate fair value of \$136. Comstock VII Class B Members included unrelated third-party accredited investors along with members of the Company's board of directors and the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company. The Subscription Agreement provides that the Comstock VII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. After six months, the Company has the right to repurchase the interests of the Comstock VII Class B Members, provided that (i) all of the Comstock VII Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VII Class B Members' capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Private Placement provides capital related to the current and planned construction of the Company's following projects: The Residences at Shady Grove in Rockville, Maryland consisting of 36 townhomes, The Hampshires project in Washington, D.C. consisting of 38 single family residences and 73 townhomes, and the Falls Grove project in Prince William County, Virginia consisting of 110 townhomes and 19 single family homes (collectively, the "Projects"). Proceeds of the Private Placement are to be utilized (i) to provide capital needed to complete the Projects in conjunction with project financing for the Projects, (ii) to reimburse the Company for prior expenditures incurred on behalf of the Projects, and (iii) for general corporate purposes of the Company. The Company evaluated the Comstock Investors VII, L.C. subsidiary and determined that it was a VIE, concluding that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the VIE's economic performance and its obligation to absorb losses, or receive benefits, from the VIE that could be significant to the VIE.

At June 30, 2013 and December 31, 2012, total assets of these VIEs were approximately \$37.9 million and \$29.4 million, respectively, and total liabilities were approximately \$20.8 million and \$17.4 million, respectively. The classification of these assets is primarily within real estate held for development and sale and the classification of liabilities are primarily within notes payable – secured by real estate held for development and sale in the Company's consolidated balance sheets.

Consolidated Operating Real Estate, Net

On January 31, 2011, Comstock Cascades II, L.C., a subsidiary of the Company ("Cascades II") entered into a private placement for the sale of membership interests in Cascades II whereby Cascades II raised working capital in the amount of \$2.35 million (the "Private Placement") related to the planned construction of a 103 unit apartment project located in the Cascades master planned community in Loudoun County, Virginia (the "Cascades Apartments"). The balance was received during the first quarter of 2011. Proceeds of the Private Placement were utilized (i) to provide sufficient capital needed to secure project financing for the Cascades Apartments, (ii) to retire a portion of the existing indebtedness, and (iii) to reimburse the Company for prior expenditures incurred on behalf of the project. Participants in the Private Placement included unrelated third party investors along with several members of the Company's board of directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company.

On February 11, 2011, Comstock closed its loan agreement with Cardinal Bank (see Note 14) which provided the necessary construction financing for the development of the Cascades Apartments and concurrent with that closing, the Company utilized the proceeds of the Private Placement offering as described above. The Company has fully guaranteed the loan and accordingly, Comstock concluded that Cascades II is a VIE. As part of the Cascades II operating agreement, the Company has majority voting and complete operational control of the subsidiary. The Company had previously concluded that it is the primary beneficiary of the VIE and therefore the financial condition, results of operations and cash flows of Cascades II were consolidated in the accompanying financial statements.

The investors in the Private Placement (the "Priority Members") were entitled to a cumulative, compounded, preferred return, subject to the performance of Cascades II, of 20% per annum, compounded annually on their capital account balances. Comstock has the right to repurchase the interest of the Priority Members provided that i) all of the Priority Members interests are acquired, ii) the purchase is made in cash and iii) the purchase price equals the Priority Members capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The equity contribution related to the Private Placement is reflected as a Non-Controlling Interest as a component of consolidated shareholders' equity. The Company's investment is subordinate to the Priority Members investment and gains from the operating activity and distributions of cash flow (if any) of Cascades II will be allocated to the Priority Members (in advance of Comstock) up to their capital account plus the required preferred return of 20% as outlined above. For the three months ended March 31, 2012, the priority returns of \$103 were reflected in the accompanying Consolidated Statement of Operations as net income attributable to non-controlling interests to properly account for the preferred return due the Priority Members upon liquidation of their interest in Cascades II.

On March 7, 2012, the Company completed the sale of the Cascades Apartments to an affiliate of CAPREIT Acquisition Corporation ("Purchaser"), a Maryland corporation, pursuant to a Contract of Sale Agreement, as amended, dated October 31, 2011. The Cascades Apartments were sold for \$19.35 million. In connection with the closing of the transaction, Cascades II placed in escrow \$300 (the "Warranty Escrow") to secure performance of certain post-closing warranty work and \$650 (the "Claims Escrow") to secure Cascades II's indemnification and other obligations set forth in the Agreement. The Warranty Escrow shall be released to Cascades upon completion of the post-closing warranty work and the Claims Escrow shall be released to Cascades in three equal installments at six, eight and twelve months from the date of settlement provided that no claims have been made against Cascades by the Purchaser. On September 6, 2012, the Purchaser released the \$300 Warranty escrow, net of \$2 in settlement costs, and one-third of the Claims Escrow, \$217, net of \$35 of post-closing warranty claims. On November 26, 2012, the Purchaser released the second installment of \$143, representing one-third of the remaining Claims Escrow. On March 11, 2013, the Purchaser released the final installment of \$290, net of \$16 of post-closing warranty claims. As detailed in Note 12, the historical operations of Cascades Apartments are included within discontinued operations.

Concurrent with the execution of the sale transaction, Cascades II settled the secured financing of \$10.1 million with Cardinal Bank, including all principal and interest due at the time of settlement, and retired the non-controlling equity investment, including all preferred returns due. The Company realized a loss on the extinguishment of the secured financing with Cardinal Bank of \$0.3 million, including the prepayment penalty fees of \$0.2 million. At settlement, the Company received net proceeds of approximately \$4.7 million from the transaction after repayment of the existing loan from Cardinal Bank secured by the Project and the retirement of the non-controlling equity investment related to the Project.

Concurrent with the settlement of the secured financing, retirement of non-controlling equity investment holders and the release of the Company's corporate guaranty, the Company determined a reconsideration event under ASC 810 had occurred and concluded the entity no longer met the definition of a VIE as defined by the standard. The Company further noted that the Company has retained the controlling financial interest in Cascades II and has continued to consolidate the subsidiary.

Land purchase options

The Company typically acquires land for development at market prices under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if the Company fails to perform under the agreements. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts. The Company may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the land under contract. The Company's sole legal obligation and economic loss for failure to perform under these purchase agreements is typically limited to the amount of the deposit pursuant to the liquidated damages provision contained within the purchase agreement. As a result, none of the creditors of any of the entities with which the Company enters into forward fixed price purchase agreements have recourse to the general credit of the Company.

The Company does not share in an allocation of either the profit earned or loss incurred by any of these entities with which the Company has fixed price purchase agreements. The Company has concluded that whenever it options land or lots from an entity and pays a significant non-refundable deposit as described above, a variable interest entity is created under the provisions of ASC 810-10 *Consolidation*. This is because the Company has been deemed to have provided subordinated financial support, which creates a variable interest which limits the equity holder's returns and may absorb some or all of an entity's expected theoretical losses if they occur. The Company, therefore, examines the entities with which it has fixed price purchase agreements for possible consolidation by the Company under the provision of ASC 810-10. The Company does not have any contractual or ownership interests in the entities with which it contracts to buy the land. The Company concluded that it does not have the power to direct the activities that most significantly impact the VIEs economic performance, including the power to site plan and engineer the developments, finance the parcels under option contract, and develop the raw parcels under option contract into finished lots. The third party retains these rights under the fixed purchase price agreements until title is transferred to the Company upon settlement of the transaction, or a portion of the transactions as defined. Therefore, the Company has not consolidated these VIEs in the consolidated balance sheet.

14. UNCONSOLIDATED JOINT VENTURE

On April 10, 2013, the Company formed Superior Title Services, L.C., a joint venture, together with Stewart Title & Escrow, Inc and Stewart Title Group, LLC, unaffiliated third parties (together, “the Stewart Group”). The joint venture was established for the purpose of engaging in the general title insurance business. The Company owns a 50% profit/loss allocation percentage and related equity investment in the joint venture. The entity was initially capitalized through a \$7 contribution each from the Company and the Stewart Group. This entity was evaluated and concluded that the Company does not have a controlling financial interest in the joint venture, nor is the Company the primary beneficiary. The Company accounts for its interest in this venture using the equity method of accounting and adjusts the carrying value for our proportionate share of the unconsolidated joint venture’s earnings, losses and distributions. The investment in the unconsolidated joint venture is included within ‘Other assets’ in the consolidated balance sheets as of June 30, 2013 and \$42 of earnings from the unconsolidated joint venture are included in ‘Other income, net’ within the consolidated statement of operations for the three and six months ended June 30, 2013. There were no investments in unconsolidated joint ventures as of December 31, 2012 and no earnings on unconsolidated joint ventures for the three and six months ended June 30, 2012.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Statement of Operations:				
Total net revenue	\$ 120	\$ —	\$ 120	\$ —
Total expenses	36	—	36	—
Net income	<u>\$ 84</u>	<u>\$ —</u>	<u>\$ 84</u>	<u>\$ —</u>
Comstock Holding Companies, Inc. pro rata share of net income	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ 42</u>	<u>\$ —</u>

15. CREDIT FACILITIES

The Company generally finances its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. As described in more detail below, our outstanding debt by lender was as follows:

Bank	Balance as of June 30, 2013	Balance as of December 31, 2012	Recourse
Eagle Bank	\$ 4,089	\$ 2,500	Secured
Eagle Commercial Ventures - Redland Road	3,190	—	Secured
Rosalie K. Stahl	3,000	3,000	Secured
Eagle Bank - New Hampshire Ave.	3,334	3,159	Secured
Bank of America	2,838	3,096	Unsecured
Eagle Bank - Potomac Yard / Penderbrook	—	4,084	Secured
Cardinal Bank - Eastgate	1,560	636	Secured
Cardinal Bank - Yorkshire	1,248	—	Secured
Branch Banking & Trust	263	263	Secured
Seller – Emerald Farm	100	100	Secured
TSR - Shady Grove, LLC.	—	5,750	Secured
	19,622	22,588	
Due to affiliates – Stonehenge Funding	4,956	5,041	Unsecured
Total	\$ 24,578	\$ 27,629	

The material loan agreements are discussed below.

Eagle Bank

On May 29, 2012, the Company, through its Comstock Potomac Yard, L.C. and Comstock Penderbrook, L.C. subsidiaries, entered into a loan agreement with Eagle Bank pursuant to which the Company secured a \$9.96 million loan with a twenty-seven months term (the “Eagle Bank Loan”) to refinance the Company’s Eclipse condominium project and Penderbrook Square condominium project. Proceeds from the Eagle Bank Loan were primarily utilized (i) to pay off existing indebtedness of approximately \$7.97 million, (ii) set up an interest reserve escrow pursuant to the term of agreement in the amount \$0.5 million, (iii) pay approximately \$0.1 million in settlement charges and closing costs, and (iv) for general corporate purpose. The interest reserve escrow is held in the name of the bank and if the borrower defaults under the loan agreement, the bank has sole discretion to apply the funds or portion of the funds to pay off the indebtedness. Commencing thirty days after closing, the Company is required to make monthly payments of interest only on outstanding principal balance, principal curtailment payments upon settlements at the two subsidiaries and a minimum principal curtailment payment of \$4.98 million no later than 12 months following the closing of the Eagle Bank Loan. There is no prepayment penalty associated with the Eagle Bank Loan. The balance outstanding at December 31, 2012 was \$4,084. The Company repaid the note as of June 30, 2013.

On August 23, 2012, the Company, through New Hampshire Ave. Ventures, LLC, a consolidated joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, entered into a three-year loan agreement and related documents with Eagle Bank securing a \$6.0 million revolving development loan and a \$4.0 million revolving construction loan (collectively, the “Eagle NHA Revolver”) to finance The Hampshires, the Company’s 111-unit project located in Washington, D.C. Proceeds from the Eagle NHA Revolver will primarily be utilized to (i) pay for expenses associated with the Eagle NHA Revolver; (ii) reimburse the Company for development costs previously expended and (iii) to pay for the future development and construction related expenses. Under the terms of the Loan Agreement, the Eagle NHA Revolver provides for an initial floating interest rate of LIBOR plus 3% with an interest rate floor of 5.75%. The New Hampshire Ave. Ventures, LLC is required to make monthly interest payments on the Eagle NHA Revolver to the extent not offset by a \$400 interest reserve initially set aside for the benefit of the Borrower and is required to make a minimum principal curtailment under the development portion of the Eagle NHA Revolver of \$3.22 million by December 31, 2013 of which \$2.3 million was curtailed as of June 30, 2013 and additional curtailments on a quarterly basis thereafter. There is no prepayment penalty associated with the Eagle NHA Revolver, which is secured by a first deed of trust and is fully guaranteed by the Company. The balance outstanding at June 30, 2013 and December 31, 2012 was \$3.3 million and \$3.2 million, respectively.

On December 27, 2012, the Company, through Comstock Redland Road, L.C. subsidiary, entered into an acquisition bridge loan (the “Bridge Loan”) with Eagle Bank, pursuant to which the Company secured \$2.5 million to finance the Company’s acquisition of the property directly adjacent to the Shady Grove Metro in Rockville, Montgomery County, Maryland. The Company utilized the proceeds from the Eagle Bank Loan (the “Bridge Loan”) to (i) pay for the acquisition of land planned for development of 36 townhomes, 3 single family and a 117-unit multi-family residential building and (ii) to pay for expenses associated with settlement

charges and closing costs. Under the terms of the loan agreement, the Bridge Loan provides for an interest rate of 5% per annum. The Company is expected to make monthly interest payments commencing thirty days after closing, with entire principal balance due March 27, 2013. The loan is secured by a promissory note, second deed of trust and security agreement on the property, second deed of trust and security agreement on the Potomac Yard project, a guaranty of Comstock Holding Companies, Inc., Comstock Potomac Yard, L.C. and Christopher Clemente, the Chief Executive Officer of Comstock Holding Companies, Inc. and other ancillary documents (collectively, the "Bridge Loan Documents"). There is no prepayment penalty associated with the Bridge Loan. The Bridge Loan was repaid in full, including accrued interest, on March 25, 2013.

