
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 November 12, 2013, 18,019,005 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)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 4,188	\$ 3,539
Restricted cash	3,707	3,203
Trade receivables	1,881	1,611
Real estate inventories	39,171	27,781
Property, plant and equipment, net	250	222
Other assets	1,952	2,343
TOTAL ASSETS	<u>\$ 51,149</u>	<u>\$ 38,699</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 8,697	\$ 4,691
Notes payable – secured by real estate inventories	18,938	19,492
Notes payable – due to affiliates, unsecured	4,797	5,041
Notes payable – unsecured	2,709	3,096
Income taxes payable	197	—
TOTAL LIABILITIES	<u>35,338</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, 18,445,638 and 17,944,503 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	170,672	170,070
Treasury stock, at cost (426,633 shares Class A common stock)	(2,480)	(2,480)
Accumulated deficit	(163,203)	(162,349)
TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY	5,200	5,444
Non-controlling interest	10,611	935
TOTAL EQUITY	<u>15,811</u>	<u>6,379</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 51,149</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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Revenue – homebuilding	\$ 9,211	\$ 2,527	\$32,594	\$ 9,479
Revenue – other	361	956	748	2,183
Total revenue	9,572	3,483	33,342	11,662
Expenses				
Cost of sales – homebuilding	6,850	2,093	25,267	8,149
Cost of sales – other	59	1,144	556	2,951
Impairment charge (reversal) (Note 16)	—	2,358	(722)	2,358
Sales and marketing	477	181	1,434	465
General and administrative	1,719	2,002	4,974	5,700
Interest, real estate taxes and indirect costs related to inactive projects	61	190	405	1,982
Operating income (loss)	406	(4,485)	1,428	(9,943)
Other income (expense), net	41	(45)	199	(8)
Income (loss) before income tax (expense) benefit	447	(4,530)	1,627	(9,951)
Income tax (expense) benefit	(197)	364	(197)	2,478
Net income (loss) from continuing operations	250	(4,166)	1,430	(7,473)
Discontinued operations:				
Loss from discontinued operations	—	(6)	(4)	(112)
Gain on sale of real estate from discontinued operations	—	—	—	6,466
Income tax expense from discontinued operations	—	(364)	—	(2,478)
Net (loss) income from discontinued operations	—	(370)	(4)	3,876
Net income (loss)	250	(4,536)	1,426	(3,597)
Less: Net income (loss) from continuing operations attributable to non-controlling interests	989	(40)	2,280	(40)
Less: Net income from discontinued operations attributable to non-controlling interests	—	—	—	103
Net loss attributable to Comstock Holding Companies, Inc.	<u>\$ (739)</u>	<u>\$ (4,496)</u>	<u>\$ (854)</u>	<u>\$ (3,660)</u>
Basic (loss) income per share from:				
Continuing operations	\$ (0.03)	\$ (0.20)	\$ (0.04)	\$ (0.36)
Discontinued operations	—	(0.02)	—	0.18
Net loss per share	<u>\$ (0.03)</u>	<u>\$ (0.22)</u>	<u>\$ (0.04)</u>	<u>\$ (0.18)</u>
Diluted (loss) income per share from:				
Continuing operations	\$ (0.03)	\$ (0.20)	\$ (0.04)	\$ (0.36)
Discontinued operations	—	(0.02)	—	0.18
Net loss per share	<u>\$ (0.03)</u>	<u>\$ (0.22)</u>	<u>\$ (0.04)</u>	<u>\$ (0.18)</u>
Basic weighted average shares outstanding	20,739	20,653	20,646	20,433
Diluted weighted average shares outstanding	20,739	20,653	20,646	20,433
Net loss attributable to Comstock Holding Companies, Inc.:				
Loss from continuing operations	\$ (739)	\$ (4,126)	\$ (850)	\$ (7,433)
(Loss) income from discontinued operations	—	(370)	(4)	3,773
Net loss	<u>\$ (739)</u>	<u>\$ (4,496)</u>	<u>\$ (854)</u>	<u>\$ (3,660)</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 unaudited and 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	588	6			922				928
Warrants	—	—	—	—	—	—	—	—	—
Shares withheld related to net share settlement of restricted stock awards and warrants	—	—	—	—	—	—	—	—	—
Non-controlling interest distributions	—	—	—	—	—	—	—	(2,877)	(2,877)
Net (loss) income	—	—	—	—	—	—	(3,660)	63	(3,597)
Balance at September 30, 2012	<u>18,533</u>	<u>\$ 185</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$169,542</u>	<u>\$ (2,439)</u>	<u>\$(160,344)</u>	<u>\$ 27</u>	<u>\$ 6,998</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	755	7	—	—	465	—	—	—	472
Warrants	92	1	—	—	(1)	—	—	—	—
Shares withheld related to net share settlement of restricted stock awards and warrants	(30)	—	—	—	(8)	—	—	—	(8)
Non-controlling interest contributions	—	—	—	—	146	—	—	7,763	7,909
Non-controlling interest distributions	—	—	—	—	—	—	—	(367)	(367)
Net (loss) income	—	—	—	—	—	—	(854)	2,280	1,426
Balance at September 30, 2013	<u>18,445</u>	<u>\$ 184</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$170,672</u>	<u>\$ (2,480)</u>	<u>\$(163,203)</u>	<u>\$ 10,611</u>	<u>\$15,811</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)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ 1,426	\$ (3,597)
Adjustment to reconcile net income to net cash used in operating activities		
Amortization of loan discount and deferred financing fees	359	1,234
Depreciation expense	47	107
Provision for bad debt	(22)	—
(Gain) loss on extinguishment of notes payable	(27)	73
Undistributed earnings from unconsolidated joint venture	(16)	—
Gain on sale of operating real estate, net	—	(6,466)
Impairment (reversal) charge	(722)	2,358
Loss on disposal of property, plant and equipment	—	1
Amortization of stock compensation	392	928
Changes in operating assets and liabilities:		
Restricted cash	(504)	(118)
Trade receivables	(248)	930
Real estate inventories	(10,825)	1,154
Other assets	(36)	(340)
Accrued interest	(13)	(596)
Accounts payable and accrued liabilities	4,006	(777)
Income taxes payable	197	(28)
Net cash used in operating activities	<u>(5,986)</u>	<u>(5,137)</u>
Cash flows from investing activities:		
Investment in unconsolidated joint venture	(7)	—
Purchase of property, plant and equipment	(75)	(106)
Proceeds from sale of Cascades Apartments – operating real estate, net	279	18,882
Net cash provided by investing activities	<u>197</u>	<u>18,776</u>
Cash flows from financing activities:		
Proceeds from notes payable	22,984	13,662
Payments on notes payable	(23,893)	(25,283)
Loan financing costs	(188)	(338)
Distribution to non-controlling interests	—	(2,944)
Contribution from non-controlling interests	614	67
Proceeds from Comstock Investor VII, L.C. private placement	7,295	—
Distribution to Comstock Investor VII, L.C. investors	(367)	—
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>6,438</u>	<u>(14,836)</u>
Net increase (decrease) in cash and cash equivalents	649	(1,197)
Cash and cash equivalents, beginning of period	3,539	5,639
Cash and cash equivalents, end of period	<u>\$ 4,188</u>	<u>\$ 4,442</u>
Supplemental disclosure for non-cash activity:		
Interest paid, net of interest capitalized	\$ 184	\$ 1,308
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	\$ —	\$ 418
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 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.

For the three and nine month periods ended September 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 INVENTORIES

Real estate inventories include 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.

Real estate inventories consist of the following:

	September 30, 2013	December 31, 2012
Land and land development costs	\$ 27,126	\$ 19,378
Cost of construction (including capitalized interest and real estate taxes)	12,045	8,403
	<u>\$ 39,171</u>	<u>\$ 27,781</u>

In the nine months ended September 30, 2013, the Company sold five model home units to third parties and concurrently executed market rate leasebacks of the units. In the three months ended September 30, 2013, there were no additional model home sale and lease backs. 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 prohibitive terms of continued involvement, therefore, the Company 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 nine months ended September 30, 2012, respectively. The sale of the model homes is included within ‘Revenue-homebuilding’ in the accompanying consolidated statements of operations. The rental expenses related to the model home sale-leasebacks are capitalized to ‘Real estate inventories’ 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 inventories 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 September 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 nine months ended September 30, 2012 and is included in net loss on discontinued operations. No depreciation charges were recorded for the three months ended September 30, 2012. No such charges were recorded for the three and nine months ended September 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 nine months ended September 30, 2013 and 2012. Total revenue and gross profit recognized for general contracting projects for the three months ended September 30, 2013 were \$425 and \$241, respectively. Total revenue and gross profit recognized for general contracting projects for the three months ended September 30, 2012 were \$883 and \$178, respectively. During the nine months ended September 30, 2013, total revenue and gross profit recognized for general contracting projects were \$536 and \$266, respectively. During the nine months ended September 30, 2012, total revenue and gross profit recognized for general contracting projects were \$1,835 and \$304, respectively. Trade receivables and accounts payable were approximately \$682 and \$401, respectively, related to completed general contracting projects at September 30, 2013. Trade receivables and accounts payable were approximately \$1,313 and \$1,308, respectively, related to general contracting projects at December 31, 2012. During the three and nine month periods ended September 30, 2013, the Company recognized a reduction of \$220 through ‘cost of sales – other’ for the release of estimated contingency reserves related to the \$5.2 million Loudoun Station project completed in October 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. During the third quarter of 2010, management recorded an additional \$639 in warranty reserves to cover future potential costs and/or claims related to a project. During the three months ended September 30, 2013, management agreed to settle a warranty claim for \$244, releasing the Company from future warranty claims related to the project and reduced the warranty estimate by \$395. The warranty reduction was recorded as reversal through homebuilding cost of sales. The settlement was paid in October 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 1,012	\$ 988	\$ 963	\$ 1,009
Additions	90	18	174	45
Releases and/or charges incurred	(418)	(26)	(453)	(74)
Balance at end of period	<u>\$ 684</u>	<u>\$ 980</u>	<u>\$ 684</u>	<u>\$ 980</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 inventories during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive. A project becomes inactive when development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate inventories are expensed as a component of cost of sales as related units are sold.

The following table is a summary of interest and real estate taxes incurred and capitalized and interest and real estate taxes expensed for units settled:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total interest incurred and capitalized	\$ 357	\$ 124	\$ 1,258	\$ 176
Total real estate taxes incurred and capitalized	57	3	151	129
Total interest and real estate taxes incurred and capitalized	<u>\$ 414</u>	<u>\$ 127</u>	<u>\$ 1,409</u>	<u>\$ 305</u>
Interest expensed as a component of cost of sales	\$ 47	\$ 474	\$ 2,023	\$ 1,719
Real estate taxes expensed as a component of cost of sales	30	46	235	163
Interest and real estate taxes expensed as a component of cost of sales	<u>\$ 77</u>	<u>\$ 520</u>	<u>\$ 2,258</u>	<u>\$ 1,882</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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total interest incurred and expensed for inactive projects	\$ —	\$ 107	\$ 73	\$ 1,850
Total real estate taxes incurred and expensed for inactive projects	—	38	47	133
Total production overhead incurred and expensed for inactive projects	61	45	285	153
	61	190	405	2,136
Amounts reclassified to discontinued operations	—	—	—	(154)
	<u>\$ 61</u>	<u>\$ 190</u>	<u>\$ 405</u>	<u>\$ 1,982</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 nine months ended September 30, 2013 and 2012 are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three and nine months ended September 30, 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.

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The computation of basic and diluted shares outstanding is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Computation of basic shares outstanding				
Weighted average common shares outstanding – basic	<u>20,739</u>	<u>20,653</u>	<u>20,646</u>	<u>20,433</u>
Computation of diluted shares outstanding				
Weighted average common shares outstanding – diluted	<u>20,739</u>	<u>20,653</u>	<u>20,646</u>	<u>20,433</u>

The following have been excluded from the diluted share computation as their inclusion would be anti dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Restricted stock awards	679	1,005	661	1,104
Stock options	330	192	310	209
Warrants	919	407	858	539

8. SEGMENT DISCLOSURES

We operate our business through three segments: Homebuilding, Apartments 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 Apartments 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.

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

	Homebuilding	Apartments	Real Estate Services	Total
Three Months Ended September 30, 2013				
Gross revenue	\$ 9,211	\$ —	\$ 361	\$ 9,572
Gross profit	2,340	—	323	2,663
Operating profit from continuing operations	87	—	360	447
Operating profit from discontinued operations	—	—	—	—
Net (loss) income	(110)	—	360	250
Total assets	50,028	—	1,121	51,149
Depreciation and amortization	145	—	—	145
Interest expense	—	—	—	—
Three Months Ended September 30, 2012				
Gross revenue	\$ 2,600	\$ —	\$ 883	\$ 3,483
Gross (loss) profit	(2,290)	—	178	(2,112)
Operating (loss) income from continuing operations	(4,644)	—	114	(4,530)
Operating loss from discontinued operations	—	(6)	—	(6)
Net (loss) income	(4,644)	(6)	114	(4,536)
Total assets	26,759	421	1,912	29,092
Depreciation and amortization	337	—	—	337
Interest expense	107	—	—	107
Nine Months Ended September 30, 2013				
Gross revenue	\$ 32,650	\$ —	\$ 692	\$33,342
Gross profit	6,960	—	559	7,519
Operating profit from continuing operations	1,045	—	582	1,627
Operating loss from discontinued operations	—	(4)	—	(4)
Net income (loss)	848	(4)	582	1,426
Total assets	50,028	—	1,121	51,149
Depreciation and amortization	448	—	—	448
Interest expense	73	—	—	73
Nine Months Ended September 30, 2012				
Gross revenue	\$ 9,827	\$ —	\$1,835	\$11,662
Gross (loss) profit	(2,100)	—	304	(1,796)
Operating (loss) income from continuing operations	(10,177)	—	226	(9,951)
Operating profit from discontinued operations	—	6,354	—	6,354
Net (loss) income	(10,177)	6,354	226	(3,597)
Total assets	26,759	421	1,912	29,092
Depreciation and amortization	953	—	—	953
Interest expense	1,685	—	—	1,685

The Company allocates sales, marketing, 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.

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The table below reconciles the segment information to the corresponding amounts in the accompanying consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Segment operating income (loss) from continuing operations	\$ 447	\$ (4,530)	\$ 1,627	\$ (9,951)
Income tax (expense) benefit	(197)	364	(197)	2,478
Income (loss) from continuing operations	<u>\$ 250</u>	<u>\$ (4,166)</u>	<u>\$ 1,430</u>	<u>\$ (7,473)</u>
Segment operating (loss) income from discontinued operations	\$ —	\$ (6)	\$ (4)	\$ 6,354
Income tax expense	<u>—</u>	<u>(364)</u>	<u>—</u>	<u>(2,478)</u>
(Loss) income from discontinued operations	<u>\$ —</u>	<u>\$ (370)</u>	<u>\$ (4)</u>	<u>\$ 3,876</u>

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. Currently, 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 typically fully offset by a corresponding change in the valuation allowance. The Company has recorded a tax provision of \$197 for the three and nine months ended September 30, 2013, based on an effective tax rate of 12%, related to statutory tax rates in jurisdictions where the Company has no deferred tax benefit to offset the tax liability. No such provision was recorded in the three and nine months ended September 30, 2012.

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”), 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 September 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 September 30, 2013, because of the Company’s full valuation allowance on its net deferred tax assets.

The Company has not recorded any accruals for tax uncertainties as of September 30, 2013 and 2012, respectively. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2010 through 2012 tax years 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

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could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds. At September 30, 2013 and 2012, the Company had issued \$4,260 and \$0 in letters of credit, respectively, and \$986 and \$1,710 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 to add 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	\$ 76
2014	310
2015	320
2016	329
2017	167
Total	<u>\$1,202</u>

For the three months ended September 30, 2013 and 2012, total payments made under this lease agreement were \$76 and \$74, respectively. For the nine months ended September 30, 2013 and 2012, total payments under this lease agreement were \$225 and \$183, respectively. As of September 30, 2013 and December 31, 2012, the Company recorded a straight-line rent payable of \$21 and \$9, respectively, which is included in 'Accounts payable and accrued liabilities' in the consolidated balance sheets.

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 nine months ended September 30, 2012, the Company recognized \$0.7 million and \$1.1 million of revenue, respectively, from the contract, which is included in 'Revenue-other' in the accompanying consolidated statements of operations. The Company did not recognize any revenues from the contract for the three and nine months ended September 30, 2013. As of September 30, 2013 and December 31, 2012, the Company was owed \$0.4 million and \$1.3 million, respectively, under this contract, which is included in 'Trade receivables' in the consolidated balance sheets.

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 \$2.35 million (the "Cascades Private Placement") for the planned construction of the Cascades Apartments. Proceeds of the Cascades 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 Cascades 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 Cascades 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 the Company and Gregory Benson, the Chief Operating Officer of the Company, 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 were entitled to a credit enhancement fee calculated at a rate of 4% per annum. One-half of the credit enhancement fee was payable monthly, in arrears, and the remaining half was deferred and payable on an annual basis. During the nine months ended September 30, 2012, the Company made guarantee payments under the agreement of approximately \$130. No such payments were made for the three months ended September 30, 2012 and for the three and nine months ended September 30, 2013. The financing with SunBridge Capital Management, LLC eliminated the need for personal guarantees on the applicable projects and accordingly the 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 guarantees for the Company for which a credit enhancement fee could be charged. There have been no fees paid under this agreement for the three and nine months ended September 30, 2013.

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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 September 30, 2013 and 2012, the Company billed Comstock Asset Management, L.C. \$98 and \$207, respectively, for services and out-of-pocket expenses incurred. For the nine months ended September 30, 2013 and 2012, the Company billed Comstock Asset Management, L.C. \$324 and \$376, respectively, for services and out-of-pocket expenses incurred. Revenues from this arrangement are included within 'Revenue – other' in the accompanying consolidated statements of operations. As of September 30, 2013 and December 31, 2012, the Company was owed \$131 and \$42, respectively, under this contract, which is included in 'Trade receivables' in the consolidated balance sheets.

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 and nine months ended September 30, 2013, the Company made payments of \$200 and \$350, respectively. No similar payments were made during the three and nine months ended September 30, 2012.

On March 14, 2013, Comstock Investors VII, L.C., a subsidiary of the Company ("Comstock VII") entered into subscription agreements with certain accredited investors for the sale of membership interests in Comstock VII whereby Comstock VII 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 accompanying 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 accompanying 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 \$364 to continuing operations and a tax expense of \$364 to discontinued operations for the three months ended September 30, 2012. The Company had allocated a tax benefit of \$2,478 to continuing operations and a tax expense of \$2,478 to discontinued operations for the nine months ended September 30, 2012. No tax benefit or expense was allocated to discontinued operations for the three and nine months ended September 30, 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ —	\$ —	\$ —	\$ 171
Cost of sales	—	5	(1)	128
Selling, general and administrative	—	—	5	9
Interest, real estate taxes and indirect costs related to inactive projects	—	—	—	154
Other expenses (income), net	—	1	—	(8)
Loss from discontinued operations before gain on sale of real estate and income tax expense	—	(6)	(4)	(112)
Net gain on sale of real estate	—	—	—	6,466
Net (loss) income from discontinued operations before income tax expense	—	(6)	(4)	6,354
Income tax expense	—	(364)	—	(2,478)
Net (loss) income from discontinued operations	\$ —	\$ (370)	\$ (4)	\$ 3,876

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

Included within the Company’s real estate inventories at September 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 Comstock VII, L.C. on March 13, 2013 as more fully described below.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a joint venture of the Company and BridgeCom Development II, LLC, for the purpose of acquiring, developing and constructing 66 condominium units (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 first half of 2013, 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 VII entered into subscription agreements with certain accredited investors (“Comstock VII Class B Members”), pursuant to which the Comstock VII Class B Members purchased membership interests in Comstock VII for an aggregate amount of \$7,295. Concurrently, the Company issued 112 warrants for the purchase of shares of the Company’s Class A common stock to the non-affiliated accredited investors, having an aggregate fair value of \$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, BLVD at Shady Grove consisting of 117 multi-family units, 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 (A) to provide capital needed to complete the Projects in conjunction with project financing for the Projects, (B) to reimburse the Company for prior expenditures incurred on behalf of the Projects, and (C) for general corporate purposes of the Company. The Company evaluated Comstock VII and determined that 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 three and nine months ended September 30, 2013, the Company made a distribution in the amount of \$367 to the Comstock VII Class B Members.

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At September 30, 2013 and December 31, 2012, total assets of these VIEs were approximately \$37.4 million and \$29.4 million, respectively, and total liabilities were approximately \$22.3 million and \$17.4 million, respectively. The classification of these assets is primarily within 'real estate inventories' and the classification of liabilities are primarily within 'accounts payable and accrued liabilities' and 'notes payable – secured by real estate inventories' in the consolidated balance sheets.

Consolidated Operating Real Estate, Net

On January 31, 2011, Cascades II entered into the "Cascades Private Placement related to the planned construction of the "Cascades Apartments. The balance was received during the first quarter of 2011. Proceeds of the Cascades 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 Cascades 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 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 Cascades Private Placement 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 Cascades 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 Cascades 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 is released to Cascades upon completion of the post-closing warranty work and the Claims Escrow is released to Cascades II in three equal installments at six, eight and twelve months from the date of settlement provided that no claims have been made against Cascades II by the Purchaser. On September 6, 2012, the Purchaser released \$300 from the 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, and on March 11, 2013, the Purchaser released the final installment of \$290, net of \$16 of post-closing warranty claims from the Claims Escrow to Cascades II. As detailed in Note 12, the historical operations of the Cascades Apartments are included within discontinued operations.

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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 Cascades Apartments and the retirement of the non-controlling equity investment related to the Cascade Apartments.

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. 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 September 30, 2013. Earnings from this unconsolidated joint venture of \$14 and \$56 are included in 'Other income, net' in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2013, respectively. During the three and nine month periods ended September 30, 2013, the Company collected and recorded a distribution of \$40 from this joint venture as a return on investment. There were no investments, earnings and distributions in unconsolidated joint ventures for the three and nine month periods ended September 30, 2012.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Statement of Operations:				
Total net revenue	\$ 56	\$ —	\$ 176	\$ —
Total expenses	29	—	65	—
Net income	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 111</u>	<u>\$ —</u>
Comstock Holding Companies, Inc. pro rata share of net income	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 56</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 September 30, 2013	Balance as of December 31, 2012	Recourse
Eagle Bank – Redland Road	\$ 4,204	\$ 2,500	Secured
Eagle Commercial Ventures – Redland Road	3,190	—	Secured
Rosalie K. Stahl	3,000	3,000	Secured
Eagle Bank – New Hampshire Ave.	2,989	3,159	Secured
Bank of America	2,709	3,096	Unsecured
Eagle Bank – Potomac Yard / Penderbrook	—	4,084	Secured
Cardinal Bank – Eastgate	478	636	Secured
Cardinal Bank – Yorkshire	1,808	—	Secured
Branch Banking & Trust	—	263	Secured
Seller – Emerald Farm	100	100	Secured
TSR – Shady Grove, LLC	—	5,750	Secured
Eagle Bank – Maxwell	1,790	—	Secured
Hall Road Deferred Purchase Note	1,379	—	Secured
	<u>21,647</u>	<u>22,588</u>	
Due to affiliates – Stonehenge Funding	4,797	5,041	Unsecured
Total	<u>\$ 26,444</u>	<u>\$ 27,629</u>	

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 terms of the loan 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 on the Eagle Bank Loan at December 31, 2012 was \$4,084. The Company repaid the Eagle Bank Loan in full during the second quarter of 2013.