On March 25, 2013, Comstock Redland Road, L.C., a subsidiary of the Company ("Redland"), entered into a Revolving Credit Line Deed of Trust, Security Agreement, and Fixture Filing, Loan Agreement, Revolving Construction Loan Promissory Note, Development Loan Promissory Note, and related documents (the "TH Loan Documents") with EagleBank pursuant to which Redland secured a \$10.4 million acquisition, development and construction loan and letter of credit facility ("TH Loan") for a mix of 39 townhomes and single family homes at the Residences at Shady Grove project in Rockville, Montgomery County, Maryland (the "TH Project") and a \$2.4 million acquisition and development loan ("Apt Loan") for a 117-unit multi-family residential building known as BLVD Shady Grove, in Rockville, Montgomery County, Maryland (the "Apt Project"). Under the terms of the TH Loan Documents, there is a 24 month maturity date, and an interest rate at LIBOR plus three percent (3%), subject to an interest rate floor of 5%. Under the Apt Loan, there is a 12 month maturity date and an interest rate at LIBOR plus three percent (3%), subject to an interest rate floor of 5%. The TH Loan and Apt Loan are secured by the TH Project, Apt Project, and fully guaranteed by the Company. The balance outstanding on the TH Loan and Apt Loans at June 30, 2013 was \$2.5 million and \$1.6 million, respectively.

Eagle Commercial Ventures

On March 25, 2013, the Company, through Redland, entered into a Loan Agreement, Deed of Trust, Security Agreement and Fixture Filing, Promissory Note, and related documents (the "Secondary Loan Documents") with Eagle Commercial Ventures, LLC ("Secondary Lender") for the acquisition and development of the TH Project and the Apt Project totaling \$3.2 million. Under the terms of the Secondary Loan Documents, there is a 24 month maturity date for the Secondary TH Loan, and a 12 month maturity date for the Secondary Apt Loan, and both loans provide for an interest rate at 12%, with payment of interest only at 6% and accrual of the remaining 6% until maturity. The Secondary TH and Apt Loans are secured by a second trust on the TH Project and Apt Project, respectively, and are fully guaranteed by the Company and the Company's Chief Executive Officer. The balance outstanding on the Secondary TH Loan and Secondary Apt Loans at June 30, 2013 was \$2.1 million and \$1.1 million, respectively.

Rosalie K. Stahl Trust

On August 23, 2012, the Company, through New Hampshire Ave. Ventures, LLC, a consolidated joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, also entered into a \$3.0 million mezzanine loan (the "NHA Mezzanine Loan") in connection with the The Hampshires project with the Rosalie K. Stahl Trust. Proceeds from the NHA Mezzanine Loan, which has a three-year maturity date, were utilized to acquire the land for development of the project. The NHA Mezzanine Loan provides for an interest rate of 13.5% per annum, interest to be paid current on a monthly basis, with the full principal balance being due at maturity. The NHA Mezzanine Loan is secured by a second deed of trust which is fully subordinate to the Eagle NHA Revolver and is non-recourse to the Company. There is no prepayment penalty associated with the NHA Mezzanine Loan. The balance outstanding on the loan at June 30, 2013 and December 31, 2012 was \$3.0 million, respectively.

Cardinal Bank

On September 27, 2012, the Company, through Comstock Eastgate, L.C. ("Eastgate"), a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, entered into a loan agreement with Cardinal Bank to which the Company secured a \$2.5 million revolving construction loan (the "Cardinal Bank Revolver") to finance The Villas at Eastgate, the Company's 66-unit project located in Loudoun County, VA. The loan maturity is twelve months from origination, with an automatic extension of twelve months subject to the Company meeting certain sales conditions, which include (i) entering into binding contracts for the sale of eighteen units and (ii) settling twelve units, each by the one year anniversary of the loan. The proceeds of Cardinal Bank Revolver will be primarily utilized to pay expenses associated with the loan and future construction expenses of the project. The Cardinal Bank Revolver provides for a variable interest rate of Prime plus 0.5%, with an interest rate floor of 4.75%. Commencing thirty days after loan close, the Company is required to make monthly payments of interest only and upon the closing of the sale of a unit, make principal curtailment payments of 100% of unit costs borrowed. There is no prepayment penalty associated with the Cardinal Bank Revolver. The balance outstanding on the loan at June 30, 2013 and December 31, 2012 was \$1.6 million and \$0.6 million, respectively. As of June 30, 2013, the Company entered into binding contracts for the sale of forty five units and settled 11 units. As of July 24, 2013, the Company met both conditions set forth under the agreement stated above and the maturity date was automatically extended to September 27, 2014.

On May 8, 2013, the Company, through its Comstock Yorkshire, L.C. ("Yorkshire") subsidiary, entered into a loan agreement and related documents with Cardinal Bank pursuant to which Yorkshire secured a \$5.2 million acquisition and development loan and a \$2.5 million revolving construction loan (collectively, the "Yorkshire Loan") to finance the Company's project known as Falls Grove located in Prince William County,

Virginia (the “Yorkshire Project”). Under the terms of the Yorkshire Loan, the loan provides for an initial variable interest rate of Prime plus 0.5% with an interest rate floor of 4.5%. The Yorkshire Loan has a maturity date of 24 months as long as Yorkshire has maintained an annual sales pace of twenty-four contracts and twelve settlements of units in the Yorkshire Project within the twelve month period following the closing of the Yorkshire Loan. There is no prepayment penalty associated with the Yorkshire Loan and is secured by a first deed of trust on the Yorkshire Project. The Yorkshire Loan is fully guaranteed by the Company, with a limited guaranty by the Chief Executive Officer and Chief Operating Officer of the Company. During the three months ended June 30, 2013, the Company made no guarantee payments under this agreement. The balance outstanding on the loan at June 30, 2013 was \$1.2 million.

TSR-Shady Grove, LLC

On December 27, 2012, the Company, through the Comstock Redland Road, L.C. subsidiary, entered into a Deferred Purchase Money Promissory Note with TSR-Shady Grove, LLC, a Maryland Limited liability company, pursuant to which the Company secured \$5.75 million for the acquisition of land planned for development of 36 town houses, 3 single family and a 117-unit multi-family residential building. The TSR-Shady Grove Loan provides for an interest rate of 6% per annum, interest is payable commencing thirty days after closing, with entire principal balance due March 28, 2013. However, pursuant to the Purchase and Sale Agreement (the “Purchase Agreement”), no interest was to accrue until the property was vacated. The TSR-Shady Grove Loan was secured by a deferred purchase money first deed of trust. There was no prepayment penalty associated with Redland Grove Loan. The Deferred Purchase Money Promissory Note was repaid in full, including accrued interest, on March 25, 2013.

Stonehenge

On December 23, 2009, Stonehenge Funding, LC (“Stonehenge”), an entity wholly-owned by the Chief Executive Officer of the Company, completed the purchase of a senior unsecured note (the “JP Morgan Debt”) from JP Morgan Ventures (“JPMV”) in the then outstanding amount of approximately \$9.0 million, plus accrued and unpaid interest. The purchase of the JP Morgan Debt resulted in the transfer to Stonehenge of a warrant previously issued to JPMV for the purchase of 1.5 million shares of the Company’s Class A Common Stock with a strike price of \$0.07 per share (the “JP Morgan Warrant”). The Company’s Chief Operating Officer subsequently purchased a participation interest in the JP Morgan Debt and the JP Morgan Warrant from Stonehenge. On February 12, 2010 the Company entered into a modification agreement to modify the terms of the Company’s senior unsecured note with Stonehenge (the “Modification Agreement”). Under the terms of the Modification Agreement, Stonehenge agreed to forgive \$4.5 million of the principal balance due from the Company under the JP Morgan Debt, reducing the principal balance by 50% to \$4.5 million. Stonehenge also agreed to forgive an additional amount due from the Company of approximately \$875, representing all past due interest, late fees and penalties accruing through December 31, 2009 under the JP Morgan Debt. Stonehenge further agreed to reduce the interest rate, effective January 1, 2010, by 50% to 300 basis points above the one year LIBOR on a floating basis. In connection therewith, Stonehenge may, on a quarterly basis, elect to accept stock of the Company (or warrants for the purchase thereof) with a cumulative value equal to the value of the scheduled interest payment in lieu of accruing a future quarterly interest payment. Further, the Modification Agreement provided for the elimination of or forbearance from the enforcement of all financial covenants contained in the JP Morgan Debt and forgiveness of all previously reported covenant violations by the Company. On July 24, 2012, the Company and Stonehenge entered into an agreement extending the maturity of the debt to July 20, 2013.

On March 14, 2013, Stonehenge entered into an extension agreement of the Amended and Restated Senior Note with the Company to extend the maturity date of the financing arrangement to January 1, 2016. Under the terms of the extension agreement, the Company is required to pay \$50 monthly to Stonehenge, to be allocated first to accrued and unpaid interest and then to unpaid principal outstanding, beginning on April 1, 2013. The balance outstanding on this note as of June 30, 2013 and December 31, 2012 was \$4.9 and \$5.0 million, respectively.

As of June 30, 2013, maturities and/or curtailment obligations of all of our borrowings are as follows:

2013	\$ 2,496
2014	4,875
2015	9,413
2016	4,956
2017 and thereafter	2,838
Total	<u>\$24,578</u>

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values based on their short maturities. The carrying amount of floating rate debt approximates fair value based upon observable market rates.

The fair value of fixed rate debt is based on observable market rates (Level 2 inputs). The following table summarizes the fair value of fixed rate debt and the corresponding carrying value of fixed rate debt as of:

	June 30, 2013	December 31, 2012
Carrying amount	\$24,578	\$ 27,629
Fair value	\$22,234	\$ 24,881

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

The Company may also value its real estate held for development and sale at fair value on a nonrecurring basis. Such fair value measurements use significant unobservable inputs and are classified as Level 3. See Note 2 for a further discussion of the valuation techniques and the inputs used.

17. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

The Company accounts for its share-based awards pursuant to ASC 718, Stock Compensation. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements over the vesting period based on their fair values at the date of grant. The fair value of stock options granted is calculated under the Black-Scholes option-pricing model.

During the three and six months ended June 30, 2013, the Company issued 30 stock options, respectively, with a fair value of \$19. During the three and six months ended June 30, 2012, the Company issued 140 stock options, respectively, with a fair value of \$176. During the three and six months ended June 30, 2012, the Company issued 30 and 550 restricted stock awards with a fair value of \$43 and \$984, respectively. During the three and six months ended June 30, 2013, the Company issued no restricted stock awards. Stock options issued during the three and six months ended June 30, 2013 and 2012 vest over four years.

For the three months ended June 30, 2013 and 2012, total stock-based compensation cost was \$130 and \$327, respectively. For the six months ended June 30, 2013 and 2012, total stock-based compensation cost was \$334 and \$599, respectively. For the three months ended June 30, 2013 \$23 was capitalized to 'Real estate held for development and sale' and \$107 was charged to selling, general and administrative expenses. For the three months ended June 30, 2012, \$327 was charged to selling, general and administrative expenses and no costs were capitalized to 'Real estate held for development and sale'. For the six months ended June 30, 2013, \$278 was charged to selling general and administrative expenses. For the six months ended June 30, 2012, \$599 was charged to selling, general and administrative expenses and no costs were capitalized to 'Real estate held for development and sale'.

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 common stock on the trading day immediately preceding the applicable settlement date. The remaining amounts are delivered to the recipient as shares of our common stock. We settled 138 restricted stock awards in the three months ended June 30, 2013, of which 13 restricted stock awards were net settled by withholding 5 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling of \$8 to the appropriate tax authorities. The amount remitted to the tax authorities for the employees' tax obligation to the tax authorities was reflected as a financing activity within our consolidated statements of cash flows. These shares withheld by us as a result of the net settlement election are no longer considered issued and outstanding, thereby reducing our shares outstanding used to calculate earnings per share.

As of June 30, 2013 and 2012, the weighted-average remaining contractual term of unexercised stock options was 5.75 years and 7.5 years, respectively. As of June 30, 2013 and 2012, there was \$706 and \$1,700 of unrecognized compensation cost related to stock issuances granted.

18. SUBSEQUENT EVENTS

On July 25, 2013, the Company, through Comstock Eastgate, L.C., a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, executed the seventh lot takedown, of eleven total, under the Building and Purchase Agreement with M/I Homes of DC, LLC, for the purchase price of \$550. On August 5, 2013, the Company executed the eighth and ninth lot takedowns for the purchase price of \$450 each.

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

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

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

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," "intend," "expect," "will," "should," "seeks" or other similar 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 directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, without limitation: general economic and market conditions, including interest rate levels; our ability to service our debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; economic risks in the markets in which we operate, including actions related to government spending; delays in governmental approvals and/or land development activity at our projects; regulatory actions; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates. Additional information concerning these and other important risk and uncertainties can be found under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Our actual results could differ materially from these projected or suggested by the forward-looking statements.

Overview

We are a multi-faceted real estate development and services company. We have substantial experience with building a diverse range of products including apartments, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. We operate our business through three segments: Homebuilding, Apartment Buildings and Real Estate Services as further discussed in Note 8 of our consolidated financial statements. We are currently focused on the Washington, D.C. market, which is the eighth largest metropolitan statistical area in the United States.

Homebuilding

Our expertise in developing traditional and non-traditional housing products enables us to focus on a wide range of opportunities within our core market. For our homebuilding operations, we develop properties with the intent that they be sold either as fee-simple properties or condominiums to individual unit buyers or as investment properties sold to private or institutional investors. Our for sale products are designed to attract first-time, early move-up, and secondary move-up buyers. We focus on products that we are able to offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products. We believe our middle market strategy positions our products such that they are affordable to a significant segment of potential home buyers in our market.

Apartment Buildings

Comstock's focus on the apartment sector is on developing projects ranging from approximately 75 to 200 units in locations that are supply constrained with demonstrated demand for stabilized assets. We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We will either position the assets for sale when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future. When developing rental communities, we design our products to be affordable for tenants that fit one of two groups: (i) young first-time renters, or (ii) renters by choice. The multi-family asset class has benefitted from turmoil in the new home industry, limited access to residential mortgage financing and market conditions that have driven down construction costs during the past few years. Continued favorable economic and employment conditions in the Washington, D.C. market have caused rents to rise while vacancy rates and cap rates have declined.