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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 and is required to make a minimum principal curtailment under the development portion of the Eagle NHA Revolver of \$3.2 million by December 31, 2013 and additional curtailments on a quarterly basis thereafter. As of September 30, 2013, the curtailment requirement of \$3.22 million by December 31, 2013 was fulfilled. 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 on the Eagle NHA Revolver at September 30, 2013 and December 31, 2012 was \$3.0 million and \$3.2 million, respectively.

On December 27, 2012, the Company, through its subsidiary Comstock Redland Road, L.C. (Redland), entered into an acquisition bridge loan with Eagle Bank (the “Bridge Loan”), 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 “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) 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 was 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 the Chief Executive Officer of Comstock Holding Companies, Inc. and other ancillary documents (collectively, the “Bridge Loan Documents”). There was 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, the company through 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 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 3%, subject to an interest rate floor of 5%. The TH Loan and the Apt Loan are secured by the TH Project and the Apt Project, and fully guaranteed by the Company. The Company was required to make a minimum principal curtailment of \$950 by December 31, 2013 and additional curtailments on a quarterly basis thereafter. The balance outstanding on the TH Loan and the Apt Loans at September 30, 2013 was \$2.6 million and \$1.6 million, respectively. This agreement was amended in October 2013, extending the start of curtailment requirement period to March 31, 2014 and additional curtailments quarterly thereafter.

On September 30, 2013, the Company, through its subsidiary Comstock Maxwell Square L.C. (“Maxwell Square”), entered into a loan agreement and related documents with Eagle Bank pursuant to which the Maxwell Square secured (i) \$2.1 million acquisition and development loan, (ii) \$3.4 million revolving construction loan and (iii) a \$51 letter of credit facility (collectively, the “Maxwell Loan”) to finance the Company’s project known as the Maxwell Square located in downtown Frederick, Maryland (the “Maxwell Square Project”). The Maxwell Loan provides for a variable interest rate of LIBOR plus 3% with an interest rate floor of 4.75%. The Maxwell Loan has a maturity date of 24 months, subject to meeting a minimum sales and settlement schedule on a quarterly basis. The Company is required to make a minimum principal curtailment of \$116 by June 30, 2014 and additional curtailments on a quarterly basis thereafter. There is no prepayment penalty associated with the Maxwell Loan which is secured by a first deed of trust on the Maxwell Square Project and fully guaranteed by the Company. The balance outstanding on the Maxwell Loan at September 30, 2013 was \$1.8 million.

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

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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 Loan and the secondary Apt Loan are secured by a second trust on the TH Project and the 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 the secondary Apt Loans at September 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, entered into a \$3.0 million mezzanine loan (the "NHA Mezzanine Loan") in connection with 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 NHA Mezzanine Loan at September 30, 2013 and December 31, 2012 was \$3.0 million.

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 II, 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 12 months from origination, with an automatic extension of 12 months subject to the Company meeting certain sales conditions, which include (i) entering into binding contracts for the sale of 18 units and (ii) settling 12 units, each by the one year anniversary of the loan. As of September 30, 2013, the Company met both conditions stated above and the maturity date was automatically extended to September 27, 2014. The proceeds of the 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 30 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 and 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 Cardinal Bank Revolver at September 30, 2013 and December 31, 2012 was \$0.5 million and \$0.6 million, respectively.

On May 8, 2013, the Company, through its subsidiary Comstock Yorkshire, L.C. ("Yorkshire"), 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"). The Yorkshire 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 24 contracts and 12 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. The balance outstanding on the Yorkshire Loan at September 30, 2013 was \$1.8 million.

TSR-Shady Grove, LLC

On December 27, 2012, the Company, through Redland, entered into a Deferred Purchase Money Promissory Note with TSR-Shady Grove, LLC, a Maryland limited liability company, pursuant to which the Company secured \$5.8 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"). The TSR-Shady Grove Loan provides for an interest rate of 6% per annum, payable commencing thirty days after closing, with the 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 the TSR- Shady Grove Loan. The TSR- Shady Grove Loan was repaid in full, including accrued interest, on March 25, 2013.

Hall Road Deferred Purchase Note

On September 13, 2013 the Company, through its subsidiary Comstock Hall Road, L.C., closed on a land assemblage that will be developed into a 42 unit townhome project located in the Sterling area of Loudoun County, Virginia and entered into a Deferred Purchase Money Promissory Note ("Hall Road Deferred Purchase Note") and secured first deed of trust in the amount of \$1.4 million with certain of the land sellers. The financing provides for an interest rate of 6% per annum. The entire unpaid principal together with accrued interest is due and payable at maturity, December 31, 2013. There is no prepayment penalty associated with the Hall Road Deferred Purchase Note. The balance outstanding on the Hall Road Deferred Purchase Note at September 30, 2013 was \$1.4 million.

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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, beginning April 1, 2013, 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. The balance outstanding on this note as of September 30, 2013 and December 31, 2012 was \$4.8 million and \$5.0 million, respectively.

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

2013	\$ 2,429
2014	8,555
2015	7,954
2016	4,797
2017 and thereafter	2,709
Total	<u>\$26,444</u>

16. FAIR VALUE DISCLOSURES

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

	September 30, 2013	December 31, 2012
Carrying amount	\$ 26,444	\$ 27,629
Fair value	\$ 24,271	\$ 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.

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Non-financial assets and liabilities include items such as real estate inventories and long lived assets that are measured at fair value when acquired and on a non recurring basis thereafter. Such fair value measurements use significant unobservable inputs and are classified as Level 3.

In the quarter ended September 30, 2012, management evaluated its strategic alternatives with respect to its real estate projects classified as held for sale, Eclipse and Penderbrook, 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 three and nine month periods ended September 30, 2012, reflected the write down to estimated fair value less costs to sell under the bulk sale disposition strategy. During the first quarter of 2013, in the absence of a prospective bulk sale buyer and as a result of the increased sales activity, the Company revised its previous disposition strategy and reversed a previously recorded impairment charge of \$722 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. During the first half of 2013, the Company sold all remaining units at the Eclipse and Penderbrook projects.

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 nine months ended September 30, 2013, the Company issued 30 stock options with a fair value of \$19. No stock options were issued during the three months ended September 30, 2013. During the three and nine months ended September 30, 2012, the Company issued 140 stock options respectively, with a fair value of \$176. Stock options issued during the three and nine months ended September 30, 2013 and 2012 vest over four years. During the three and nine months ended September 30, 2013, the Company issued no restricted stock awards. During the three and nine months ended September 30, 2012, the Company issued 706 restricted stock awards with a fair value of \$1,157.

For the three months ended September 30, 2013 and 2012, total stock-based compensation cost was \$137 and \$329, respectively. For the nine months ended September 30, 2013 and 2012, total stock-based compensation cost was \$471 and \$928, respectively. For the three months ended September 30, 2013, \$23 was capitalized to 'Real estate inventories' and \$114 was charged to sales, marketing, general and administrative expenses. For the nine months ended September 30, 2013 \$79 was capitalized to 'Real estate inventories' and \$392 was charged to sales, marketing, general and administrative expenses. For the three and nine months ended September 30, 2012, the entire amount of stock based compensation cost was charged to sales, marketing, general and administrative expenses.

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 nine months ended September 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 in the accompanying consolidated statements of cash flows. These shares withheld by us as a result of the net settlement election are not considered issued and outstanding, thereby reducing our shares outstanding used to calculate earnings per share.

As of September 30, 2013 and 2012, the weighted-average remaining contractual term of unexercised stock options was 5.5 years and 7.25 years, respectively. As of September 30, 2013 and December 31, 2012, there was \$569 and \$1,047, respectively, of unrecognized compensation cost related to stock issuances granted.

18. SUBSEQUENT EVENTS

On November 1, 2013, the Company, through Comstock Eastgate, L.C., a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, executed the tenth and eleventh lot takedown, of eleven total, under the Building and Purchase Agreement with M/I Homes of DC, LLC, for the purchase price of \$1.1 million.

In October 2013, the Company made a distribution in the amount of \$371 to the Comstock VII Class B Members representing the priority return for the third quarter of 2013.

On October 31, 2013, the Company amended the Redland loan with Eagle bank which had a minimum principal curtailment of \$950 by December 31, 2013 and additional curtailments on a quarterly basis thereafter. Based on the amendment, the start of the minimum principal curtailment requirement period was extended to March 31, 2014 and additional curtailments on a quarterly basis thereafter.

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

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

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

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, Apartments 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.

We currently have communities under development in multiple counties throughout the Washington, D.C. market. At September 30, 2013, we either owned or controlled under purchase option agreements approximately 657 building lots.

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The following table summarizes certain information for our owned or controlled communities as of September 30, 2013:

As of September 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 Hampshires (1)	DC	SF	38	13	6	19	—	\$ 735
		TH	73	5	4	64	—	\$ 545
Villas at Eastgate (1)	VA	Condo	66	24	25	—	17	\$ 385
Falls Grove (1)	VA	SF	19	—	—	19	—	\$ —
		TH	110	—	10	100	—	\$ 289
Residences at Shady Grove (1)	MD	TH/SF	39	—	5	34	—	\$ 579
BLVD Shady Grove (1)	MD	MF	117	—	—	117	—	\$ —
Emerald Farm (4)	MD	SF	84	78	—	6	—	\$ 452
BLVD Newell (5)	MD	MF	144	—	—	—	144	\$ —
Maxwell Square (5)	MD	TH	45	—	—	45	—	\$ —
Hall Road (5)	VA	TH	42	—	—	42	—	\$ —
Total			777	120	50	446	161	\$ 463

- (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 “MF” means multi family.
- (3) “Backlog” means we have an executed order with a buyer but the settlement has not yet taken place.
- (4) Developed and currently inactive.
- (5) Development and construction activities have not begun.

Results of Operations

Three and nine months ended September 30, 2013 compared to three and nine months ended September 30, 2012

Orders, cancellations and backlog

The following table summarizes certain information related to new orders, settlements and backlog for the three and nine month periods ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross new orders	31	16	118	50
Cancellations	4	3	14	3
Net new orders	27	13	104	47
Gross new order revenue	\$ 14,476	\$ 7,019	\$ 55,883	\$ 14,841
Cancellation revenue	\$ 1,680	\$ 875	\$ 6,241	\$ 875
Net new order revenue	\$ 12,796	\$ 6,144	\$ 49,643	\$ 13,966
Average gross new order price	\$ 467	\$ 438	\$ 474	\$ 297
Settlements	20	12	63	41
Settlement revenue – homebuilding	\$ 9,211	\$ 2,527	\$ 32,593	\$ 9,479
Average settlement price	\$ 461	\$ 211	\$ 517	\$ 231
Backlog units	50	9	50	9
Backlog revenue	\$ 22,470	\$ 5,111	\$ 22,470	\$ 5,111
Average backlog price	\$ 449	\$ 568	\$ 449	\$ 568

Revenue – homebuilding

The number of homes delivered for the three months ended September 30, 2013 increased to 20 as compared to 12 homes for the same period in the prior year. The number of homes delivered for the nine months ended September 30, 2013 increased to 63 as compared to 41 homes for the nine months ended September 30, 2012. Average revenue per home delivered increased by approximately \$250 to \$461 for the three months ended September 30, 2013 as compared to \$211 for the three months ended September 30, 2012. Average revenue per home delivered increased by approximately \$286 to \$517 for the nine months ended September 30, 2013 as compared to \$231 for the nine months ended September 30, 2012. Revenue from homebuilding increased by \$6.7 million to \$9.2 million for the three months ended September 30, 2013 as compared to \$2.5 million for the same period in the prior year which resulted from the increase in the number of homes and the mix of units settled. Revenue from homebuilding increased by \$23.1 million to \$32.6 million for the nine months ended September 30, 2013 as compared to \$9.5 million for the nine months ended September 30, 2012. For the three months ended September 30, 2013, the Company settled 20 units (7 units at The Hampshires and 13 units at Eastgate), as compared to 12 units (11 units at Penderbrook and 1 units at Eclipse) for the three months ended September 30, 2012. For the nine months ended September 30, 2013, 63 units were settled (2 units at Penderbrook, 19 units at Eclipse,

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18 units at The Hampshires and 24 units at Eastgate), as compared to 41 units (36 units at Penderbrook and 5 units at Eclipse) for the nine months ended September 30, 2012. In addition, our homebuilding gross margin percentage for the three months ended September 30, 2013 increased by 8.4% to 25.6%, as compared to 17.2% for the three months ended September 30, 2012. Our homebuilding gross margin for the nine months ended September 30, 2013 increased by 8.5% to 22.5%, as compared to 14.0% for the nine months ended September 30, 2012. The increase noted in revenue and margins was a result of the increase in the number of homes and the mix of units settled and the Company exiting legacy projects that were impaired. Excluding the impact of the release of the warranty reserve discussed in Note 5, gross margin percentage was 21.3% for the three and nine months ended September 30, 2013.

Revenue – other

Revenue-other decreased approximately \$0.6 million to \$0.4 million during the three months ended September 30, 2013, as compared to \$1.0 million for the three months ended September 30, 2012. Revenue-other decreased approximately \$1.5 million to \$0.7 million during the nine months ended September 30, 2013, as compared to \$2.2 million for the nine months ended September 30, 2012. The decrease primarily relates to revenue from rental operations, as the number of rental units at Penderbrook and Eclipse continued to decline until all units were sold in the second quarter of 2013. 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 September 30, 2013 increased by \$4.8 million to \$6.9 million, as compared to \$2.1 million for the three months ended September 30, 2012. Cost of sales – homebuilding for the nine months ended September 30, 2013 increased by \$17.2 million to \$25.3 million, as compared to \$8.1 million for the nine months ended September 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 \$1.0 million to \$100 during the three months ended September 30, 2013 as compared to \$1.1 million in the three months ended September 30, 2012. Cost of sales – other decreased approximately \$2.4 million to \$600 during the nine months ended September 30, 2013 as compared to \$3.0 million in the nine months ended September 30, 2012. As a result of the continued absorption and sale of the condominium units at Penderbrook and Eclipse, the decline in the number of units used in rental operations resulted in a significant decrease in cost of sales – other. Additionally, the completion of several general contracting projects in 2012 also contributed to the decline.

Impairment reversal and charge

There was no impairment charge for the three and nine months ended September 30, 2013 as compared to \$2,358 for the three and nine months ended September 30, 2012. Due to a revision in previous disposition strategy, the Company reversed a previously recorded impairment charge of \$722 for the nine months ended September 30, 2013. There were no similar actions in the comparable period in the prior year. Refer to Note 16 to the consolidated financial statements for further discussions and the basis for the impairment reversal and charges.

Sales and marketing

Sales and marketing expenses for the three months ended September 30, 2013 increased \$300 to \$500, as compared to \$200 for the three months ended September 30, 2012. Sales and marketing expenses for the nine months ended September 30, 2013 increased \$900 to \$1.4 million, as compared to \$500 for the nine months ended September 30, 2012. The increase in sales and marketing expenses over the three and nine month period is directly attributable to increases in active developments and marketing efforts, which resulted in an increase in homes ordered and delivered.

General and administrative

General and administrative expenses for the three months ended September 30, 2013 decreased \$300 to \$1.7 million, as compared to \$2.0 million for the three months ended September 30, 2012. General and administrative expenses for the nine months ended September 30, 2013 decreased \$700 to \$5.0 million as compared to \$5.7 million for the nine months ended September 30, 2012. The decrease in general and administrative expenses over the three and nine month period is attributable to increased utilization of operations employees as a result of the increase in active selling and developing communities.

Income taxes

The Company has recorded a tax provision of \$197 for the three and nine month periods ended September 30, 2013, based on an effective tax rate of 12%, related to statutory tax rates in jurisdictions where the Company has no deferred tax benefit to offset the tax liability. No such provision was recorded in the three and nine month periods ended September 30, 2012.

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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, project level equity raises 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, proceeds from debt, project level raises and the cash generated from settlements at our new communities currently under development, 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 15 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 used in operating activities was \$6.0 million for the nine months ended September 30, 2013. This represents an increase from the net cash used in operating activities of \$5.1 million for the nine months ended September 30, 2012. The increase is primarily attributable to the increase in real estate inventories as the Company continues to invest in new projects in line with the uptick in the housing market and increase in settlement activity. 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 required to be presented within the investing and financing section of the accompanying consolidated statement of cash flows.

Net cash provided by investing activities was \$200 for the nine months ended September 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 \$18.8 million for the nine months ended September 30, 2012, primarily attributable to the sale of the Cascades Apartments.

Net cash provided by financing activities was \$6.4 million for the nine months ended September 30, 2013, primarily attributable to the proceeds received from the Comstock Investor VII Private Placement of \$7.3 million and \$23.0 million from notes payable, net of \$23.9 million in payments made on notes payable. Net cash used in financing activities was \$14.8 million for the nine months ended September 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 nine months ended September 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.

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Off Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 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 September 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 the quarter ended September 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

None

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)). |
| 10.82* | Loan agreement dated September 30, 2013 between Comstock Maxwell Square, L.C. and Eagle Bank. |
| 10.83* | Deferred Purchase Money Promissory Note and a Secured First Deed of Trust dated September 13, 2013 between Comstock Hall Road L.C. and certain of the sellers named therein. |
| 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 September 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. |

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

COMSTOCK HOLDING COMPANIES, INC.

Date: November 12, 2013

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

Date: November 12, 2013

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

LOAN AGREEMENT

THIS LOAN AGREEMENT (as amended, modified or supplemented from time to time, "Agreement"), dated as of the day of September, 2013, by and between (i) EAGLEBANK (the "Lender"), and (ii) COMSTOCK MAXWELL SQUARE, L.C., a Virginia limited liability company (the "Borrower"), recites and provides:

RECITALS:

R-1. The Borrower has entered into a contract to acquire a certain development site consisting of 2.12 subdivided acres located in the Southwest quadrant of Maxwell Avenue and 5th Street, City of Frederick, Maryland, but excluding the four existing units known as Units 1-4, as more particularly described on Exhibit A attached hereto (the "Property"), on which the Borrower intends to develop and construct 45 townhouse units (singularly, a "Lot" or, as improved, a "Unit" and if referring to more than one, "Lots" or, as improved, "Units"), and which has been or will be subjected, in whole or in part subject to expansion, to a condominium regime known as Maxwell Square Condominium.

R-2. Subject to the terms of this Agreement, the Lender agrees to make an acquisition and development loan (the "Development Loan") to the Borrower, as more particularly described in Section One below, for the purpose of financing the acquisition and the Development (as hereinafter defined) of the Property.

R-3. Subject to the terms of this Agreement, the Lender also agrees to make a revolving construction loan (the "Construction Loan") to the Borrower, as more particularly described in Section Two below, for the purpose of financing the construction of the Units.

R-4. The Lender and the Borrower agree that the Development Loan and the Construction Loan (together, the "Loans") will be made and advanced upon and subject to the terms, covenants and conditions set forth in this Agreement.

R-5. Subject to the terms of this Agreement, the Lender also agrees to make a facility (the "LC Facility") available to the Borrower under which the Lender agrees to issue letters of credit (singularly, a "Letter of Credit" and if referring to more than one, "Letters of Credit") for the account of the Borrower (any draw on any Letter of Credit shall be referred to as an "LC Advance"), as more particularly described in Section Three below, for the purpose of securing the performance by the Borrower of public improvement requirements pursuant to agreements with the City of Frederick, Maryland or other governmental entities.

R-6. The Lender and the Borrower agree that the LC Facility shall be made upon and subject to the terms, covenants and conditions set forth in this Agreement.

AGREEMENT

ACCORDINGLY, for and in consideration of the foregoing Recitals which are a material part of this Agreement and not mere prefatory language, and of the mutual covenants and conditions set forth in this Agreement, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Lender and the Borrower agree as follows:

SECTION ONE THE DEVELOPMENT LOAN

1.1 Amount. The maximum principal amount that may be advanced under the Development Loan shall not exceed the lesser of (i) Two Million One Hundred Forty Thousand and No/100 Dollars (\$2,140,000.00), or (ii) fifty-five percent (55%) of the cost of acquisition of the Property and the Development thereof in accordance with a budget approved by the Lender, or (iii) sixty percent (60%) of the discounted ("When Developed") (finished lots) value of the Property pursuant to the Appraisal (hereinafter defined) and any appraisals which may be engaged by the Lender from time to time subsequent to the date hereof. The Development Loan will be evidenced by a Development Loan Promissory Note made by the Borrower payable to the order of the Lender (as the same may be amended, renewed, restated, supplemented or substituted from time to time, the "Development Loan Note") which shall be governed by Maryland law.

1.2 Purpose. The Borrower will use the Development Loan proceeds as follows: (i) up to One Million Seven Hundred Ninety Thousand and No/100 Dollars (\$1,790,000.00) (the "Acquisition Advance") shall be applied to costs (including closing costs) of acquisition of the Property; and (ii) up to Three Hundred Fifty Thousand and No/100 Dollars (\$350,000.00) (the "Development Advance" or, if more than one, "Development Advances") shall be used for the Development of the Property in accordance with a Development Budget that shall have been approved by the Lender in advance and in accordance with plans and specifications to be submitted to and approved by the Lender, and with advances to be made as the work progresses, all as set forth in this Agreement. For purposes of this Agreement, the term "Development" shall mean, generally, (a) lot clearing and rough grading; (b) provision of storm drainage structures and facilities, sediment control devices, base paving of streets, curbs and gutters; (c) providing sewer and water distribution systems and erecting temporary street signs; (d) provision of underground electric and gas utility lines, cable television easements and easements for private utility companies to install telephone lines, pedestals and vaults adjacent to Lot lines; and (e) other subdivision improvements as required by governmental authorities in order for use and occupancy permits to issue. The Development Budget for purposes of the Development Advance and portions thereof shall include the foregoing Development costs together with real estate taxes, an interest reserve to be withheld from loan proceeds and applied monthly to payment of accrued interest as hereinafter set forth, and other expenses approved by the Lender. Certain other costs normally considered part of development costs shall be deferred and paid for by the Borrower out of its own funds, including by way of example and not limitation, final paving of streets, site amenities, landscaping and erosion control.