Real Estate Services

Our management team has significant experience in all aspects of real estate management including strategic planning, land development, entitlement, property management, sales and marketing, workout and turnaround strategies, financing and general construction. We are able to provide a wide range of construction management, general contracting and other real estate related services to other property owners. This business line not only allows us to generate fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.

We believe that our significant experience over the past 25 years, combined with our ability to navigate through two major housing downturns (early 1990s and late 2000s) have provided us the experience necessary to capitalize on attractive opportunities in our core market of Washington, D.C. and to rebuild shareholder value. We believe that our focus on the Washington, D.C. market, which has historically been characterized by economic conditions less volatile than many other major homebuilding markets, will provide an opportunity to generate attractive returns on investment and for growth.

At June 30, 2013, we either owned or controlled under purchase option agreements approximately 848 building lots. The following table summarizes certain information related to new orders, settlements and backlog for the three and six month periods ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gross new orders	48	14	87	34
Cancellations	4	—	10	—
Net new orders	44	14	77	34
Gross new order revenue	\$23,061	\$4,028	\$41,364	\$7,822
Cancellation revenue	\$ 1,483	\$ —	\$ 4,560	\$ —
Net new order revenue	\$21,578	\$4,028	\$36,804	\$7,822
Average gross new order price	\$ 480	\$ 288	\$ 475	\$ 230
Settlements	22	12	43	29
Settlement revenue - homebuilding	\$11,987	\$3,767	\$23,383	\$6,952
Average settlement price	\$ 545	\$ 314	\$ 544	\$ 240
Backlog units	43	8	43	8
Backlog revenue	\$18,842	\$1,494	\$18,842	\$1,494
Average backlog price	\$ 438	\$ 187	\$ 438	\$ 187

We currently have communities under development in multiple counties throughout the Washington, D.C. market. The following table summarizes certain information for our current and planned communities as of June 30, 2013:

As of June 30, 2013								
Project	State	Product Type (2)	Estimated Units at Completion	Units Settled	Backlog (3)	Lots Owned Unsold	Lots under Option Agreement Unsold	Average New Order Revenue Per Unit to Date
The Hampshire (1)	DC	SF	38	10	5	23	—	\$ 726
		TH	73	1	4	68	—	\$ 540
Villas at Eastgate (1)	VA	Condo	66	11	34	—	21	\$ 380
Falls Grove (1)	VA	SF	19	—	—	19	—	\$ —
		TH	110	—	—	110	—	\$ —
Residences at Shady Grove (1)	MD	TH/SF	39	—	—	39	—	\$ —
BLVD Shady Grove (1)	MD	APT	117	—	—	117	—	\$ —
Emerald Farm (4)	MD	SF	84	78	—	6	—	\$ 452
BLVD Newell (5)	MD	APT	144	—	—	—	144	\$ —
Total			690	100	43	382	165	\$ 461

- (1) Community in development and/or construction with units available for sale.
- (2) "SF" means single family home, "TH" means townhouse, "Condo" means condominium and "APT" means apartments.
- (3) "Backlog" means we have an executed order with a buyer but the settlement has not yet taken place.
- (4) Developed and available for sale.
- (5) Community under our control.

Results of Operations

Three and six months ended June 30, 2013 compared to three and six months ended June 30, 2012

Orders, cancellations and backlog

Gross new order revenue, consisting of revenue from all units sold, for the three months ended June 30, 2013 was \$23.1 million on 48 units as compared to \$4.0 million on 14 units for the three months ended June 30, 2012. Gross new order revenue for the six months ended June 30, 2013 increased \$33.6 million to \$41.4 million on 87 units as compared to \$7.8 million on 34 units for the six months ended June 30, 2012. Net new order revenue, representing revenue for all units sold less revenue from cancellations, for the three months ended June 30, 2013 increased \$17.6 million to \$21.6 million on 44 units as compared to \$4.0 million on 14 units for the three months ended June 30, 2012. Net new order revenue for the six months ended June 30, 2013 increased \$29.0 million to \$36.8 million on 77 units as compared to \$7.8 million on 34 units for the six months ended June 30, 2012. Average gross new order revenue per unit for the three months ended June 30, 2013 increased \$192 to \$480, as compared to \$288 for the three months ended June 30, 2012. Average gross new order revenue per unit for the six months ended June 30, 2013 increased \$245 to \$475, as compared to \$230 for the six months ended June 30, 2012. The increase is related directly to the mix of units settled. For the six months ended June 30, 2013, gross new orders totaled one unit at Penderbrook, 19 units at Eclipse, 16 units at The Hampshires and 51 units at Eastgate, as compared to 30 units at Penderbrook and 4 units at Eclipse for the six months ended June 30, 2012.

We have two Washington, D.C. area projects where we currently have units available for sale, The Hampshires in Northeast, Washington D.C. and Eastgate in Chantilly, VA. The Hampshires project began settling units in March 2013 and at June 30, 2013, there were 9 units in backlog for a total of \$5.8 million. The Eastgate project began settling units in March 2013 and at June 30, 2013, there were 34 units in backlog for a total of \$13.1 million. Unit sales at The Hampshires and Eastgate projects are generated from inventory that must be developed and constructed, thus the delivery of the units to the purchaser typically is made within 90 to 120 days from execution of the sales contract with the purchaser. At June 30, 2013, we had a total of 43 units in backlog to generate revenue of \$18.9 million. The Company exited the Penderbrook and Eclipse projects in January 2013 and June 2013, respectively, through settlement of all remaining units at each project.

Revenue – homebuilding

The number of homes delivered for the three months ended June 30, 2013 increased to 22 as compared to 12 homes for the three months ended June 30, 2012. The number of homes delivered for the six months ended June 30, 2013 increased to 43 as compared to 29 homes for the six months ended June 30, 2012. Average revenue per home delivered increased by approximately \$231 to \$545 for the three months ended June 30, 2013 as compared to \$314 for the three months ended June 30, 2012. Average revenue per home delivered increased by approximately \$304 to \$544 for the six months ended June 30, 2013 as compared to \$240 for the six months ended June 30, 2012. Revenue from homebuilding increased by \$8.2 million to \$12.0 million for the three months ended June 30, 2013 as compared to \$3.8 million for the three months ended June 30, 2012 which resulted from the increase in the number of homes settled and the mix of units sold. Revenue from homebuilding increased by \$16.4 million to \$23.4 million for the six months ended June 30, 2013 as compared to \$7.0 million for the six months ended June 30, 2012. The increase was a result of the increase in the number of homes settled and the mix of units sold. For the three months ended June 30, 2013, the Company settled 22 units (11 units at Eclipse, 5 units at The Hampshires and 6 units at Eastgate), as compared to 12 units (9 units at Penderbrook and 3 units at Eclipse) for the three months ended June 30, 2012. For the six months ended June 30, 2013, 43 units were settled (2 units at Penderbrook, 19 units at Eclipse, 11 units at The Hampshires and 11 units at Eastgate), as compared to 29 units (25 units at Penderbrook and 4 units at Eclipse) for the six months ended June 30, 2012.

Revenue – other

Revenue-other decreased approximately \$0.3 million to \$0.2 million during the three months ended June 30, 2013, as compared to \$0.5 million for the three months ended June 30, 2012. Revenue-other decreased approximately \$0.8 million to \$0.4 million during the six months ended June 30, 2013, as compared to \$1.2 million for the six months ended June 30, 2012. The decrease primarily relates to revenue from real estate services as the number of rental units at Penderbrook and Eclipse continued to decline until all units were sold in the current quarter. The completion of several of the general contracting projects in 2012 also contributed to the decline.

Cost of sales – homebuilding

Cost of sales – homebuilding for the three months ended June 30, 2013 increased by \$6.3 million to \$9.6 million, as compared to \$3.3 million for the three months ended June 30, 2012. Cost of sales – homebuilding for the six months ended June 30, 2013 increased by \$12.3 million to \$18.4 million, as compared to \$6.1 million for the six months ended June 30, 2012. The unit mix and number of homes settled during the quarter and the year accounted for the increase in the aggregate cost of sales figure.

Cost of sales – other

Cost of sales – other decreased approximately \$0.4 million to \$0.3 million during the three months ended June 30, 2013 as compared to \$0.7 million in the three months ended June 30, 2012. Cost of sales – other decreased approximately \$1.3 million to \$0.5 million during the six months ended June 30, 2013 as compared to \$1.8 million in the six months ended June 30, 2012. As a result of the continued absorption and sale of the condominium units at Penderbrook and Eclipse, the number of units used in rental operations had been significantly reduced over the past twelve months, attributing to the significant decrease.

Selling, general and administrative

Selling, general and administrative expenses for the three months ended June 30, 2013 increased \$0.1 million to \$2.2 million, as compared to \$2.1 million for the three months ended June 30, 2012. Selling, general and administrative expenses for the six months ended June 30, 2013 increased \$0.2 million to \$4.2 million, as compared to \$4.0 million for the six months ended June 30, 2012. The increase in expenses over the three and six month period is attributable to increases in compensation and consulting expenses related to business development initiatives.

Liquidity and Capital Resources

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and will continue to include, funds derived from various secured and unsecured borrowings, cash flow from operations, which includes the sale and delivery of constructed homes, rental apartment projects, finished and raw building lots and the sale of equity and debt securities.

The Company is involved in ongoing discussions with lenders and potential equity investors in an effort to provide additional growth capital to fund various new business opportunities. We are anticipating that through a combination of current available cash on hand, the additional cash from settlement proceeds, and the cash generated from settlements at our new communities currently under development that the Company will have sufficient financial resources to sustain our operations through 2013.

Credit Facilities

We have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate property. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. Refer to Note 14 in the Consolidated Financial Statements for details of our credit facilities and maturities and/or curtailment obligations of all of our borrowings.

Cash Flow

Net cash provided by operating activities was \$2.8 million for the six months ended June 30, 2013. This represents an increase from the net cash used in operating activities of \$1.0 million for the six months ended June 30, 2012. The increase is primarily attributable to the increase in settlement activity. Additionally, for 2012, other significant outflows relate to a \$709 reduction in accrued interest payable for debt service payments made to lenders and a \$1,572 reduction in payables related to payments made to vendors and compensation paid to employees, reflective of the improved cash position of the Company. Additionally, the 2012 cash flows from operating activities do not reflect the net cash flows from the sale of the Cascades Apartments of approximately \$4.7 million. Although the construction, development and sale of this and potentially other future merchant build projects are an ongoing component of the Company's operations, the net cash flows are presented within the investing and financing section of the accompanying consolidated statement of cash flows.

Net cash provided by investing activities was \$0.2 million for the six months ended June 30, 2013, primarily attributable to receipt of the remaining escrow balance from the sale of the Cascade Apartments in 2012. Net cash provided by investing activities was \$18.4 million for the six months ended June 30, 2012, primarily attributable to the sale of the Cascades Apartments.

Net cash provided by financing activities was \$4.8 million for the six months ended June 30, 2013, primarily attributable to the proceeds received from the Comstock Investor VII Private Placement and \$16.2 million in proceeds from notes payable, net of \$19.1 million in payments made on notes payable. Net cash used in financing activities was \$16.0 million for the six months ended June 30, 2012, primarily attributable to the extinguishment of debt and retirement of the non-controlling interests, including preferred returns, in full related to the Cascades Apartments and curtailments paid to lenders upon settlement of units at the Penderbrook and Eclipse properties.

Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity in Spring and Summer, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes four to six months to construct a new home, we deliver more homes in the second half of the year as Spring and Summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters, and the majority of cash receipts from home deliveries occur during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the three and six months ended June 30, 2013 compared with those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

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 June 30, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2013.

Limitations on the Effectiveness of Controls

We do not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Control

No change has occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our last fiscal quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS.**

There have been no material changes to the legal proceedings discussed under “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 1A. RISK FACTORS

We previously disclosed risk factors under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes to these risk factors.

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

The description of the offering related to Investors VII in Note 13 to our Consolidated Financial Statements is hereby incorporated by reference.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004), as amended by the Certificate of Amendment dated June 22, 2012 (incorporated by reference to Exhibit 4.2 to the Company’s Registration Statement on Form S-8 filed with the Commission on July 25, 2012).
- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).

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- 10.81* Loan agreement, dated as of May 8, 2013, by and between Cardinal Bank and Comstock Yorkshire, L.C.
- 31.1* Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Act of 1934, as amended.
- 32.1** Certification of Chairman and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Shareholder's Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text. ***

* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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: August 13, 2013

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

Date: August 13, 2013

By: /s/ JOSEPH M. SQUERI
Joseph M. Squeri
Chief Financial Officer
(Principal Financial Officer)

LOAN AGREEMENT

(Acquisition and Development Loan and Revolving Construction Line of Credit)

THIS LOAN AGREEMENT made effective as of the 8th day of May, 2013 by and between **COMSTOCK YORKSHIRE, L.C.**, a Virginia limited liability company (the "**Borrower**"), and **CARDINAL BANK**, a Virginia state chartered bank ("**Lender**").

WHEREAS, Borrower is the owner or contract purchaser of certain real property more particularly described on Exhibit A attached hereto and by this reference made a part hereof (the "**Land**"); and

WHEREAS, Lender has agreed to make (i) an acquisition and development line of credit to Borrower in the maximum aggregate principal amount that may be advanced of **Five Million Two Hundred Thousand and no/100 Dollars (\$5,200,000.00)** on a non-revolving basis (the "**A&D Loan**") to finance a portion of the Borrower's cost to acquire the Land, consolidate and re-subdivide the Land into a parcel for the construction of single family attached residences (the "Townhouse Parcel") and into nineteen (19) single family detached lots (the "Single Family Lots"), convert the Townhouse Parcel into a one hundred ten (110) unit condominium regime (the "Condominium Regime"), and develop the infrastructure for the Townhouse Parcel and the Condominium Regime and (ii) a construction line of credit in the maximum principal amount of **Two Million Five Hundred Thousand and no/100 Dollars (\$2,500,000)** that may be outstanding at any one time advanced and re-advanced on a revolving basis for and on account of materials to be furnished and labor and services to be performed in connection with the construction of one hundred ten (110) single family attached residential condominium units on the Townhouse Parcel subject to the Condominium Regime (the "Townhouse Condominiums") and certain other improvements upon the Land (the "**Construction Line**"), as amended, modified, supplemented and increased from time to time; and

WHEREAS, simultaneously with the execution and delivery hereof, Borrower has executed that certain Credit Line Deed of Trust Note dated of even date herewith in the principal amount of \$7,700,000.00 and that certain Credit Line Deed of Trust and Security Agreement of even date herewith to secure the same.