1.3 Development. All of the Lots shall be developed simultaneously, and the Development Loan shall be allocated for costs among all of the Lots for all acquisition and Development costs.

1.4 Development Loan Interest Reserve. From the proceeds of the Development Loan, One Hundred Fifty Thousand and No/100 Dollars (\$150,000.00) shall not be disbursed but shall be reserved by the Lender for the payment of interest on the Development Loan (the "Interest Reserve") until such reserve is exhausted. Notwithstanding the foregoing or any provision of the Loan Documents to the contrary, the Lender shall not be obligated to make any disbursements from the Interest Reserve if any Event of Default shall have occurred (including without limitation any failure to meet the Sales and Curtailment Schedule set forth below which failure is not cured by payment of the amount necessary to satisfy the curtailment component thereof), and further, notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, nothing contained herein shall be deemed to release or in any way to relieve the Borrower from its obligation under the Development Loan Note to pay interest as provided in the Development Loan Note. Each disbursement from the Interest Reserve shall constitute a disbursement of principal of the Development Loan and shall be added to the then outstanding principal balance of the Development Loan.

1.5 Development Loan Real Estate Tax Reserve. From the proceeds of the Development Loan, One Hundred Thousand and No/100 Dollars (\$100,000.00) shall not be disbursed but shall be reserved by the Lender (the "Taxes Reserve") for the payment of real estate taxes and other governmental impositions against the Property (collectively, "Taxes") until such reserve is exhausted. Notwithstanding the foregoing or any provision of the Loan Documents to the contrary, the Lender shall not be obligated to make any disbursements from the Taxes Reserve if any Event of Default shall have occurred (including without limitation any failure to meet the Sales and Curtailment Schedule set forth below which failure is not cured by payment of the amount necessary to satisfy the curtailment component thereof), and further, notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, nothing contained herein shall be deemed to release or in any way to relieve the Borrower from its obligation under the Loan Documents to pay Taxes as they become due. Each disbursement from the Taxes Reserve shall constitute a disbursement of principal of the Development Loan and shall be added to the then outstanding principal balance of the Development Loan.

1.6 Fees. The Borrower shall pay to the Lender a fee for the Development Loan in the amount of Ten Thousand Seven Hundred and No/100 Dollars (\$10,700.00), which shall be paid upon closing of the Loans. The Lender acknowledges receipt from the Borrower of Twelve Thousand Five Hundred and No/100 Dollars (\$12,500.00), for application to the Lender's third-party costs and towards the Lender's underwriting in connection with the Loans (including without limitation fees of appraisers, consultants and legal counsel), any unused balance of which may be applied to the foregoing Development Loan fee.

SECTION TWO
THE CONSTRUCTION LOAN

2.1 Amount. The maximum principal amount that may be advanced and re-advanced under the Construction Loan shall not exceed Eleven Million and No/100 Dollars (\$11,000,000.00) (the "Aggregate Advances Limit"), subject to the further limitations set forth in this Section. The maximum amount outstanding at any one time under the Construction Loan shall not exceed Three Million Three Hundred Ninety Thousand and No/100 Dollars (\$3,390,000.00) (the "Maximum Outstanding Amount").

2.2 Unit Advances. Advances for each Unit shall be limited to the lesser of (i) seventy-five percent (75%) of the "as complete" appraised value of each model type, which value shall include the pro rata portion of the Development Loan allocated by the Lender to the Unit in the amount of Forty-Seven Thousand Six Hundred and No/100 Dollars (\$47,600.00) (the "Per Unit Development Component"), or (ii) the sum of the Per Unit Development Component plus one hundred percent (100%) of the hard and soft costs per model type (such hard and soft costs on average not to exceed \$242,000.00 per Unit based on a budget approved by the Lender), or (iii) a maximum of Two Hundred Eighty-Nine Thousand Six Hundred and No/100 Dollars (\$289,600.00) per Unit for Development costs plus the hard and soft costs of construction. The Construction Loan will be evidenced by a Revolving Construction Loan Promissory Note made by the Borrower payable to the order of the Lender (as the same may be amended, renewed, restated, supplemented or substituted from time to time, the "Construction Loan Note") which shall be governed by Maryland law.

2.3 Further Limitations on Advances. The Lender shall not be required to advance at any one time for Construction of Units more than the lesser of (A) the hard and soft costs of construction of more than fourteen (14) Units, or (B) Two Hundred Forty-Two Thousand and No/100 Dollars (\$242,000.00) per Unit, on average. In addition, the Lender shall advance up to One Hundred Twenty Thousand and No/100 Dollars (\$120,000.00) for construction of foundations of Units 32 through 37.

2.4 Purpose. The Borrower will use the Construction Loan proceeds for the purpose of building (the "Construction") the Units in accordance with budgets therefor, construction start limits, sales schedule and loan curtailment requirements, all of which shall have been approved by the Lender in advance and in accordance with plans and specifications to be submitted to and approved by the Lender, and with advances to be made as the work progresses, all as set forth in this Agreement. The overall Construction budget shall include and be consistent with the total costs per type of Unit that are to be set forth in a budget (the "Unit Costs Budget"), which shall be agreed by the parties prior to and as a condition of the first advance of Construction Loan proceeds.

2.5 Construction Limitation. At no time shall the Borrower be permitted to have under Construction more than fourteen (14) Units. Upon completion and sale of Units from time to time, and payment of the Release Payment set forth in Section 4.9 below, funds repaid pursuant to Section 4.9 below may be readvanced under the Construction Loan subject to the foregoing limitation on the number of Units that may be under Construction at any one time, which shall again apply, and subject to the Aggregate Advances Limit.

2.6 No Interest Reserve. The Borrower shall be obligated to pay interest as provided in the Construction Loan Note.

2.7 Fees. The Borrower shall pay to the Lender a fee for the Construction Loan in the amount of Fifty-Five Thousand and No/100 Dollars (\$55,000.00). The Construction Loan fee will be paid in installments each in the amount of One Thousand Two Hundred Fifty and No/100 Dollars (\$1,250.00), each such installment to be paid at the time of the first draw of Construction Loan proceeds for each Unit.

SECTION THREE THE LC FACILITY

3.1 Facility: Amount. The maximum amount of the LC Facility shall be Fifty-One Thousand and No/100 Dollars (\$51,000.00). The Lender agrees to issue one or more letters of credit (singularly, a "Letter of Credit" and if referring to more than one, "Letters of Credit") to the City of Frederick, Maryland or other governmental entities for the purpose of guaranteeing the satisfactory construction of public improvements pursuant to agreements and plans and specifications which shall have been approved by such governmental entity and by the Lender.

3.2 Letters of Credit. Subject to the terms and conditions of this Agreement and all terms and conditions as the Lender may require in an Application for Irrevocable Standby Letter of Credit ("LC Application") to be executed by the Borrower in connection with each Letter of Credit, the Lender agrees to issue one or more Letters of Credit for the account of the Borrower in form as attached hereto as Exhibit B (the "City of Frederick Form") or such other form as may be approved by the Lender. Each Letter of Credit issued pursuant to the LC Facility shall be evidenced by a Non-Revolving Promissory Note in form as attached hereto as Exhibit C ("each, a "LC Note"). The following particular terms and conditions shall apply:

(a) Any draw under a Letter of Credit shall constitute an LC Advance under the applicable LC Note, shall bear interest at the rate set forth in the LC Note, and shall be due on demand. No principal shall be deemed to be advanced or bear interest under an LC Note solely as the result of the issuance of the Letter of Credit.

(b) Each Letter of Credit shall have an initial expiry date, and each LC Note shall have an initial maturity date, of one (1) year from the date of issuance of the applicable Letter of Credit, subject to annual renewal unless, with respect to any Letter of Credit issued on the City of Frederick Form, the Lender shall have given the forty-five (45) day notice of non-renewal as contemplated therein. The Lender agrees that it will not give the first forty-five (45) day notice of non-renewal of any such City of Frederick Letter of Credit provided that (i) a renewal fee in the amount of one percent (1%) of the amount of the Letter of Credit is paid to the Lender on or before three hundred (300) days following issuance of the Letter of Credit, and

(ii) no Event of Default shall have occurred and remain uncured within any applicable notice and/or cure period. Following the first year of the term of any City of Frederick Letter of Credit, the Lender shall have the right at any time to give the forty-five (45) day notice of non-renewal. Upon the Lender giving a forty-five (45) day notice of non-renewal of any City of Frederick Letter of Credit, the original Letter of Credit must be returned to the Lender on or before the end of the forty-five (45) day notice period and the Borrower's failure to do so by the expiration of the forty-five (45) day notice period shall constitute an Event of Default hereunder and under the Loan Documents without further notice. Each LC Note for a City of Frederick Letter of Credit shall have a maturity date of two (2) years after the date of issuance of the Letter of Credit. All other Letters of Credit shall have an outside expiry date, and each other LC Note shall have an outside maturity date, on the same date of Maturity (as hereinafter defined) of the Development Loan Note and the Construction Loan Note.

(c) If any Letter of Credit remains outstanding for a period later than the date which is two (2) years following closing of the Loans (the "Two Year Anniversary"), the Borrower's and the Guarantor's obligations hereunder and under the Guaranty and under all of the other Loan Documents shall remain in full force and effect with respect to any such Letter(s) of Credit and the applicable LC Note(s), and the Lender shall not be required to release any security under the Deed of Trust or any other Loan Document until the originals of all Letters of Credit have been returned to the Lender, notwithstanding that the Development Loan and the Construction Loan have been repaid. In addition, if any Letter of Credit remains outstanding as of the closing on the sale of the 36th Unit, the Release Payment (as hereinafter provided in Section 4.9) shall be increased by an amount equal to one hundred twenty-five percent (125%) of the aggregate face amount of all then-outstanding Letters of Credit, and such amount shall be deposited in the LC Escrow pursuant to Section 4.9 hereof. Provided that at the maturity of the Loans the LC Escrow contains an amount at least equal to all outstanding Letters of Credit, provided that all other obligations hereunder have been fully paid and performed, the Guarantor's obligations shall continue in full force and effect with respect to the LC Note(s) related to the outstanding Letter(s) of Credit and any interest that may accrue thereon, and all other Loan Documents shall be released.

(d) The Borrower's failure to pay to the Lender the amount of any draw made on any Letter of Credit, together with accrued interest thereon, within five (5) days after the draw is made, shall constitute an Event of Default hereunder and under the Loan Documents.

(e) The Lender shall not be responsible for, and the indebtedness, obligation and liability of the Borrower under each LC Note and the LC Facility (the "LC Obligations") shall not be affected by (i) the use which may be made of any Letter of Credit or for any acts or omissions of the user(s) of any Letter of Credit; (ii) the validity, accuracy, sufficiency or genuineness of drafts, required statements of documents, even if such drafts, statements or documents should in fact prove to be in any or all respects invalid, inaccurate, insufficient, fraudulent or forged; (iii) failure of any draft to bear any reference or adequate reference to the

applicable Letter of Credit, or the failure of documents to accompany any instrument of negotiation, or to forward documents as required by the terms of the Letter of Credit, each of which provisions, if contained in the Letter of Credit, it is agreed may be waived by the Lender; (iv) errors, omissions, interruptions or delays in transmission or delivery of any message, by mail, cable, telegraph, telex or otherwise; (v) failure of the beneficiary under any Letter of Credit to present the original of the Letter of Credit and any other documents required by the Lender in connection with an attempted draw; or (vi) any consequences arising from causes beyond the control of the Lender.

(f) In the event of the imposition or implementation of, or increase in, subsequent to the issuance of any Letter of Credit, any reserve, special deposit or similar requirement on or applicable to the applicable Letter of Credit, the Borrower shall, at the Lender's request, reimburse the Lender for all increased costs of the Lender of maintaining the Letter of Credit.

(g) The Borrower agrees that the Lender may pay, as complying with the terms of any Letter of Credit, any drafts, required statements or other documents otherwise in order which may be signed or issued by the administrator, trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, liquidator, receiver or other legal representative of the party who is authorized under the Letter of Credit to draw or issue any drafts, required statements or other documents.

(h) If the Lender consents to any overdrafts under any Letter of Credit or authorizes payment or acceptance of drafts drawn thereunder with irregular accompanying documents or authorizes or consents to any departure from the terms of any Letter of Credit, this Agreement shall be fully binding upon the Borrower with respect to such overdrafts, irregularities or both and the Lender's rights shall be, in every respect, the same as if this Agreement and the applicable Letter of Credit expressly provided for such overdraft or irregularity or both. Such consent may be given orally, in writing, by telex or in such other manner as the Lender may require.

(i) If the Lender consents to any extension of time for presentation of drafts or documents under any Letter of Credit or in the event the Lender consents to any other modification of the terms of any Letter of Credit or of any transaction under the applicable Letter of Credit, at the request of the Borrower, this Agreement shall be binding upon the Borrower with regard to any action taken under such modified terms and to drafts and documents presented within such extended time. Such consent may be given orally, in writing, by telex or in such other manner as the Lender may require.

(j) The Lender shall not be obligated to issue any Letter of Credit after the date which is one hundred twenty (120) days following closing of the Loans.

(k) Except as otherwise expressly stated in any Letter of Credit, each Letter of Credit will be subject to and governed by the laws of the State of Maryland and the 2007 revision of the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 600) and, in the event of any conflict, the laws of the State of Maryland will control.

Section 3.3 Fees. The Borrower shall pay to the Lender a fee for each Letter of Credit in the amount of one percent (1%) of the amount of each Letter of Credit, which shall be paid at the time the Borrower submits an LC Application to the Lender. In addition, a renewal fee in the amount of one percent (1%) of the amount of each Letter of Credit that remains open for more than twelve (12) months shall be paid to the Lender upon each anniversary of each Letter of Credit, except for City of Frederick Letters of Credit, as to which such renewal fee shall be paid not later than the three hundredth (300th) day following issuance of the applicable Letter of credit. Such fees shall be deemed earned in full on each payment date and shall be non-refundable in all circumstances.

SECTION FOUR PARTICULAR TERMS OF BOTH LOANS AND THE LC FACILITY

4.1 Guarantor. Comstock Holding Companies, Inc. (the “Guarantor”) shall guarantee the payment and performance of the Borrower’s obligations, covenants and agreements under the Loans and the LC Facility, as evidenced by the Loan Documents, including completion of Construction, and shall also guarantee the Carve Out Obligations (defined on Exhibit D attached hereto), which guaranty shall be evidenced by an instrument of unlimited and unconditional guaranty of payment, performance and completion from the Guarantor for the benefit of the Lender, in form and substance satisfactory to the Lender (the “Guaranty”).

4.2 Term. The Development Loan Note, the Construction Loan Note and each LC Note are for convenience collectively called the “Notes”. The Development Loan Note and the Construction Loan Note shall mature twenty-four (24) months after the date of closing on the Loans and the LC Facility (the “Development and Construction Loan Maturity”). Each LC Note shall have an initial maturity date of one (1) year from the issuance of the Letter of Credit to which it relates, and if the applicable Letter of Credit is thereafter extended the applicable LC Note shall have an outside maturity date on the same date that the Letter of Credit would expire (the “LC Maturity”). It is acknowledged and agreed that notwithstanding any provisions herein, the Borrower has not applied for, nor has the Lender made any commitment with respect to, any extension of the Development and Construction Loan Maturity or the LC Maturity. Upon any application for an extension, any approval of an extension on any terms would be contingent upon the usual and customary underwriting procedures of EagleBank, including without limitation, full credit and collateral evaluation and review, the approval of the loan committee of EagleBank, and payment to the Lender of extension fees as determined by the Lender.

4.3 Interest Rate. Commencing on the closing of the Loans and the LC Facility, the unpaid balance of each of the Notes outstanding from time to time shall bear interest and be payable at the floating rate per annum equal to three percent (3%) above the thirty (30) day LIBOR Rate (hereinafter defined), rounded upwards, if necessary, to the nearest one-eighth of one percent (0.125%). The LIBOR rate means, for each calendar month, the annualized weighted average of the 30-day London Interbank Offered Rates (at approximately 11:00 a.m. London time) for U.S. Dollar transactions on the day that is two (2) business days prior to the first day of that calendar month, as reported by Bloomberg Business News; if Bloomberg Business News is not available, the Lender shall select a similar source for the LIBOR index and shall notify the Borrower of such selection. If no LIBOR index is available, or if the Lender determines in its sole discretion that any reported LIBOR rate is unreliable, the Lender may select an alternative index upon notice to the Borrower of such selection. Interest shall be calculated using a 360-day year, based upon the actual number of days for which the calculation is being made. Notwithstanding the above, in no event shall any of the Notes bear interest at a rate below the floor interest rate of four and three-quarters percent (4.75%) per annum at any time (the "Interest Rate Floor").

4.4 Collateral. The Loans and the LC Facility shall be secured by, among other things, the following:

- (i) A first lien revolving credit line deed of trust, security agreement and fixture filing (as the same may be amended, restated, supplemented or substituted, the "Deed of Trust") on the Property;
- (ii) An assignment of Leases and Rents on the Property (as the same may be amended, restated, supplemented or substituted, the "Leases Assignment");
- (iii) An assignment of sales contracts and deposits with respect to the Property (the "Contracts Assignment");
- (iv) Assignments of all Development and Construction documents including, without limitation, plans and specifications, permits, architect's contracts, engineering contracts, Development contracts, and Construction contracts (the "Documents Assignment");
- (v) Consents to Assignment executed by each of the general contractor, architect and project engineer for each of the Development and the Construction (the "Consents");
- (vi) An Environmental Indemnity Agreement made by the Borrower and the Guarantor for the benefit of the Lender (as the same may be amended, restated, supplemented or substituted, the "Environmental Indemnity");
- (vii) Such UCC-1 Financing Statements as the Lender may determine to be necessary or desirable.

4.5 Equity Requirement. As a condition of the Loans and the LC Facility, the Borrower shall make an equity investment in the Property in an amount not less than One

Million Nine Hundred Thousand and No/100 Dollars (\$1,900,000.00). As of the closing of the Loans and the LC Facility, the Borrower shall have provided reasonable evidence of a portion of such investment to the Lender in the following amounts: (i) \$1,295,000.00 in cash toward the acquisition of the Property, (ii) \$505,000.00 in equity pursuant to the Appraisal as calculated by the Lender, and (iii) evidence of payment of soft costs (paid invoices) in an amount of at least \$60,000.00. Promptly after funding additional soft costs following closing, the Borrower shall provide evidence of payment of soft costs (paid invoices) in an amount of at least an additional \$90,000.00.

4.5 Deposit Relationship. As a condition of the Loans and the LC Facility, the Borrower shall establish its primary operating account and all escrow accounts (including without limitation escrow account for deposits under sales contracts) with the Lender and shall maintain such accounts with the Lender throughout the term of the Loans and the LC Facility. In addition, the Borrower and/or Guarantor and/or any related entities shall maintain an aggregate minimum monthly average aggregate deposit balance with the Lender of ten percent (10%) of the combined outstanding principal balances of the Loans, tested quarterly, with the first quarterly test period commencing on October 1, 2013 and tested at December 31, 2013. Such deposits shall be held in demand deposits or money market accounts. If at any time under any of the Loan Documents the Lender is collecting deposits for the payment of insurance premiums and/or real estate taxes, the amount(s) on deposit, to the extent unapplied as of the date of any such semi-annual test, shall be counted toward the foregoing deposit balance requirements. The foregoing deposit balance requirement is in addition to any deposit balance requirement under the terms of the loan documents for any other loan or loans by the Lender to the Borrower, the Guarantor or any affiliate(s) of the Borrower or the Guarantor. The failure to comply with the foregoing deposit balance requirements shall not constitute a default under the Loans or the LC Facility; however, interest shall accrue on all amounts outstanding under the Loans and the LC Facility at one-quarter of one percent (0.25%) plus the rate of interest then payable under the Notes (and the Interest Rate Floor shall also increase by one-quarter of one percent (0.25%)) from the date of such failure until such time as the deposit balance requirement is satisfied at the next quarterly test.

4.6. Sales Requirement. (a) As a condition of the Loans and the LC Facility, the Borrower shall diligently pursue Development of the Lots and Construction and sale of the Units thereon. In addition, the Borrower (i) shall enter into and close under sales contracts to third parties on the following number of Lots, (ii) resulting in the curtailments of the Development Loan by each Milestone Date as set forth below in an amount not less than \$58,000.00 per Lot, (iii) by each Milestone Date set forth below (the "Sales and Curtailment Requirement"):

Number of Lots by each Milestone Date	Curtailments of Development Loan by each Milestone Date	Remaining Development Loan Balance	Lots Remaining as Collateral	Milestone Date
0	\$ 0	\$2,140,000	45	3/31/2014
2	\$ 116,000	\$2,024,000	43	6/30/2014
6	\$ 348,000	\$1,676,000	37	9/30/2014
8	\$ 464,000	\$1,212,000	29	12/31/2014
8	\$ 464,000	\$ 748,000	21	3/31/2015
12	\$ 696,000	\$ 52,000	9	6/30/2015
9	\$ 522,000	\$ (470,000)	0	9/30/2015

(b) Such sales contracts shall be acceptable to the Lender in all respects, provided that the Lender shall not unreasonably withhold its approval of any sales contract for a Lot that will result in a payment against principal under the Development Loan from sales proceeds of at least Fifty-Eight Thousand and No/100 Dollars (\$58,000.00) per Unit.

(c) Failure of the Borrower to comply with the Sales and Curtailment Requirement shall, at the Lender's option, constitute an Event of Default under the Loan Documents; provided, however, that the Lender agrees that it will not elect to call an Event of Default if the Borrower pays to the Lender, by the applicable Milestone Date, the amount necessary for the required Cumulative Curtailment of the Development Loan, as set forth in the foregoing chart on the same line as for that Milestone Date, to be satisfied as of that Milestone Date (the "Substitute Curtailment Payment"). Payment of the Substitute Curtailment Payment shall not, however, entitle the Borrower to the release of any Lots from the lien of the Deed of Trust. No Lots or Units shall be released except pursuant to settlement on a bona fide sale to a third party pursuant to Section 4.9 below.

(d) The Borrower shall provide to the Lender marketing and sales reports on a monthly basis setting forth the status of marketing, sales contracts and closings or settlements in such detail as the Lender may reasonably require.