WITNESSETH:

For and in consideration of these presents, and in further consideration of the mutual covenants and agreements herein set forth and of the sum of Ten Dollars (\$10.00) lawful money of the United States of America by each of the parties to the other paid, receipt of which is hereby acknowledged, the parties hereto do hereby covenant and agree as follows:

ARTICLE IDEFINITIONS

1.0 Definitions. Borrower and Lender agree that, unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified, such definitions to be applicable equally to the singular and the plural forms of such terms and to all genders:

A&D Loan – The non-revolving line of credit from the Lender to the Borrower evidenced by the Note, to be advanced and repaid pursuant to this Loan Agreement and secured by the Security Documents to be used to finance a portion of the Borrower's cost to acquire the Land, subdivide the Land into the Townhouse Parcel and the Single Family Lots, create the Condominium Regime and develop the infrastructure for the Townhouse Parcel and the Condominium as more particularly set forth in the recitals to this Loan Agreement.

A&D Loan Funding Termination Date – The Initial Funding Termination Date. The A&D Loan Funding Termination Date shall be automatically extended to May 8, 2015, but only if (i) there are no defaults or events which with the passage of time would constitute a default under the Loan Documents, (ii) Borrower has satisfied all other terms and conditions required to be satisfied in the Loan Documents as of the Initial Funding Termination Date, and (iii) Borrower shall have sold at least twenty-four (24) Units and closed on at least twelve (12) Units within the Project as of the Initial Funding Termination Date. If the Initial Funding Termination Date is automatically extended as set forth above, the Lender's obligation to make any advances out of the A&D Loan shall terminate on May 8, 2015.

Borrower – The party hereinabove designated as such, its successors and assigns.

Building – Each separate building within the Condominium Regime each building to be limited to no more than eight (8) Units.

Commitment – The commitment letter dated April 22, 2013 from Lender to Borrower in connection with the A&D Loan, the Letters of Credit and the Construction Line, as the same may be from time to time amended.

Completion Date – For each Unit, the earlier to occur of (i) the date that is twelve (12) months after the date of the advance of Construction Line funds for the foundation for a Unit, and (ii) the date such Unit is to be delivered to the purchaser under a Contract.

Construction Line – The revolving line of credit from the Lender to the Borrower evidenced by the Note, to be advanced, re-advanced and repaid pursuant to this Loan Agreement and secured by the Security Documents to be used for the construction of the Units as more particularly set forth in the recitals to this Loan Agreement.

Construction Line Funding Termination Date – The Construction Line Funding Termination Date shall independently apply to each Construction Loan that the Lender has formally approved and committed to fund prior to the Initial Funding Termination Date (if the Construction Line Funding Termination Date is not automatically extended as set forth in the next sentence) and May 8, 2015 (if the Construction Line Funding Termination Date is automatically extended as set forth in the next sentence). The Construction Line Funding Termination Date shall be automatically extended beyond the Initial Funding Termination Date to the date(s) more particularly set forth below, but only if (i) there are no defaults or events which with the passage of time would constitute a default under the Loan Documents, (ii) Borrower has satisfied all other terms and conditions required to be satisfied in the Loan Documents as of the Initial Funding Termination Date,

and (iii) Borrower shall have sold at least twenty-four (24) Units and closed on at least twelve (12) Units within the Project as of the Initial Funding Termination Date. The Lender shall not be obligated to make advances out of the Construction Line for a Construction Loan for any Unit for which the Lender has not issued its formal Construction Loan commitment prior to the Initial Funding Termination Date, if the Initial Funding Termination Date is not extended hereunder or prior to May 8, 2015, if the Initial Funding Termination Date is extended hereunder. Construction Line advances for each Construction Loan that the Lender commits to hereunder shall terminate on the Construction Loan Maturity Date.

Construction Line Maturity Date – The last Construction Loan Maturity Date.

Construction Loan – A non-revolving limited amount that the Lender has committed to fund under the Construction Line for a specified Unit.

Construction Loan Maturity Date – The date on the earlier to occur of (i) the date that the Unit is sold, and (ii) the date that is twelve (12) months after the date of the first advance of Construction Line funds for the Unit.

Consulting Engineer or Progress Inspector – Such person or firm as Lender may from time to time appoint or designate for purposes related to the inspection of the progress of the construction of the Improvements, conformity of construction with the Plans and Specifications, and for such other purposes as to Lender may from time to time seem appropriate or as may be required by the terms of this Loan Agreement.

Contract – An executed contract of sale for the sale of a Unit, and such Contract complies with all of the following conditions:

- (i) the Contract shall be accompanied by a minimum cash deposit of three percent (3%) of the Contract purchase price;
- (ii) the Contract shall not be subject to any contingencies, including the sale of the purchaser's property; and the Contract shall not be subject to cancellation by the purchaser without loss of the deposit, except for cause or as may be provided by applicable Virginia statute; and
- (iii) the purchaser under the Contract shall be pre-qualified by a reputable mortgage lender, who shall issue a pre-qualification letter which indicates that the purchaser will be approved after appropriate verifications for the purchase money mortgage loan necessary to purchase such Unit.

Deed of Trust – That certain Credit Line Deed of Trust and Security Agreement made by Borrower to secure Lender, dated of even date herewith, as the same may from time to time be amended, modified or supplemented.

Environmental Indemnity Agreement – The Environmental Indemnity Agreement executed by the Borrower and Guarantors of even date herewith.

Event(s) of Default – Any of the happenings, events, circumstances or occurrences described in Article VI of this Loan Agreement.

Guarantors – Christopher Clemente, Greg Benson and Comstock Holding Companies, Inc., a Delaware corporation and their successors, personal representatives, devisees and heirs.

Hazardous Materials – Any (i) hazardous wastes and/or toxic chemicals, materials, substances or wastes occurring in the air, water, soil or ground water on, under or about the Mortgaged Property as defined by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Superfund or CERCLA), 42 U.S.C. §§ 9601 et seq., the Superfund Amendments and Reauthorization Act of 1986 (SARA), 42 U.S.C. § 9601(20)(D), the Resource Conservation and Recovery Act (the Solid Waste Disposal Act or RCRA), 42 U.S.C. §§ 6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 (CWA), 33 U.S.C. §§ 1251 et seq., the Clean Air Act of 1966 (CAA), 42 U.S.C. §§ 7401 et seq., the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601, et seq., and the National Environmental Policy Act, 42 U.S.C. 4321 et seq., as these statutes may be amended from time to time, and regulations promulgated thereunder; (ii) “oil, petroleum, petroleum products, and their by-products” as defined by the applicable statutes, as amended from time to time, and regulations promulgated thereunder; (iii) “hazardous substance” as defined by the applicable statutes, as amended from time to time, and regulations promulgated thereunder; (iv) substance, the presence of which is prohibited or controlled by any other applicable federal or state or local environmental laws, rules, regulations, statutes or ordinances now in force or hereafter enacted relating to waste disposal or environmental protection with respect to hazardous, toxic or other substances generated, produced, leaked, released, spilled or disposed of at or from the Mortgaged Property; and (v) other substance which by law requires special handling in its collection, storage, treatment or disposal including, but not limited to, asbestos, polychlorinated biphenyls (PCBs), urea formaldehyde foam insulation and lead-based paints, but not including small quantities of such materials present on the Mortgaged Property in retail containers or other materials used in the ordinary course of construction activities in compliance with all Environmental Requirements and Environmental Laws (as defined in the Security Documents).

Hydric Soils – Any soil category upon which construction of Improvements would be prohibited or restricted under applicable governmental requirements, including, without limitation, those imposed by the U. S. Army Corp of Engineers.

Improvements – Any and all buildings, structures, improvements, alterations or appurtenances now erected or at any time hereafter constructed or placed upon the Land or any portion thereof and any replacements thereof including without limitation, all equipment, apparatus, machinery and fixtures of any kind or character forming a part of said buildings, structures, improvements, alterations or appurtenances.

Indebtedness – All amounts due Lender pursuant to or on account of the Note, this Loan Agreement or any of the other Loan Documents, including, without limitation, all principal (including, without limitation, any principal that is advanced after the date of this Loan Agreement and any principal that is repaid and re-advanced), interest, late charges, loan fees and all other payments required to be made by Borrower pursuant to or on account of the Note, this Loan Agreement or any of the other Loan Documents.

Initial Funding Termination Date – May 8, 2014.

Land – The real property described in **Exhibit A** attached hereto and by this reference made a part hereof, as amended, modified, supplemented or increased from time to time.

Lender – The party hereinabove designated as such, its successors and assigns.

Letters of Credit – The up to \$2,950,000 in Letters of Credit which the Lender has committed to issue for the Borrower's account for the purpose of providing surety to the Public Authorities for the completion of certain Improvements to the Land.

Loan(s) – Individually, the A&D Loan or the Construction Line, as the case may be, and collectively, the A&D Loan and the Construction Line.

Loan Documents – The Note, this Loan Agreement, the Deed of Trust and all other documents executed by the Borrower and/or the Guarantors evidencing, guarantying or securing the Loans.

Mortgaged Property – The property described as such in the Deed of Trust, as amended, modified, supplemented or increased from time to time.

Note – The Credit Line Deed of Trust Note made by Borrower to the order of Lender dated of even date herewith in the principal amount hereinabove recited, as the same may from time to time be amended, modified or supplemented.

Obligations – Any and all of the covenants, warranties, representations, agreements, promises and other obligations (other than the Indebtedness) made or owing by Borrower or others to Lender pursuant to or as otherwise set forth in the Note or the Loan Documents.

Plans and Specifications – Any and all plans and specifications prepared for Borrower in connection with the construction of the Improvements and approved in writing by Lender, as the same may from time to time be amended with the prior written approval of Lender.

Pre-sold Unit – A Unit subject to a Contract.

Project – The Land, the consolidation and re-subdivision of the Land, the creation of the Condominium Regime for the Townhouse Parcel, the site development of the Land, and the construction of the Improvements and the Units are collectively hereinafter referred to as the Project.

Public Authorities – Prince William County, Virginia and any other public, municipal or quasi-municipal entity having jurisdiction over the Land and the Improvements to be constructed thereon.

Security Documents – The Deed of Trust, the Environmental Indemnity Agreement, and any other instrument or instruments described or characterized as such in the Deed of Trust, as the same may from time to time be amended, modified or supplemented.

Speculative Unit – A Unit not subject to a Contract including all model Units.

Unit – An individual Townhouse Condominium unit together with all common elements appurtenant thereto and the physical Improvements constructed, or being constructed, as a single family attached residence within the identified legal boundaries of the individual Townhouse Condominium unit.

ARTICLE II
THE LOANS – ADVANCES AND REPAYMENTS:
LETTER OF CREDIT FACILITY

2.0 The Loans. Lender agrees to advance proceeds of the Loans to Borrower, subject to the terms and conditions herein set forth and in accordance with the cost breakdown, budget (the “**Budget**”) and/or draw schedule attached hereto as Exhibit B and incorporated herein by reference, as amended from time to time by Lender.

2.1 Applications for Advances. Borrower shall make applications for advances of Loan proceeds from Lender on the forms that Lender approves in writing. Borrower shall make each such application at least five (5) business days before the advance shall be called for, in order to permit Lender to make such inspections as it shall from time to time consider appropriate. Lender shall perform the construction progress inspections of the Units within the Mortgaged Property (including inspections of the foundations). Borrower shall pay to Lender all inspection fees and expenses incurred by Lender prior to or at the time of the advance requested for each visit by Lender to inspect the construction progress of the Units. Each application for an advance of Loan proceeds shall be in such form and include such detail as Lender may require. Provided such inspections are satisfactory, Borrower shall be permitted two (2) advances or draws of the proceeds of the Loans each calendar month.

2.2 Funding Limitations. Except as specifically limited in this Loan Agreement, prior to the A&D Loan Funding Termination Date, Borrower shall have the right to borrow and repay, but not to re-borrow, from time to time, up to a maximum principal amount of **Five Million Two Hundred Thousand and no/100 Dollars (\$5,200,000.00)** for budgeted and approved Land Acquisition, Soft Costs, Development and Interest carry expenses as more particularly set forth in the Budget. Except as specifically limited in this Loan Agreement, prior to the Construction Line Funding Termination Date, Borrower shall have the right to borrow, repay and re-borrow on a revolving basis an amount not to exceed **Two Million Five Hundred Thousand and no/100 Dollars (\$2,500,000.00)** that may be outstanding at any one time for the Hard Construction costs of the Units pursuant to the Budget. Lender shall not be obligated to advance A&D Loan proceeds or Construction Line proceeds if (i) an Event of Default exists hereunder; (ii) Lender has made demand for any payment under the Note which remains unpaid; or (iii) any conditions precedent to such advance set forth in this Loan Agreement has not been satisfied in Lender’s judgment. Subject to the preceding conditions, Lender agrees to make advances in amounts not to exceed the following amounts:

(a) Land Acquisition Advance: \$785,000.