4.9 Release Provisions. The Deed of Trust shall contain the following provision for release of Lots and/or Units from the lien thereof:

"Provided that the Grantor requests the release of one of the Lots and/or Units from the lien of this Deed of Trust prior to the repayment in full of the Secured Indebtedness, and provided that the sales contract with respect to such Lot and/or Unit is in the form approved by the Beneficiary and at a minimum price set forth in the Loan Agreement, or if not set forth therein then otherwise satisfactory to the Beneficiary in its sole discretion, then the Beneficiary agrees to release the lien of this Deed of Trust with respect to any one of the Lots and/or Units, upon Grantor's written request, upon the following terms and conditions:

- (a) With respect to a Lot for which advances have been made only from the Development Loan, payment of a Release Payment for a Lot equal to Fifty-Eight Thousand and No/100 Dollars (\$58,000.00) for each of the first thirty-five (35) Lots

released. If all Letters of Credit have not been returned to the Lender at the time of sale of the thirty-sixth (36th) Lot, then the Release Payment for the thirty-sixth (36th) Lot shall be Fifty-Eight Thousand and No/100 Dollars (\$58,000.00) plus an amount equal to one hundred twenty-five percent (125%) of the aggregate face amount of all then-outstanding Letters of Credit (the "LC Release Price Component"); if all Letters of Credit have been returned to the Lender at that time, then the Release Payment for the thirty-sixth (36th) Lot and for each of the remaining Lots shall be Fifty-Eight Thousand and No/100 Dollars (\$58,000.00) per Lot.

- (b) With respect to a Lot upon which improvements have been constructed, payment of a Release Payment equal to the sum of Fifty-Eight Thousand and No/100 Dollars (\$58,000.00) plus one hundred percent (100%) of the funds advanced under the Construction Loan for the Unit constructed thereon.

The Release Payment paid under this Section (b) will be applied by the Lender first to the costs advanced from the Construction Loan for Construction of the Unit and the remainder will be applied to the outstanding principal balance of the Development Loan.

- (c) The LC Release Price Component shall be escrowed with the Beneficiary as cash collateral for the LC Facility set forth in the Loan Agreement. Amounts in the LC Escrow shall be returned to the Grantor from time to time to the extent that the amount in the LC Escrow exceeds one hundred twenty-five percent (125%) of the aggregate amount of all Letters of Credits that remain outstanding.
- (d) No Event of Default shall then exist and be continuing;
- (e) The Grantor pays all fees, costs, charges and expenses (including without limitation reasonable attorneys' fees) relating to the preparation, execution and recordation of any document required in connection with any such partial release; and
- (f) The Grantor pays a fee in the amount of One Hundred and No/100 Dollars (\$100.00) for processing the request for release ("Processing Fee"); provided, however, that the Processing Fee will be waived in the event the purchaser under the sales contract acquires the Lot and/or Unit using EagleBank as its mortgage lender for the purchase money of the Lot and/or Unit.

Notwithstanding the foregoing, no release price shall be payable for the release of streets or roadways, or storm water maintenance or other public facilities, that are to be dedicated to City of Frederick, Maryland or other governmental entities for public maintenance, provided the same are in accordance with a site plan that shall have been approved by the Beneficiary or such other governmental entities."

4.10 Condominium Association. The Lender has approved the following condominium documents for the Property (the “Restated Condominium Documents”): (i) Second Amendment and Restated Declaration of Condominium of Maxwell Square Condominium to be executed by Churchill Group at Maxwell Square, a Maryland corporation (“Churchill”), and the Council of Unit Owners of Maxwell Square Condominium (“Council”), (ii) First Amended Plat of Maxwell Square Condominium, and (iii) Third Amendment to Declaration of Condominium of Maxwell Square Condominium to be executed by Churchill and the Council. As a condition of closing the Loans, the Restated Condominium Documents shall have been approved by all governmental authorities with jurisdiction and recorded among the Land Records of Frederick County, Maryland. The Borrower shall not amend the Restated Condominium Documents without the prior written consent of the Lender, which will not be unreasonably withheld.

SECTION FIVE
PAYMENTS, COMPUTATIONS, FEES, CHARGES AND PROTECTIVE ADVANCES

5.1 Payments. All payments due with respect to this Agreement or the Loans or the LC Facility shall be made in immediately available funds to the Lender at such place as designated by the Lender from time to time. The Lender is authorized, but shall be under no obligation, to charge any deposit account maintained by the Borrower with the Lender or any affiliate of the Lender for any payments due to the Lender with respect to this Agreement or the Loans or the LC Facility. Payments shall be applied, at Lender’s sole discretion: (i) first, to payment of accrued and unpaid interest, if any; (ii) second, to payment of any principal then due, if any; (iii) third, to late charges, if any; (iv) fourth, to reasonable attorneys’ fees and costs of collection; and (v) fifth, to reduce the outstanding principal balance of the Notes until such principal shall have been fully repaid. All payments hereunder shall be made without offset, demand counterclaim, deduction, abatement, defense, or recoupment, each of which the Borrower hereby waives.

5.2 Late Charges. If any payment due under any of the Notes is not made within ten (10) days of its due date, the Borrower shall pay to the Lender upon demand (which may be in the form of the usual monthly billing or invoice) a late charge equal to five percent (5%) of the amount of such payment.

5.3. Default Rate. After an Event of Default (hereinafter defined), the interest which accrues on the Notes shall be increased to the Default Rate (as defined in the Notes).

5.4 Computations. Interest and fees on the Loans shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed.

5.5 Prepayment. The Borrower may prepay any of the Notes in whole or in part without premium or penalty at any time upon ten (10) days prior written notice to the Lender.

Partial prepayments shall be applied to installments of principal in their inverse order of maturity, if applicable. Amounts prepaid under the Development Loan Note and the LC Note may not be re-borrowed; amounts prepaid under the Construction Loan Note may be re-borrowed in accordance with the terms and conditions of this Agreement.

5.6 Indebtedness. As used in this Agreement, the term “Indebtedness” means all present and future indebtedness of the Borrower to the Lender arising out of or in connection with the Notes or any of the other Loan Documents.

SECTION SIX CONDITIONS

6.1 Conditions Precedent to Closing. In addition to any other conditions stated in this Agreement, the following conditions must be satisfied prior to Lender closing on the Loans and the LC Facility.

(a) Loan Documents. Receipt by Lender of appropriately completed and duly executed originals of this Agreement, the Notes, the Guaranty, the Deed of Trust, the Leases Assignment, the Account Assignment, the Contracts Assignment, the Documents Assignment, the Consents, the Environmental Indemnity, and UCC-1 Financing Statements, all as Lender may require (collectively, together with any other documents executed and delivered in connection with the Indebtedness, the “Loan Documents”).

(b) Organizational Documents. The Borrower and each entity comprising the Borrower shall supply to the Lender, to the extent it has not previously done so in any prior transaction with the Lender: (i) a currently certified copy of its Articles of Organization and all amendments thereto; (ii) evidence satisfactory to the Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party; and (iv) certified copies of its Operating Agreement and all amendments thereto. The Articles of Organization and the Operating Agreement of Borrower and each entity comprising the Borrower shall not be amended, changed or modified in any respect without prior written consent of the Lender. In addition, the Guarantor shall supply, to the extent it has not previously done so in any prior transaction with the Lender: (i) a currently certified copy of its Articles of Incorporation and all amendments thereto; (ii) evidence satisfactory to Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and a certificate of incumbency; and (iv) certified copies of its By-Laws and all amendments thereto. The Articles of Incorporation and the Bylaws of the Guarantor shall not be amended, changed or modified in any respect without the prior written consent of the Lender; provided, however, that on the condition that the Lender is given thirty (30) days advance written notice, the Lender hereby consents to the Guarantor’s change in corporate domicile from

Delaware to Virginia and all amendments to its organizational documents as are reasonably required to effect such change in domicile subsequent to the closing of the Loan; provided further that UCC-1 financing statements shall be filed in the changed domicile at the cost and expense of the Borrower.

(c) Opinion. Receipt by the Lender of the opinion(s) of the counsel for Borrower and the Guarantor, in form and content satisfactory to the Lender, in its sole, but reasonable, discretion.

(d) Insurance. Receipt by the Lender of certificate(s) of insurance to evidence a fully paid policy or policies of comprehensive public liability insurance naming Lender as an additional insured thereunder in an amount not less than Two Million and No/100 Dollars (\$2,000,000.00) in the aggregate with not less than One Million and No/100 Dollars (\$1,000,000.00) per occurrence; in any event, the amount of all insurance shall be sufficient to prevent any co-insurance contribution on any loss, with each policy providing for a thirty (30) day prior written notice of cancellation, amendment or alteration.

(e) Operating Account. The Borrower shall have established its primary operating account with the Lender.

(f) Financing Statements. The financing statements necessary to perfect the Lender's security interest in the personal property subject to the Deed of Trust, and in any other collateral requiring the filing of a financing statement for perfection of a lien thereon, shall be duly filed in all appropriate offices and jurisdictions, all other financing statements covering any of such personal property shall be terminated or the Lender shall be reasonably satisfied that such terminations are forthcoming, and filing and recording receipts evidencing such filings and terminations shall be delivered to Lender, all in form and substance satisfactory to the Lender.

(g) Property Documents. The Lender shall have received and approved in its sole discretion, the following:

(1) Appraisals. An appraisal of the Property, prepared by an appraiser acceptable to the Lender, in form and content acceptable to the Lender, conforming to all regulatory and internal appraisal guidelines applicable to or established by the Lender, in its sole, absolute, nonreviewable discretion, reflecting a "when developed" discounted value satisfactory to the Lender (the "Appraisal");

(2) Title Insurance. A commitment for title insurance (the "Title Commitment") insuring the first priority lien of the Deed of Trust in the aggregate amount of the Notes, containing no exceptions unacceptable to the Lender, issued in the name of the Lender by a title company acceptable to the Lender and in an amount equal to the aggregate principal amount of the Notes. The Title Commitment and the title policy issued pursuant thereto (the "Title Policy") shall reflect that all requirements for issuance of the Title Policy have been satisfied, and shall contain such other endorsements or coverages as the Lender may require.

(3) Survey. A current survey and legal description of the Property satisfactory to the Lender from a registered land surveyor of the State of Maryland, which survey shall show all easements, rights of way and other matters of record, shall locate all existing improvements on the Property, shall contain metes and bounds descriptions of each applicable constituent portion of the Property acceptable to the Lender and its counsel, shall generally show a state of facts acceptable to the Lender, and shall contain a surveyor's certificate satisfactory to the Lender.

(4) Environmental. Receipt and approval by the Lender of a Phase I Environmental Site Assessment of the Property.

(5) Condominium Documents. The Restated Condominium Documents shall have been recorded.

(6) Development Approvals. Copies of the certified site plan for the Property showing, without limitation, evidence satisfactory to the Lender that the Property can be subdivided into the individual Lots for construction of the Units thereon subject only to normal ministerial governmental processes.

(7) Development and Construction Budgets. Except with respect to the soft costs ("Preliminary Soft Costs") that are being funded at closing of the Loans, final budget for the Development and final Construction budget for the Property which shall have been reviewed and approved by the Lender in its sole discretion and by the Lender's Development and construction consultant (the "Lender's Inspector").

(8) Development Documents. The Plans and Specifications, Development Schedule and any and all other Development documents requested by the Lender and/or the Lender's Inspector, which shall have been reviewed and approved by the Lender in its sole discretion and by the Lender's Inspector, except with respect to the Preliminary Soft Costs.

(9) Flood Hazard. Evidence that no part of the Property is located in a special flood hazard area.

(10) Public Utilities. Evidence to the effect that sanitary sewer, water, electric, gas, telephone and other public utilities are available and adequate to serve the Property.

(11) Licenses and Permits. Copies of all licenses and permits in connection with the Property, including without limitation licenses, permits, proffers and other conditions to final subdivision and site plan approval for the Property.

(12) Consultant's Review. Satisfactory review and analysis by the Lender's construction consultant of the Development and Construction plans, documents and budgets.