(b) Land Acquisition, Soft Costs, Development Costs and Interest Reserve Advances: The combined A&D Loan advances shall not exceed the sum of the "as-is" appraised value of the twelve (12) Single Family Lots for which the Lender has an appraisal as of the date of this Loan Agreement and the lesser of: (i) seventy-five percent (75%) of the "as-developed" appraised value of the finished Townhouse Condominiums on a gross value basis, or (ii) sixty-five percent (65%) of the "as-developed" appraised value of the finished Townhouse Condominiums on a discounted cash flow basis. In no event shall the Lender advance more than \$5,200,000 in the aggregate, on a non-revolving basis, for Land Acquisition, Soft Costs, Development Costs and Interest on the A&D Loan. The Lender shall automatically advance funds out of the \$330,000 Interest Reserve to cover the interest expense on the A&D Loan on a monthly basis when interest is due under the Note as to the A&D Loan. The funds set aside in the Interest Reserve shall not be advanced for any other purpose than to cover the actual interest expense accruing on the A&D Loan.

(c) Construction Loan Advances: Construction Loan advances shall not exceed the lesser of (i) sixty-seven percent (67%) of the "as-if completed" appraised value of a Unit on a gross sale price basis when added to the committed amount under the A&D Loan allocated to the Unit, (ii) eighty percent (80%) of the "as-if completed" appraised value of a Unit on a discounted cash flow basis when added to the committed amount under the A&D Loan allocated to the Unit, and (iii) one hundred percent (100%) of the actual construction costs of the finished Unit. The maximum amount of construction advances that may be outstanding at any one time during the term of the Construction Line shall not exceed \$2,500,000.

(d) Funding Termination: Lender shall not be obligated to advance any A&D Loan proceeds after the A&D Loan Funding Termination Date. Lender shall not be obligated to advance any Construction Loan proceeds after the Construction Loan Maturity Date.

2.3 Conditions Precedent to Loan Closing and funding of the A&D Loan: Lender shall not be obligated to close the Loans, make any advance of A&D Loan proceeds hereunder, make any advances out of the Interest Reserve, or cause the Letters of Credit to be issued unless the following conditions have been satisfied:

(a) The Note, the Deed of Trust and the other Loan Documents shall have been properly executed and delivered to Lender, the Deed of Trust (and any such supplements or amendments) shall be executed, acknowledged and recorded in the appropriate land records, and payment shall have been made for all recording costs in connection with the Deed of Trust (and any such supplements or amendments) and any other recorded Loan Documents and for any transfer or recordation taxes due under any federal, state or county law.

(b) Lender shall have received a paid policy of title insurance (ALTA Standard Form "B" Loan Policy – Current Edition) or a valid and enforceable commitment to issue the same, together with such reinsurance agreements and direct access agreements as may be required by Lender, from a company or companies satisfactory to Lender in the amount of the Loans and which

may be endorsed or assigned to the successors and assigns of Lender without additional cost, insuring the lien of the Deed of Trust to be a valid first lien on the Mortgaged Property, free and clear of all defects, exceptions and encumbrances except such as Lender and its counsel shall have approved, and which otherwise complies with the applicable requirements of the Commitment.

(c) Lender shall have received advice, in form and substance and from a source satisfactory to Lender, to the effect that a search of the applicable public records discloses no conditional sales contracts, chattel mortgages, leases of personalty, financing statements or title retention agreements filed or recorded against the Mortgaged Property except such as Lender shall have approved.

(d) Lender shall have received all policies or certificates of insurance required by the terms of the Commitment and the other Loan Documents to be in effect from a company or companies and in form and amount satisfactory to Lender, together with written evidence, in form and substance satisfactory to Lender, that all fees and premiums due on account thereof have been paid in full.

(e) Lender shall have received a separate policy of flood insurance in the face amount of the Note or the maximum limit of coverage available with respect to the Mortgaged Property, whichever is the lesser, from a company or companies satisfactory to Lender and written in strict conformity with the Flood Disaster Protection Act of 1973, as amended, and all applicable regulations adopted pursuant thereto; provided, however, that in the alternative Borrower may supply Lender with written evidence, in form and substance satisfactory to Lender, to the effect that such flood insurance is not available with respect to the Mortgaged Property, or Borrower may provide to Lender the certificate of a professional engineer that the Mortgaged Property is not within a flood hazard area.

(f) Lender shall have received a current survey of the Land, certified to Lender by a registered land surveyor of the jurisdiction in which the Land is located, which plat of survey shall clearly designate at least (i) the location of the perimeter of the Land by courses and distances; (ii) the location of all easements, rights-of-way, alleys, streams, waters, paths and encroachments; (iii) the location of all building restriction lines and set-backs, however established; (iv) the location of any streets or roadways abutting the Land; and (v) the then "as-built" location of the Improvements and the relation of the Improvements by courses and distances to the perimeter of the Land, building restriction lines and set-backs, all in conformity with the most recent Minimum Standard Detail Requirements for Land Title Surveys adopted by the American Congress on Surveying and Mapping.

(g) Lender shall have received true and complete copies of all organizational documents of Borrower, appropriate resolutions authorizing the acceptance of the Loans by Borrower and the execution of the Note and all Loan Documents, appropriate certificates of incumbency and an opinion letter from counsel for Borrower and the Guarantors, which is acceptable to Lender in all respects.

(h) Lender shall have received and approved an appraisal of the Mortgaged Property that complies with the applicable requirements of the Commitment.

(i) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, from all municipalities and utility companies having or claiming jurisdiction to the effect that all utility services in sufficient quantities necessary for the occupation of the Improvements to be constructed upon the Land, are available for connection and use at the boundaries of the Land, including, without limitation, telephone service, water supply, storm and sanitary sewer facilities, natural gas and electric facilities.

(j) Lender shall have received from Borrower written evidence, in form and substance reasonably satisfactory to Lender, to the effect that no development work of any kind has commenced upon the Land and no materials (financed with the proceeds of the Loans) have been placed or stored upon the Land prior to the recordation of the Deed of Trust among the land records where the Land is located unless the same shall be fully insured against by the title insurance company.

(k) Lender shall have received soil reports that shall (i) demonstrate that the soil conditions of the Land are suitable for the construction of the Improvements, and (ii) evidence to Lender's reasonable satisfaction that there are no Hydric Soils on the Mortgaged Property.

(l) Lender shall have received a satisfactory Phase I environmental site assessment report on the Land.

(m) Borrower shall have fully complied with any other applicable requirements of the Commitment.

(n) Borrower and Guarantors shall have provided Lender with their current financial statements and tax returns for the prior two (2) fiscal years in form and substance satisfactory to Lender.

(o) Borrower shall have established a deposit relationship with Cardinal Bank and shall maintain such deposit relationship through the Maturity Date through which all Loan advances and Borrower's funds pertaining to the development of the Single Family Lots and the Townhouse Parcel, creation of the Condominium Regime, and the construction of the Units shall be maintained and flow.

2.4 Conditions Precedent to Development Advances. Lender shall not be obligated to make any advances of A&D Loan proceeds hereunder with respect to the development of the Townhouse Parcel and the creation of the Condominium Regime after the first advance of the A&D Loan proceeds, unless the conditions described in Section 2.3 remain satisfied, and the following conditions have been satisfied with respect:

(a) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, from all governmental authorities having or claiming jurisdiction to the effect that all grading, building, construction and other permits and licenses necessary or required in connection with the development of the Single Family Lots and the Townhouse Parcel and the creation of the Condominium Regime have been validly issued for the work being performed for such draw request; that all applicable fees and bonds (whether posted by Borrower or its seller) required in

connection therewith have been paid in full or posted, as the circumstances may require, including, but not limited to, those fees to be financed by the Lender and the Letters of Credit to be issued by Lender in accordance with the terms of this Loan Agreement

(b) All work completed at the time of the application for advance has been performed in a good and workmanlike manner; or all work completed at the time of the application for advance has been performed in a good and workmanlike manner and all materials and fixtures usually furnished and installed at that stage of development have been furnished and installed.

(c) No Event of Default which has not been cured has occurred under the Note or any of the other Loan Documents and no act has occurred which, with the passage of time after due notice, would become an Event of Default.

(d) Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association or office having or claiming jurisdiction.

(e) Lender shall have received a notice of title continuation or an endorsement to the title insurance policy heretofore delivered, indicating that since the last preceding advance, there has been no change in the status of title and no survey exceptions or other exceptions not theretofore approved by Lender, which endorsement shall have the effect of advancing the effective date of the policy to the date of the advance then being made and increasing the coverage of the policy to an amount equal to the total advances made as of the date of the advance then being made if the policy does not by its terms provide for such an increase.

(f) The representations and warranties made in Article III of this Loan Agreement shall be true and correct, in all material respects, on and as of the date of the advance with the same effect as if made on such date.

(g) Lender shall have received acknowledgments of payment and releases of liens and rights to claim liens for work performed or materials delivered through the date of the last preceding advance and concurrently with the final advance. All such acknowledgments and releases shall be in form and substance satisfactory to Lender and the title insurance company that has insured the title to the Mortgaged Property.

(h) Borrower shall have provided Lender with a list of the names of the architect, the engineer and all contractors and materialmen (the **"Contractors"**) that will perform work or supply materials in connection with the development of the Townhouse Parcel and the construction of the Improvements, together, to the extent available, with complete copies of the executed contracts for such work.

(i) Borrower shall have provided Lender with a set of detailed Plans and Specifications for all site development work, architectural, structural, mechanical, plumbing, electrical, site development and other work for or in connection with the Project.

(j) Lender shall have received copies of the recorded subdivision plat of the Mortgaged Property creating the Townhouse Parcel and a minimum of twelve (12) Single Family Lots.

(k) Borrower shall provide Lender with the final site plan for the Project as approved by all necessary Public Authorities.

(l) All other terms and conditions of the Loan Documents required to be met as of the date of the particular advance of Loan proceeds shall have been met to the satisfaction of Lender.

2.5 Conditions Precedent to Construction Line Advances. Lender shall not be obligated to make any advances of out of the Construction Line, unless the conditions described in Sections 2.3 and 2.4 remain satisfied, and the following conditions have been satisfied with respect to the Unit or Units for which the Construction Line advance is being requested:

(a) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, from all governmental authorities having or claiming jurisdiction to the effect that all grading, building, construction and other permits and licenses necessary or required in connection with the construction of the Improvements have been validly issued for the work being performed for such draw request; that all applicable fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid in full or posted, as the circumstances may require, including, but not limited to, those fees to be financed by the Lender and the Letters of Credit to be issued by Lender in accordance with the terms of this Loan Agreement.

(b) All work completed at the time of the application for advance has been performed in a good and workmanlike manner; or all work completed at the time of the application for advance has been performed in a good and workmanlike manner and all materials and fixtures usually furnished and installed at that stage of construction have been furnished and installed.

(c) No Event of Default which has not been cured has occurred under any of the Loan Documents and no act has occurred which, with the passage of time after due notice, would become an Event of Default.

(d) The Improvements for which the advance is being requested have not been materially damaged by fire or other casualty unless Borrower shall have received the proceeds of insurance sufficient in the judgment of Lender to effect a satisfactory restoration of such Improvements and to permit the completion thereof on or prior to the Completion Date.

(e) Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association or office having or claiming jurisdiction.

(f) Lender shall be satisfied, based upon the advice of the Consulting Engineer or Progress Inspector, that each Unit can be completed by a date no later than the Completion Date for that Unit with the balance of the Construction Loan proceeds committed to that Unit then held by

Lender and available for advance for those purposes pursuant to the terms of this Loan Agreement and with other funds which Lender is reasonably satisfied are available to Borrower for those purposes.

(g) Lender shall have received a notice of title continuation or an endorsement to the title insurance policy heretofore delivered, indicating that since the last preceding advance, there has been no change in the status of title and no survey exceptions or other exceptions not theretofore approved by Lender, which endorsement shall have the effect of advancing the effective date of the policy to the date of the advance then being made and increasing the coverage of the policy to an amount equal to the total advances made as of the date of the advance then being made if the policy does not by its terms provide for such an increase.

(h) In the case of the first advance of Construction Line proceeds following the completion of the foundation and footings of a Building, Lender shall have received a plat of survey certified to Lender from a land surveyor registered in Virginia, which plat of survey shall clearly designate the then "as built" location of the foundation of the Building and the relationship of the foundation by courses and distances to the perimeter of the parcel on which the Building is situated and any building restriction lines and set-backs applicable to the Building, which survey shall be in conformity with the requirements set forth in Section 2.3 (f) hereof.

(i) The representations and warranties made in Article III of this Loan Agreement shall be true and correct, in all material respects, on and as of the date of the advance with the same effect as if made on such date.

(j) Lender shall have received evidence, which is reasonably satisfactory to Lender, of compliance with all zoning, subdivision, environmental and other laws, ordinances, rules, regulations and restrictions affecting construction of the Improvements.

(k) Lender shall have received acknowledgments of payment and releases of liens and rights to claim liens for work performed or materials delivered through the date of the last preceding advance and concurrently with the final advance. All such acknowledgments and releases shall be in form and substance satisfactory to Lender and the title insurance company that has insured the title to the Mortgaged Property.

(l) The Borrower shall provide Lender with a final draw schedule for the Hard Construction advances in form and substance approved by the Lender.

(m) Lender shall have received a detailed construction budget on forms approved by Lender detailing the costs to construct the Improvements.

(n) All other terms and conditions of the Loan Documents that must be satisfied as of the date of the particular advance of Construction Loan proceeds shall have been satisfied to the Lender's satisfaction.

2.6 Additional Conditions Precedent to Final Advance. Lender shall not be obligated to make the final advance of Loan proceeds with respect to the Land, the Improvements or any Unit

included within the Project unless the conditions described in Section 2.3 and Section 2.4 and the following additional conditions have been satisfied with respect to the Land, the Improvements or the Unit:

(a) Lender has been satisfied that all construction has been satisfactorily completed in a good and workmanlike manner;

(b) Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association or office having or claiming jurisdiction;

(c) To the extent that any such certificate is a condition to the lawful use and occupancy of the subject Improvements, Lender has received evidence satisfactory to it that the requisite certificate of use and occupancy for permanent occupancy of such Improvements has been validly issued; however, such a certificate shall be not required for any model houses;

(d) All other terms and conditions of the Loan Documents required to be met as of the date of the final advance of Construction Loan proceeds for the applicable Unit shall have been met to the satisfaction of Lender.

2.7 Trust Funds. Borrower will receive the advances to be made hereunder and will hold the right to receive the same as a trust fund for the purpose of paying the cost of the acquisition and development of the Land and the construction of the Improvements, and Borrower agrees not to expend any part of the proceeds of the Loans for any purpose except in connection with the uses and purposes provided for in this Loan Agreement without the prior written consent of Lender.

2.8 Advances to Others for Account of Borrower. At the option of Lender, Lender may apply amounts due hereunder to the satisfaction of the conditions of the Commitment, the Note or the Loan Documents and any amounts so applied shall be part of the Loans and shall be secured by the Deed of Trust. Advances requested by Borrower shall be made directly to Borrower unless and until Borrower is in default hereunder or under any other Security Document. If Borrower is in default hereunder or under any other Security Document, then at the option of Lender, and without limiting the generality of the foregoing, Lender may make advances directly to the title insurance company or any subcontractor or materialman, or to any of them jointly, and the execution hereof by Borrower shall, and hereby does, constitute an irrevocable authorization, if Borrower is in default hereunder or under any other Loan Documents, to so advance the proceeds of the Loans. No further direction or authorization from Borrower shall be necessary to warrant such direct advances and all such advances shall satisfy *pro tanto* the obligations of Lender hereunder and shall be secured by the Deed of Trust as fully as if made to Borrower, regardless of the disposition thereof by the party or parties to whom such advance is made.

2.9 Additional Funds. If the inspections performed on behalf of Lender project that the remaining cost to complete the Improvements or a particular Unit will exceed the total remaining amount of Loan proceeds to be provided by Lender for the Improvements or that Unit, Lender shall not advance any more Loan proceeds for the Improvements or that Unit until Borrower has deposited

with Lender the difference between the total remaining cost to complete the Improvements or that Unit (including sufficient funds to pay interest for the remaining term of the Loans) and the total remaining amount of the Loan proceeds for the Improvements or that Unit. This provision will apply whenever the total remaining cost to complete the Improvements or a Unit exceeds the total remaining Loan proceeds for the Improvements or the particular Unit. Therefore, if the projected total remaining costs to complete the Improvements or a Unit continues to increase after the first time that it exceeds the total amount of the remaining Loan proceeds for the Improvements or the Unit, Borrower shall deposit the incremental increase before Lender advances any more Loan proceeds for the Improvements or the particular Unit. The determination of the total remaining cost to complete the Improvements and each Unit shall be made by Lender.

2.10 Assignments. Borrower agrees not to transfer, assign, pledge or hypothecate any right or interest in any payment or advance due pursuant to this Loan Agreement, or any of the other benefits of this Loan Agreement, without the prior written consent of Lender. Any assignment made or attempted by Borrower without the prior written consent of Lender shall be void. No consent by Lender to an assignment by Borrower shall release Borrower as the party primarily obligated and liable under the terms of this Loan Agreement unless Borrower shall be released specifically by Lender in writing. No consent by Lender to an assignment shall be deemed to be a waiver of the requirement of prior written consent by Lender with respect to each and every further assignment and as a condition precedent to the effectiveness of such assignment.

2.11 Liability of Lender. Lender shall in no event be responsible or liable to any person other than Borrower for the disbursement of or failure to disburse the proceeds of the Loans or any part thereof, and no subcontractor, laborer or material supplier shall have any right or claim against Lender under this Loan Agreement or the administration thereof.

2.12 Speculative Units and Construction Limitations. The Borrower may have not more than eight (8) Speculative Units in the first two (2) Buildings for which construction has commenced within the Project. To commence construction of any Building after the first two (2) Buildings, the Borrower shall not have more than the lesser of: (i) five (5) Speculative Units, and (ii) fifty percent (50%) of the total Units then under construction. Model Units shall be considered Speculative Units for the purpose of these limitations and Borrower shall have no more than two (2) Model Units at any time during the term of the Loans. The Borrower shall have no more than eighteen (18) Units or three (3) Buildings under construction at any one time during the term of the Loans. The Lender may, but shall not be obligated to, advance Loan proceeds to fund the development or construction costs for any Units during any period when the maximum limit of Speculative Units is exceeded. Borrower shall provide Lender with the information Lender requests with respect to Lender's review of each proposed Building and Borrower shall not commence construction of a Building until it has obtained Lender's prior approval.

2.13 Loan Fees. Lender's obligation to make advances of the A&D Loan shall be contingent upon Borrower's payment to Lender of a fully earned non-refundable **\$26,000** loan fee for the A&D Loan which shall be paid to the Lender at the Loan closing and shall be fully earned when paid. Lender's obligation to make advances and re-advances out of the Construction Line for any Unit shall be contingent upon Borrower's payment to Lender of a fully earned non-refundable Construction Line loan fee per Unit equal to one half of one percent (0.5%) of the total amount of the Construction Line committed to be advanced for the Unit that the Borrower shall pay Lender at the time of the first advance of Construction Line proceeds for each Unit.

2.14 Loan Repayment. On the A&D Loan Funding Termination Date, the Borrower shall pay all principal and accrued and unpaid interest and costs for that portion of the A&D Loan that the Lender has allocated to those Units for which the Lender has not committed Construction Loans as of the A&D Loan Funding Termination Date. For all other Units, the Borrower shall pay all principal and accrued and unpaid interest and costs for the A&D Loan allocated to a particular Unit and the Construction Loan for such Unit on or before the Construction Loan Maturity Date applicable to the Unit. Nothing in this Loan Agreement or the Commitment shall impose upon or imply that Lender has any obligation to extend the A&D Loan Funding Termination Date, the Construction Line Funding Termination Date, or any Construction Loan Maturity Date, the decision to extend any of those dates being within the sole and absolute discretion of the Lender.

2.15 Letter of Credit Facility. On the basis of the representations, warranties and covenants this day made by Borrower in the Loan Documents and subject to satisfaction of the conditions herein set forth, Lender shall issue the Letters of Credit in favor of the Public Authorities pursuant to the facility schedule approved by Lender (the "**Schedule**") and on the following terms and conditions:

(a) The Lender agrees, subject to the terms and conditions of this Loan Agreement, to issue the Letters of Credit for the account of the Borrower from time to time, pursuant to the Schedule. The total aggregate amount of the Letters of Credit that the Lender will issue shall not exceed **Two Million Nine Hundred Fifty Thousand Dollars (\$2,950,000)**. The obligation of the Lender to issue any Letters of Credit under this Letter of Credit Facility shall expire on that date that is twenty-four (24) months from the date of this Loan Agreement, unless extended in writing by Lender in its sole discretion. The initial term of a Letter of Credit shall not exceed twenty-four (24) months and will be renewable automatically (but only if no Event of Default has occurred and remains uncured as of the date of the renewal) for additional twelve (12) month periods to the extent that the Public Authorities require the extension of the applicable Letter of Credit. In no event shall the Lender be obligated to issue or extend a Letter of Credit that would expire after May 8, 2016. Each Letter of Credit will be issued for the benefit of the Public Authority to secure the Borrower's obligations to construct the Improvements required by the Public Authorities in connection with their approval of the Project.

(b) Each request for a Letter of Credit must be made in writing by an authorized representative of Borrower and must be accompanied by an appropriately completed Letter of Credit Agreement in form acceptable to Lender in its sole discretion, executed by the Borrower, which must be received by the Lender not less than five (5) business days prior to the date on which the Letter of Credit is to be issued. The purpose, form, amount and term of each Letter of Credit shall be subject to the Lender's approval, in its sole discretion.

(c) The Borrower agrees to pay to the Lender a non-refundable commission payable in advance on the date the Letter of Credit is issued or renewed and on each anniversary date of the Letter of Credit after such issuance or renewal equal to two percent (2%) per annum, based on the face amount of the Letter of Credit on each date. The Borrower shall immediately

reimburse the Lender on demand for any drawings paid by the Lender under a Letter of Credit. The Borrower's reimbursement obligations with respect to a Letter of Credit shall bear interest at a per annum rate equal to the non-default rate of interest then being charged Borrower under the Note plus three percent (3%) per annum (computed for the actual number of days during which any Letter of Credit is drawn upon and the Lender remains unreimbursed), which interest shall be payable on demand. The Borrower's reimbursement obligations shall, until paid, be treated as outstanding advances under the Loan, and shall be secured by the Deed of Trust.

(d) Each request for a Letter of Credit shall identify the portion of the Project to which the Letter of Credit is attributable, be in the form of a requisition, in form and substance satisfactory to and approved by Lender, and shall be accompanied by, and shall itself constitute, a certification by Borrower that all representations and warranties of Borrower and Guarantors in the Loan Documents remain true in all material respects as of the time of such request, and that no material adverse change in Borrower's or any of the Guarantor's respective financial conditions has occurred since the immediately preceding issuance of a Letter of Credit. It is anticipated that the initial issuance of the Letters of Credit will provide bond for two parcels of land adjoining the Land retained by the Seller for development and construction of a retail property (the "Retail Parcels"). Borrower shall use its best efforts to obtain a subdivision amendment to remove the Retail Parcels from the subdivision plans for the Project to insure that the Letters of Credit are not posted as bonds for the Seller's obligations to the Public Authorities with respect to the Retail Parcels.

(e) In no event will Lender be required to issue any Letter of Credit hereunder, or otherwise, if (i) an event shall have occurred which, with the passage of time or the giving of notice, or both, could constitute an Event of Default under (A) the Loan Documents; or (B) any financing junior (or subordinate) to the Deed of Trust and the Note secured thereby; or (C) any loan document evidencing or securing any other loan from Lender to Borrower or to any of the Guarantors, or (ii) Lender at any time determines, in its sole discretion, that the proceeds of the Loans remaining to be advanced are insufficient to complete the Project in accordance with the plans and specifications.

ARTICLE III REPRESENTATIONS AND WARRANTIES

3.0 Representations and Warranties by Borrower. Borrower hereby represents and warrants to Lender, as of the date of the first advance of Loan proceeds and at all times thereafter, that:

3.1 Plans and Specifications. No work associated with the construction of the Improvements will be commenced by Borrower unless and until the Plans and Specifications are satisfactory to Borrower and Lender and, to the extent required by applicable law and any effective restrictive covenants, have been approved by all governmental authorities having or claiming jurisdiction and by the beneficiaries of any such restrictive covenants, respectively.

3.2 Permits. No work associated with the development of the Townhouse Parcel, the creation of the Condominium Regime or the construction of the Improvements will be commenced

by Borrower unless and until all grading, building, construction and other permits necessary or required in connection with the commencement of the construction of the Improvements have been validly issued and all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid or posted, as the circumstances may require.

3.3 Utilities. All utility services necessary for the construction of the Improvements and the operation thereof for their intended purpose are available at the boundaries of the Land, or there are easements in place which will allow Borrower to extend utility services to the boundaries of the Land, including, without limitation, telephone service, water supply, storm and sanitary sewer facilities, and natural gas or electric facilities.

3.4 Access – Roads. All roads and other access necessary for the construction and full utilization of the Improvements for their intended purposes have either been completed or the necessary rights of way therefor have either been acquired by the appropriate governmental authorities or have been dedicated (or will be dedicated) to public use and has been or will be accepted by such governmental authorities or have been or will be created by recorded easement and all necessary steps have been taken or will be taken by Borrower or such governmental authorities to assure the complete construction and installation thereof by a time no later than the Completion Date.

3.5 Other Liens. Except as otherwise provided for in the Loan Documents, Borrower has made no contract or arrangement of any kind the performance of which by the other party thereto would give rise to a lien on the Mortgaged Property.

3.6 Financial Statements. The Borrower's financial statements heretofore delivered to Lender are true and correct in all material respects, have been prepared in accordance with sound accounting practices consistently applied, and fairly present the respective financial conditions of the subjects thereof as of the respective dates thereof. No material adverse change has occurred in the Borrower's financial condition reflected therein since the respective dates thereof and no material additional liabilities have been incurred by Borrower since the date thereof other than the borrowing contemplated herein or as approved in writing by Lender.

3.7 Defaults. There is no Event of Default on the part of Borrower under the Loan Documents and no event has occurred and is continuing which, with notice or the passage of time or both, would constitute an Event of Default under the Loan Documents.

3.8 Compliance in Zoning. The current or anticipated use of the Mortgaged Property complies with applicable zoning ordinances, regulations and restrictive covenants affecting the Land, all use requirements of any governmental authority having jurisdiction have been satisfied, and no violation of any law or regulation exists with respect thereto.

ARTICLE IV AFFIRMATIVE COVENANTS

4.0 Affirmative Covenants. Borrower hereby affirmatively covenants and agrees as follows:

4.1 Construction. Borrower shall promptly commence construction of the Improvements in accordance with the terms and provisions of this Loan Agreement and will pursue the same in good faith with diligence and continuity in accordance with the Plans and Specifications.

4.2. Approval and Permits. No work associated with the construction of the Improvements shall be commenced by Borrower unless and until the Plans and Specifications have been approved by Lender and, to the extent required by applicable law or any effective restrictive covenant, by all governmental authorities having or claiming jurisdiction and by the beneficiary of any such restrictive covenant, and unless and until all building, construction and other permits necessary or required in connection with the commencement of the construction of the Improvements have been validly issued and all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid or posted, as the circumstances may require.

4.3 Completion. Construction of a Unit shall be completed by Borrower on or before the Completion Date, free and clear of all liens and claims of liens for materials supplied and for services or labor performed in connection with the construction of the Unit.

4.4 Compliance with Laws – Encroachments. The Improvements shall be constructed by Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. The Improvements shall be constructed entirely on the Land and will not encroach upon any easement or right-of-way, or upon the land of others. Construction of the Improvements shall be wholly within all applicable building restriction lines and set-backs, however established, and shall be in strict accordance with all applicable use or other restrictions and the provisions of any prior agreements, declarations, covenants and all applicable zoning and subdivision ordinances and regulations.

4.5 Surveys. Upon Lender's request from time to time, as construction progresses and upon the completion of the construction of the Improvements, Borrower shall furnish Lender with a plat of survey, currently certified to Lender by a registered land surveyor of the jurisdiction in which the Land is located, which plat of survey shall clearly designate at least (i) the location of the perimeter of the Land by courses and distances; (ii) the location of all easements, rights-of-way, alleys, streams, waters, paths and encroachments; (iii) the location of all building restriction lines and set-backs, however established; (iv) the location of any streets or roadways abutting the Land; and (v) the "as-built" location of the Improvements and the relation of the Improvements by courses and distances to the perimeter of the Land, building restriction lines and set-backs.

If at any time Borrower is required to furnish a plat of survey to Lender pursuant to the terms of this Loan Agreement, Borrower shall also furnish an original print thereof to the title insurance company and such plat of survey shall not be sufficient for purposes of this Loan Agreement unless and until the title insurance company shall advise Lender, by endorsement to the title insurance policy or otherwise, that the plat of survey discloses no violations, encroachments or other variances from applicable set-backs or other restrictions except such as Lender and its counsel shall approve, such approval not to be unreasonably withheld. All such plats of survey shall conform to the most recent Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys jointly established and adopted by the American Land Title Association and the American Congress on Surveying and Mapping. The plats prepared in connection with the establishment and recordation of a phase of the Condominium Regime by Borrower's engineer shall be sufficient to meet the requirements of a plat survey in this paragraph.

4.6 Inspections; Cooperation; Payment of Consulting Engineer. Borrower shall permit Lender and Lender's duly authorized representatives (including, without limitation, the Consulting Engineer or Progress Inspector) no more than twice per month to enter upon the Land and to inspect the Improvements and any and all materials to be used in connection with the construction of the Improvements and to examine all detailed plans and shop drawings and similar materials relating to the construction of the Improvements, during ordinary business hours. Borrower will at all times cooperate and use its reasonable good faith efforts to cause each and every of its subcontractors and materialmen to cooperate with Lender and Lender's duly authorized representatives (including, without limitation, the Consulting Engineer or Progress Inspector) in connection with or in aid of the performance of Lender's functions under this Loan Agreement. The fees of any Consulting Engineer or Progress Inspector engaged or employed by Lender in connection with or in aid of the performance of Lender's functions under this Loan Agreement shall be paid by Borrower.

4.7 Vouchers and Receipts. Borrower will furnish to Lender, promptly on demand, any contracts, bills of sale, statements, receipted vouchers or agreements pursuant to which Borrower has any claim of title to any materials, fixtures or other articles delivered or to be delivered to the Land or incorporated or to be incorporated into the Improvements. Borrower will furnish to Lender, promptly on demand, a verified written statement, in such form and detail as Lender may reasonably require, showing all amounts paid and unpaid for labor and materials and all items of labor and materials to be furnished for which payment has not been made and the amounts to be paid therefor.

4.8 Payments for Labor and Materials. Borrower will pay when due all bills for materials supplied and for services or labor performed in connection with the construction of the Improvements, subject to Borrower's contest rights set forth in Section 4.6 of the Deed of Trust.

4.9 Correction of Construction Defects. In the event there are any defects in the work or any material departures or deviations from the plans and specifications not approved by Lender, as such defects, departures or deviations are certified to Lender by an outside engineer chosen by Lender, then promptly following any demand by Lender, Borrower will correct or cause the correction of such defects, departures or deviations.

4.10 Insurance. The original policy or policies of insurance, a certified true copy thereof and an original endorsement to the policy or policies of insurance issued by the approved insurance company that endorses the policy or policies to add the Lender as the mortgagee, loss payee and/or additional insured as its interests may appear shall be deposited with Lender (the "Endorsement"), together with a paid receipt for the premiums thereunder for at least the quarterly period following the date of this Loan Agreement. All policies of insurance shall be written with a company or companies licensed to do business in the jurisdiction where the Mortgaged Property is located and with a company or companies satisfactory to Lender. Each policy of insurance shall provide that such policy may not be surrendered, cancelled or substantially modified, including without limitation cancellation for non-payment of premiums, without at least thirty (30) days' prior written notice to all parties named as insured therein, including Lender.

At no cost to Lender, Borrower shall provide and maintain:

(a) **BUILDER'S RISK INSURANCE** – “Builder’s Risk” insurance (non-reporting form) of the type customarily carried in the case of similar construction for the full replacement cost of work in place and material stored at or upon the Mortgaged Property, comprehensive broad form “all risk” casualty insurance and insurance for other risks of a similar or dissimilar nature, in such forms and amounts as Lender may require. Such insurance policy shall name Lender as mortgagee.

(b) **FIRE/HAZARD INSURANCE WITH EXTENDED COVERAGE** – Insurance against any act or occurrence of any kind or nature that results in damage, loss or destruction to the Mortgaged Property under a policy or policies covering such risks as are ordinarily insured against by similar businesses, but in any event including fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke, vandalism and malicious mischief, upon the completion of the construction of the Improvements or upon the occupancy thereof for the purposes intended, whichever shall first occur. Unless otherwise agreed in writing by Lender, such insurance shall be for the full insurable value of the Mortgaged Property. The term “full insurable value” means the actual replacement cost of the Mortgaged Property (excluding foundation and excavation costs and costs of underground flues, pipes, drains and other uninsurable items). The deductible amount under such policy or policies shall not exceed \$5,000.00. No policy of insurance shall be written such that the proceeds thereof will produce less than the minimum coverage required by this section by reason of coinsurance provisions or otherwise. The “full insurable value” shall be determined from time to time at the request of Lender, by an appraiser or appraisal company or one of the insurers, who shall be selected and paid for by Borrower but subject to Lender’s approval. Such insurance policy shall name Lender as mortgagee.

(c) **LIABILITY INSURANCE** – Comprehensive general public liability and indemnity insurance in such forms and in such amounts as Lender may require, but in any event not less than \$1,000,000.00 covering claims for bodily injury or death and property damage arising out of a single occurrence and \$2,000,000.00 for the aggregate of all occurrences during any given annual policy period. Such insurance policy shall name Lender as mortgagee.

(d) **WORKER'S COMPENSATION INSURANCE** – Worker’s compensation insurance for all employees (if any) of Borrower in accordance with the applicable requirements of law. Such insurance policy shall name Lender as mortgagee.

(e) Delivery of Endorsement – Borrower shall deliver the original Endorsement to the Lender on or before June 8, 2013.

4.11. **Flood Insurance**. If required by applicable law or regulation or if required by Lender, Borrower shall provide or cause to be provided to Lender a separate policy of flood insurance in the amount of the Note or the maximum limit of coverage available with respect to the Mortgaged Property, whichever is the lesser, from a company or companies satisfactory to Lender and written in strict conformity with the Flood Disaster Protection Act of 1973, as amended, and all applicable regulations adopted pursuant thereto, or alternatively if flood insurance is not available for the

Mortgaged Property or the Mortgaged Property is not within a flood hazard area, Borrower shall supply Lender with written evidence, in form and substance satisfactory to Lender, to that effect. Any such policy shall provide that the policy may not be surrendered, cancelled or substantially modified (including, without limitation, cancellation for non-payment of premiums) without at least thirty (30) days' prior written notice to any and all insureds named therein, including Lender.

4.12 Fees and Expenses – Indemnity. Borrower will pay to Lender or as Lender directs all reasonable fees, charges, costs and expenses required to satisfy the conditions of the Loan Documents and the Commitment. Borrower will hold Lender harmless and indemnify Lender from all claims of brokers and “finders” arising by reason of the execution and delivery hereof or the consummation of the transaction contemplated hereby.

4.13 Prompt Applications. Borrower shall cause all applications for advances of Loan proceeds to be made and delivered to Lender promptly in order to obtain advances of Loan proceeds as they become available for disbursement pursuant to the terms of this Loan Agreement.

4.14 Hazardous Materials. Borrower will immediately remove all Hazardous Materials from the Land and Improvements or follow the recommendations of a qualified environmental consultant approved by Lender immediately after Borrower has been notified that Hazardous Materials have been used in the construction of the Improvements or are or have been stored or located upon the Land or the Improvements in violation of Environmental Requirements or Environmental Laws.

4.15 Financial Reporting. On or before May 31 of each year, the Borrower and the Guarantors will furnish to the Lender a current financial statement including (i) a detailed balance sheet, (ii) a report disclosing in detail the Borrower's income, expenses and net cash flow, (iii) a detailed, comprehensive schedule of all contingent liabilities, and (iv) a certified true copy of its federal income tax return for the previous fiscal year. The Borrower shall furnish the Lender with a monthly sales status report for the Project on the tenth (10th) day of each month commencing on the tenth (10th) day of the first full month after the date hereof. The Borrower and the Guarantors will also furnish to the Lender such other financial and operating information as the Lender may from time to time request.

4.16 End Loans and Sales Contracts.

The Borrower shall provide the Lender with copies of all executed Contracts for the sale of Units within five (5) business days after full execution. Lender shall be provided the opportunity to offer loans to purchasers of units and Borrower will include the terms of Cardinal's terms in its sales packages. However, notwithstanding the provisions of the preceding sentence, the Borrower's sales documents shall not require the purchasers of individual Units to obtain their purchase financing from the Lender or its subsidiary.

4.17 Deposit Accounts. The Borrower shall maintain its primary operating and deposit accounts with the Lender at all times during the term of the Loans.

4.18 Condominium Regime. Borrower shall submit all existing or proposed documentation (the “Condominium Documents”) intended or necessary to convert the Townhouse Parcel into a multi-unit Condominium Regime to Lender for Lender’s review and approval concurrently with Borrower’s submission of the Condominium Documents to any governmental authority required to review and approve the Condominium Documents as a precondition to creation of the Condominium Regime. Once the Lender has approved the Condominium Documents, which approval shall not be unreasonably withheld, delay, or conditioned, the Lender shall consent to and/or execute such Condominium Documents as are required of the Lender, in its capacity as the holder of a security interest in the Land, to facilitate the Borrower’s conversion of the Townhouse Parcel into the Condominium Regime under the laws of the Commonwealth of Virginia.

4.19 Master Association. Borrower shall submit all existing or proposed documentation (the “Master Association Documents”) intended or necessary to subject the Land and Improvements to a master association (the “Master Association”) to Lender for Lender’s review and approval concurrently with Borrower’s submission of the Master Association Documents to any governmental authority required to review and approve the Master Association Documents as a precondition to creation of the Master Association. Once the Lender has approved the Master Association Documents, which approval shall not be unreasonably withheld, delay, or conditioned, the Lender shall consent to and/or execute such Master Association Documents as are required of the Lender, in its capacity as the holder of a security interest in the Mortgaged Property, to facilitate the Borrower’s establishment of a Master Association for the Project under the laws of the Commonwealth of Virginia.

ARTICLE V
NEGATIVE COVENANTS

5.0 Negative Covenants. Until the Indebtedness shall have been paid in full, Borrower covenants and agrees as follows:

5.1 Other Liens; Transfers; “Due-on-Sale”, etc. Borrower shall not, without the prior written consent of Lender, create or permit to be created or remain with respect to the Mortgaged Property or any part thereof or income therefrom, any mortgage, pledge, lien, encumbrance, charge, security interest, conditional sale or other title retention agreement, whether prior or subordinate to the lien of the Security Documents, other than in connection with the Security Documents or as otherwise provided for or permitted therein. Except for any grant, conveyance, sale, assignment or transfer in the ordinary course of Borrower’s business and which is specifically conditioned upon the release of record of the lien of the Deed of Trust and the other Security Documents as to that portion of the Mortgaged Property granted, conveyed, sold, assigned or transferred, Borrower shall not, without the prior written consent of Lender, make, create, permit or consent to any conveyance, sale, assignment or transfer of the Mortgaged Property or any part thereof, or Borrower’s legal or equitable interest in the Mortgaged Property, other than in connection with the Security Documents or as otherwise provided for or permitted therein. Borrower will not, without the prior written consent of Lender, make, create or consent to any grant, conveyance, sale, assignment or transfer of any partnership interest or other interest in Borrower.

5.2 Impairment of Security. Borrower shall take no action which will in any manner impair the value of the Mortgaged Property or the validity, priority or security of the Deed of Trust.

5.3 Conditional Sales. Borrower will not incorporate in the Improvements any property acquired under a conditional sales contract or lease, or as to which the vendor retains title or a security interest, without the prior written consent of Lender.

5.4 Changes to Plans and Specifications. Borrower will not permit any material changes in the Plans and Specifications, including, without limitation, any change by altering or adding to the work to be performed, orders for extra work, any change which will result in a material net construction cost increase or a material net cumulative construction cost decrease, or any material change in the design concept for the Improvements, without the prior written consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed and under such reasonable conditions as Lender may then establish.

5.5 Bonds. Borrower will not do or permit anything to be done that would affect the coverage or indemnities provided for pursuant to the provisions of any performance bond, labor and material payment bond or any other bond required pursuant to the provisions of the Loan Documents.

ARTICLE VI EVENTS OF DEFAULT

6.0 Events of Default. The term "Event(s) of Default," as used in this Loan Agreement shall mean the occurrence or happening, from time to time, of any one or more of the following, beyond any applicable cure period:

6.1 Payment of Indebtedness. If Borrower shall fail to pay to Lender any and all amounts payable by Borrower to Lender under the terms of the Loan Documents, including but not limited to any principal payment, interest payment, loan fee, extension fee or late charge, within 10 days after written notice of such failure is sent by the Lender to the Borrower.

6.2 Performance of Obligations. If Borrower shall default in the due observance or performance of any of the Obligations, specifically including, but not limited to, those specified in Sections 6.3 through 6.12 of this Article, and such default continues for thirty (30) days after written notice of such default is sent by Lender to Borrower, or if such default cannot be reasonable cured within such thirty (30)-day period, the failure to commence such cure or diligently to prosecute the same to completion, provided in no event shall such default continue uncured for more than ninety (90) days after written notice thereof.

6.3 Other Defaults. If any other default shall occur under the Loan Documents.

6.4 Representation and Warranties. If any representation or warranty contained in this Loan Agreement or in any other document, certificate or opinion delivered to Lender in connection with the Loans shall prove at any time to be incorrect or misleading in any material respect when made.

6.5 Progress of Construction. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, governmental actions (e.g., moratorium), natural disaster, acts of God, or extreme weather conditions, if construction of the Improvements is not carried on in good faith and with reasonable dispatch or if Borrower abandons the work or discontinues work for a period of more than thirty (30) consecutive days.

6.6 Failure to Complete. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, natural disaster, acts of God, or extreme weather conditions, if Borrower fails to complete the construction of a Unit on or before the Completion Date.

6.7 Conditions Precedent to Any Advance. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, natural disaster, acts of God, or extreme weather conditions, if Borrower is unable to satisfy any condition precedent to its right to receive an advance of the Construction Line proceeds for a period in excess of thirty (30) days.

6.8 [Intentionally omitted.]

6.9 [Intentionally omitted.]

6.10 Disclosure of Contractors. If Borrower shall fail to disclose to Lender, upon demand and within a reasonable time period, the names of all major contractors with whom Borrower has contracted or intends to contract for the construction of the Improvements or for the furnishing of labor or materials therefor.

6.11 Mechanic's Lien. If a lien for the performance of work or the supply of materials which is established against the Mortgaged Property remains unsatisfied or unbonded for a period of thirty (30) days after the date the lien becomes effective.

6.12 Impairment of Security. The occurrence of any condition or situation which, in the sole determination of Lender, constitutes a material danger to or impairment of the security for the repayment of the Loans, if such condition or situation is not remedied within thirty (30) days after written notice to Borrower thereof.

ARTICLE VII DEFAULT – REMEDIES

7.0 Remedies on Default. Lender shall have the right, upon the happening of any Event of Default, to terminate this Loan Agreement by notice in writing to Borrower and, in addition to any rights or remedies available to it under the Deed of Trust or other Security Documents, to enter into possession of the Mortgaged Property and perform any and all work and labor necessary to complete the construction of the Improvements (whether or not in accordance with the Plans and Specifications) and to employ watchmen to protect the Mortgaged Property and the Improvements.

All sums expended by Lender for such purposes shall be deemed to have been paid to Borrower and secured by the Deed of Trust. For this purpose, Borrower hereby constitutes and appoints Lender Borrower's true and lawful attorney-in-fact with full power of substitution to complete the work in the name of Borrower, in a commercially sound and reasonable manner, and hereby empowers said attorney or attorneys as follows:

(a) To use any funds of Borrower including any balance which may be held in escrow and any funds which may remain unadvanced hereunder for the purpose of completing the construction of the Improvements, whether or not in the manner called for in the Plans and Specifications;

(b) To make such additions, changes and corrections in the Plans and Specifications that are necessary or desirable in the judgment of Lender to complete the construction of the Improvements;

(c) To employ such contractors, subcontractors, agents, architects and inspectors as shall be required for said purpose;

(d) To pay, settle or compromise all existing bills and claims which are or may be liens against the Mortgaged Property, or may be necessary or desirable for the completion of the work or the clearance of title;

(e) To execute all applications and certificates which may be required in the name of Borrower; and

(f) To do any and every act with respect to the construction of the Improvements which Borrower may do in its own behalf.

It is understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest which cannot be revoked. Said attorney-in-fact shall also have power to prosecute and defend all actions or proceedings in connection with the construction of the Improvements and to take such actions and require such performance as is deemed necessary.

Borrower hereby irrevocably constitutes and appoints Lender Borrower's true and lawful attorney-in-fact to execute, acknowledge and deliver such documents, instruments and certificates, and to take such other actions, in the name and on behalf of Borrower and at the sole cost and expense of Borrower, as Lender, in its sole and reasonable discretion, deems necessary, desirable or appropriate to effectuate the provisions of this paragraph.

7.1 No Conditions Precedent to Exercise of Remedies. Neither Borrower nor any of the Guarantors shall be relieved of any obligation by reason of the failure of Lender to comply with any request of Borrower or of any other person to take action to foreclose on the Deed of Trust or otherwise to enforce any provisions of the Loan Documents, or by reason of the release, regardless of consideration, of all or any part of the Mortgaged Property, or by reason of any agreement of stipulation between any subsequent owner of the Mortgaged Property and Lender extending the time of payment or modifying the terms of the Loan Documents without first having obtained the consent of Borrower or any of the Guarantors; and in the latter event, Borrower and each of the Guarantors shall continue to be liable to make payments according to the terms of any such extension or modification agreement, unless expressly released and discharged in writing by Lender.

7.2 Remedies Cumulative and Concurrent. No remedy herein conferred upon or reserved to Lender is intended to be exclusive of any other remedies provided for in the Loan Documents, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, under the Loan Documents, or now or hereafter existing at law or in equity or by statute. Every right, power and remedy given by the Loan Documents to Lender shall be concurrent and may be pursued separately, successively or together against Borrower, the Guarantors, or the Mortgaged Property or any part thereof, or any one or more of them; and every right, power and remedy given by the Loan Documents may be exercised from time to time as often as may be deemed expedient by Lender.

7.3 Strict Performance. No delay or omission of Lender to exercise any right, power or remedy accruing upon the happening of an Event of Default shall impair any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or any acquiescence therein. No delay or omission on the part of Lender to exercise any option for acceleration of the maturity of the Indebtedness, or for foreclosure of the Deed of Trust following any Event of Default as aforesaid, or any other option granted to Lender hereunder in any one or more instances, or the acceptance by Lender of any partial payment on account of the Indebtedness shall constitute a waiver of any such Event of Default, and each such option shall remain continuously in full force and effect.

ARTICLE VIII MISCELLANEOUS

8.0 No Warranty by Lender. By accepting or approving anything required to be observed, performed or fulfilled by Borrower or to be given to Lender pursuant to this Loan Agreement, including, without limitation, any certificate, balance sheet, statement of profit and loss or other financial statement, survey, receipt, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and any such acceptance or approval thereof shall not be or constitute any warranty or representation with respect thereto by Lender.

8.1 Liability of Lender. Lender shall not be liable for any act or omission by it pursuant to the provisions of this Loan Agreement in the absence of fraud, gross negligence or willful misconduct. Lender shall incur no liability to Borrower or any other party in connection with the acts or omissions of Lender in reliance upon any certificate or other paper believed by Lender to be genuine or with respect to any other thing which Lender may do or refrain from doing, unless such act or omission amounts to fraud, gross negligence or willful misconduct. In connection with the performance of its duties pursuant to this Loan Agreement, Lender may consult with counsel of its own selection, and anything which Lender may do or refrain from doing, in good faith, in reliance upon the opinion of such counsel shall be full justification and protection to Lender.

8.2 No Partnership. Nothing contained in this Loan Agreement shall be construed in a manner to create any relationship between Borrower and Lender other than the relationship of borrower and lender, and Borrower and Lender shall not be considered partners or co-venturers for any purpose.

8.3 Severability. In the event any one or more of the provisions of this Loan Agreement shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part or in any respect, or in the event any one or more of the provisions of the Loan Documents operate or would prospectively operate to invalidate this Loan Agreement, then and in either of those events, at the option of Lender, such provision or provisions only shall be held for naught and shall not affect any other provision of the Loan Documents or the validity of the remaining Obligations, and the remaining provisions of the Loan Documents shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

8.4 Successors and Assigns. Each covenant, term, provision and condition of this Loan Agreement and the other Loan Documents shall apply to, bind and inure to the benefit of Borrower, its successors and those assigns of Borrower consented to in writing by Lender, and shall apply to, bind and inure to the benefit of Lender and the endorsees, transferees, successors and assigns of Lender, and all persons claiming under or through any of them.

8.5 Modification – Waiver. None of the terms or provisions of this Loan Agreement may be changed, waived, modified, discharged or terminated except by instrument in writing executed by the party or parties against which enforcement of the change, waiver, modification, discharge or termination is asserted. None of the terms or provisions of this Loan Agreement shall be deemed to have been abrogated or waived by reason of any failure or failures to enforce the same.

8.6 Third Parties – Benefit. All conditions of the obligations of Lender to make advances hereunder are imposed solely and exclusively for the benefit of Lender and its assigns, and no other persons shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to make advances in the absence of strict compliance with any or all thereof and no other person shall, under any circumstances, be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Lender at any time in the sole and absolute exercise of its discretion. The terms and provisions of this Loan Agreement are for the benefit of the parties hereto and, except as herein specifically provided, no other person shall have any right or cause of action on account thereof. Lender shall in no event be responsible or liable to any person other than to Borrower for any advance of or failure to advance the proceeds of the Construction Line or any part thereof, and no contractor, subcontractor, materialman or other person shall have any right or claim against Lender pursuant to this Loan Agreement or the administration thereof.

8.7 Conditions – Verification. Any condition of this Loan Agreement which requires the submission of evidence of the existence or non-existence of a specified fact or facts implies as a condition the existence or non-existence, as the case may be, of such fact or facts and Lender shall, at all times, be free independently to establish to its satisfaction and in its absolute discretion such existence or non-existence.

8.8 Captions and Headings. The captions and headings contained in this Loan Agreement are included herein for convenience of reference only and shall not be considered a part hereof and are not in any way intended to limit or enlarge the terms hereof.

8.9 Counterparts. This Loan Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes; provided, however, that all such counterparts shall together constitute one and the same instrument.

8.10 Notices. All notices, demands, requests and other communications required pursuant to the provisions of this Loan Agreement shall be in writing and shall be deemed to have been properly given or served for all purposes when presented personally or sent by hand delivery, Federal Express or other similar overnight service or two (2) days after being sent via United States Registered or Certified Mail, postage prepaid, to the respective addresses as follows:

- (a) If to Borrower, then to it at:

c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Christopher Clemente, CEO

With a copy to:

c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Jubal Thompson

- (b) If to Lender, then to it at:

Cardinal Bank
8270 Greensboro Drive, Suite 500
McLean, Virginia 22102
Attention: Real Estate Department

Any of the parties may designate a change of address by notice in writing to the other parties. Whenever in this Loan Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice. Notwithstanding the foregoing, no notice of change of address shall be effective except upon actual receipt. This Section shall not be construed in any way to affect or impair any waiver of notice or demand provided in the Note or any of the other Loan Documents or to require giving of notice or demand to or upon any person in any situation or for any reason.

8.11 Signs; Publicity. At Lender's request and expense, Borrower shall place a sign or signs (in a form or forms which Borrower has reasonably approved) at a location or locations on the Mortgaged Property satisfactory to Lender and Borrower, which signs shall recite, among other things, that Lender is financing the construction of the Improvements. Borrower expressly authorizes Lender to prepare and to furnish to the news media for publication from time to time news releases with respect to the Mortgaged Property, specifically to include but not limited to releases detailing Lender's involvement with the financing of the Mortgaged Property.

8.12 Applicable Law. This Loan Agreement shall be governed by and construed, interpreted and enforced in accordance with and pursuant to the laws of the Commonwealth of Virginia. In the event that the “choice of law” rules of the Commonwealth of Virginia can be construed or interpreted to require the laws of another jurisdiction to govern, the “choice of law” rules of the Commonwealth of Virginia shall not apply.

8.13 Time of Essence. Time shall be of the essence of each and every provision of this Loan Agreement of which time is an element.

8.14 Commitment. To the extent the terms of the Commitment are not incorporated in this Loan Agreement, the terms and conditions of the Commitment shall survive the execution of this Loan Agreement and shall continue to be the obligation of Borrower until the Loans are paid in full. Any discrepancy between the terms of the Commitment and the terms of the Loan Documents shall be construed in favor of the Loan Documents. Borrower agrees, from time to time, to execute and acknowledge such amendments or modifications as may reasonably be required to add, delete or modify provisions to this Loan Agreement in order to cause this Loan Agreement to conform to the terms of the Commitment.

IN WITNESS WHEREOF, Borrower and Lender have executed and delivered these presents or caused these presents to be executed and delivered as of the year and day first above written.

BORROWER:

COMSTOCK YORKSHIRE, L.C., a Virginia limited liability company

By: Comstock Holding Companies, Inc., a
Delaware corporation, its manager

By: _____ (SEAL)
Christopher D. Clemente
Chief Executive Officer

LENDER:

CARDINAL BANK, a Virginia state chartered bank

By: _____ (SEAL)
Richard F. Schoen
Senior Vice President

“EXHIBIT A”
Legal Description

All those certain lots, pieces or parcels of land situate, lying and being in Prince William County, Virginia, being more particularly described as follows:

Property 1:

Parcel 3 containing 9.3831 acres and Parcel 4 containing 1.7904 acres as shown on plat entitled “Plat Showing Consolidation, Subdivision and Dedication of Various Easements of the Property of YORKSHIRE PROPERTY OFFICE BLDG.” prepared by Professional Design Group, Inc., dated November, 2008 and recorded as Instrument No. 201103180022986, said plat attached and made a part of Deed of Consolidation, Subdivision, Dedication, Vacation and Easement recorded as Instrument No. 201103180022985, among the land records of Prince William County, Virginia.

Property 2:

Lot 219, Block D, Yorkshire Acres, Section 1, as the same appears duly dedicated, platted and recorded in Deed Book 139 at Page 333, among the land records of Prince William County, Virginia.

Property 3:

Lots 216, 217 and 218, Block D, Yorkshire Acres, Section 1, as the same appears duly dedicated, platted and recorded in Deed Book 139 at Page 333, among the land records of Prince William County, Virginia.

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

I, Christopher Clemente, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2013

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

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

I, Joseph M. Squeri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2013

/s/ Joseph M. Squeri

Joseph M. Squeri
Chief Financial Officer
(Principal financial officer)

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

In connection with the Quarterly Report on Form 10-Q of Comstock Holding Companies, Inc. (the "Company") for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Christopher Clemente, Chairman and Chief Executive Officer of the Company, and Joseph M. Squeri, Chief Financial Officer of the Company, certify, to our best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2013

/s/ Christopher Clemente

Christopher Clemente
Chairman and Chief Executive Officer

Date: August 13, 2013

/s/ Joseph M. Squeri

Joseph M. Squeri
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