(13) Zoning. Receipt by the Lender of a zoning endorsement to the Title Policy acceptable to the Lender or such other written evidence as is acceptable to the Lender that the Property is zoned consistent with the uses contemplated beyond any possibility of appeal and can be developed as proposed as a matter of right, and to the effect, further, that there are no pending proceedings, either administrative, legislative or judicial, which would in any manner adversely affect the status of the zoning with respect to the Property or any part thereof.

(14) Marketing Report. Receipt and satisfactory review and analysis by the Lender of a marketing report.

(15) Purchase Contract. Receipt and satisfactory review and approval by the Lender of the contract for the acquisition of the Property and any amendments thereto.

(h) No Default. No event shall have occurred and be continuing that constitutes an Event of Default (as defined below).

(i) Representations. All representations and warranties contained in this Agreement shall be true and correct in every material respect as of the date of closing of the Loans.

(j) Satisfactory Documents. All documents delivered pursuant to this Agreement must be in form and substance satisfactory to the Lender and its counsel and all legal matters incident to this Agreement must be satisfactory to Lender's counsel.

(k) Identification. As required by federal regulation, closing the Loans is contingent upon satisfactory verification of identity of the signatories and verification that none of the Borrower or the Guarantor or any signers is restricted from conducting business in the United States.

6.2 Conditions Precedent to Advances of Development Loan. In addition to any other conditions stated in this Agreement, the following conditions related to the Development must be satisfied prior to any disbursements under the Development Loan except for the Preliminary Soft Costs and all of the following matters shall have been approved by the Lender.

(a) Permits. Copies of any and all building and similar permits required in connection with the Development, or such portion thereof for which advances are requested, together with such evidence as the Lender may require to the effect that all fees for such

permits have been paid. Satisfactory evidence shall be submitted to the Lender that all governmental approvals necessary for the Development, or such portion thereof for which advances are requested, have been obtained. The Lender shall also receive satisfactory evidence that all applicable safety, ecological and environmental laws and any other codes or regulations affecting the Development and/or proposed use of the Property have been complied with.

(b) Plans and Specifications. Two (2) sets of complete copies of the final Plans and Specifications for the Development, which Plans and Specifications shall be satisfactory to the Lender in all respects. The Lender's review of the Plans and Specifications is solely for the benefit of the Lender, and the Lender's approval thereof shall not be deemed in any respect to be a representation or warranty, expressed or implied, that the Development will be sound, have a value of any particular magnitude or otherwise satisfy a particular standard. Prior to any advances for hard costs, the Borrower shall furnish the Lender with copies of the City-approved stamped Plans, together with such evidence as the Lender may require to the effect that such Plans and Specifications have been approved by all governmental and quasi-governmental authorities having or claiming jurisdiction, and together with a final Development Budget which must be satisfactory to the Lender in its discretion.

(c) Trade Payment Breakdown. A breakdown of total development costs, which shall include a draw schedule (the "Development Budget") containing reasonable details of amounts anticipated to be payable for each category of work to be performed and materials to be supplied in connection with the Development, and a projected schedule for the progress of the Development, all in such form and containing such details as the Lender shall require. Any change orders in excess of \$10,000.00 for any one change order and in the aggregate more than \$25,000.00 shall be subject to the Lender's prior approval. No hard costs shall be advanced under the Development Loan until such time as the Development Budget has been approved by the Lender in its sole discretion. The Borrower may, from time to time, reallocate line item amounts in the Development Budget based upon such reasonable supporting documentation justifying such reallocation with notice to the Lender provided that (i) no reallocation from the Interest Reserve or the Taxes Reserve shall be permitted, and (ii) the total Development Budget shall not be increased.

(d) Development Schedule. A projected Schedule ("Development Schedule") for the progress of the Development of the Property and a projection of cash flow, each in such form and containing such details as the Lender shall require. The Borrower shall be required to diligently pursue and proceed with the Development in accordance with the Development Schedule to completion. Failure of the Borrower to meet the requirements of the Development Schedule for completion of Development shall constitute an Event of Default under this Agreement.

(e) General Contractor. All contracts for Development shall be subject to the Lender's approval. Each Development contract shall be assigned to the Lender effective on a default under any of the Loan Documents. Each Development contractor shall consent to such

assignment and agree, in the event of any such default, to continue performance of the contract for the Lender, if the Lender so requests. Comstock Homes of Washington, L.C., an affiliate of the Guarantor, is hereby approved as the general contractor for Development. Prior to any advances for Development costs, the Borrower shall furnish the Lender with a copy of the contractor's license for that portion of the Development. The Borrower shall also furnish the Lender with copies of licenses for all major subcontractors.

(f) Architect's and Engineer's Certificate. The architect and the engineer for the Development shall be subject to the Lender's approval. In addition, the contracts with the architect and the engineer shall be subject to the Lender's approval. A certificate from the architect and/or project engineer will be required to the effect that the Development, if completed in accordance with the Plans and Specifications, will comply with all federal, state, county and/or city and local laws, statutes, ordinances, codes, regulations, rules or other laws applicable to the Development ("Applicable Laws"). Prior to any advances for Development costs, the Borrower shall furnish the Lender with a copy of the engineer's license and the architect's license.

6.3 Provisions Governing Disbursements of Development Loan. Disbursements of the Development Loan shall be governed by the following provisions:

(a) The Development shall be performed by the Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, codes, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. The Development shall be in strict accordance with all applicable use or other restrictions and the provisions of any prior declarations, covenants, conditions, restrictions and zoning ordinances and regulations.

(b) The Borrower shall have submitted to the Lender and the Lender's Inspector such information as may be requested by the Lender or the Lender's Inspector to verify the Development costs which are to be incurred in connection with the Development. The Lender shall not be obligated to authorize disbursement of Development Loan proceeds with respect to the Development for an amount in excess of the Development costs to be incurred in connection therewith as verified by the Lender or the Lender's Inspector pursuant to the provisions of the preceding sentence. The funding of each draw request is subject to an inspection and approval by the Lender's Inspector.

(c) The Development Loan proceeds will be advanced in installments as the Development progresses in accordance with the terms of this Agreement to finance the Development in accordance with the Plans and Specifications, but no more often than once monthly, provided that the Lender is satisfied that the amounts available under the Development Loan will be sufficient to complete the work and pay or provide for all reasonably anticipated Development costs through the required Development completion date under the Development Schedule. In the event the Lender determines that the amounts available under the

Development Loan, together with any additional cash provided by the Borrower to the Lender, if any, is insufficient to complete the Development in such manner as the Lender may require, the Borrower shall provide such funds necessary to complete the Development.

(d) Advances of the Development Loan shall be conditioned upon the Lender's receipt of (i) written certification by parties approved by the Lender that the work which is the basis of the requested advance was completed in accordance with the approved Plans and Specifications and within the cost estimates approved by the Lender (or such adjustments of cost estimates of line items as shall be required and approved by the Lender, provided that sufficient funds to complete the Development will be available under such adjusted estimates), to the satisfaction of the Lender, and (ii) evidence that at that time all necessary certificates required to be obtained from any board, agency or department (government or otherwise) have been obtained. All documents required to be submitted to the Lender as a condition of each disbursement shall be on standard AIA forms and shall be furnished to the Lender at the Lender's address set forth in this Agreement. The Lender shall have at least ten (10) business days after receipt of the foregoing documentation prior to funding an approved advance.

(e) The Lender shall have received a notice of title continuation or an endorsement to the title insurance policy with respect to the Property theretofore delivered to the Lender, showing that since the last preceding advance, there has been no change in the status of title and no other exception not theretofore approved by the 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 by an amount equal to the advance then being made, if the policy does not by its terms provide automatically for such an increase.

(f) Before making the first advance of Development Loan Proceeds, the Borrower shall have provided to the Lender satisfactory documentary evidence that the general contractor has obtained a Basic Business License from the State of Maryland and such license is in effect.

(g) Before making any advance of Development Loan proceeds, the Lender may require the Borrower to obtain from any contractor or materialmen it may engage in connection with the Development, acknowledgements of payment and releases of liens and rights to claim liens, if applicable, down to the date of the last preceding advance and concurrently with the final advance. All such acknowledgements and releases shall be in form and substance satisfactory to the Lender.

(h) The Lender shall not be obligated to make the final advance of Development Loan proceeds hereunder, which shall include the retainage described above, unless (i) the Lender's Inspector has certified to the Lender on standard AIA forms that the work is complete; (ii) the 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; (iii) that completion of the Development has occurred free and clear of all mechanics' or materialmen's liens and any bills or claims for labor, materials and services in connection with the completion of the Development; and (iv) certificates from the Borrower's architect, engineer and/or contractor, and, if required, from the Lender's Inspector, certifying that the Development has been completed in accordance with, and as completed comply with, the Plans and Specifications and all laws and governmental requirements. All fees and costs of the Lender's Inspector shall be paid by the Borrower.

(i) The Lender shall not be obligated to make any advances of Development Loan proceeds hereunder unless, in the reasonable judgment of the Lender, 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 the development have been furnished and installed, and no default which has not been cured has occurred under this Agreement or any of the documents evidencing, securing or guaranteeing the Development Loan.

6.4 Conditions Precedent to Advances of Construction Loan. In addition to any other conditions stated in this Agreement, the following conditions related to Construction of Units must be satisfied prior to any disbursements under the Construction Loan and all of the following matters shall have been approved by the Lender.

(a) Permits. Copies of any and all building and similar permits required in connection with the Construction for each Lot upon which a Unit is to be constructed, together with such evidence as the Lender may require to the effect that all fees for such permits have been paid. Satisfactory evidence shall be submitted to the Lender that all governmental approvals necessary for the Construction have been obtained. The Lender shall also receive satisfactory evidence that all applicable safety, ecological and environmental laws and any other codes or regulations affecting the Construction and/or proposed use of the Property have been complied with.

(b) Plans and Specifications. Two (2) sets of complete copies of the final Plans and Specifications for the Construction, which Plans and Specifications shall be satisfactory to the Lender in all respects. The Lender's review of the Plans and Specifications is solely for the benefit of the Lender, and the Lender's approval thereof shall not be deemed in any respect to be a representation or warranty, expressed or implied, that the Construction will be sound, have a value of any particular magnitude or otherwise satisfy a particular standard. Prior to any advances for hard costs, the Borrower shall furnish the Lender with copies of the City-approved stamped Plans, together with such evidence as the Lender may require to the effect that such Plans and Specifications have been approved by all governmental and quasi-governmental authorities having or claiming jurisdiction, and together with a final Construction Budget which must be satisfactory to the Lender in its discretion.

(c) Trade Payment Breakdown. A breakdown of total development costs, which shall include a draw schedule (the “Construction Budget”) containing reasonable details of amounts anticipated to be payable for each category of work to be performed and materials to be supplied in connection with the Construction, and a projected schedule for the progress of the Construction, all in such form and containing such details as the Lender shall require. The parties shall have agreed on the Unit Costs Budget. Any change orders shall be subject to the Lender’s prior approval. No hard costs shall be advanced under the Construction Loan until such time as the Construction Budget has been approved by the Lender in its sole discretion. The Borrower may, from time to time, request reallocation of amounts in the Construction Budget based upon such reasonable supporting documentation justifying such reallocation with notice to the Lender provided that (i) no reallocation from the Interest Reserve or the Taxes Reserve shall be permitted, and (ii) the total Construction Budget shall not be increased.

(d) Construction Schedule. A projected Schedule (“Construction Schedule”) for the progress of Construction of Units and a projection of cash flow, each in such form and containing such details as the Lender shall require. The Borrower shall be required to diligently pursue and proceed with Construction of Units in accordance with the Construction Schedule to completion. No more than fourteen (14) Units may be under Construction at any one time. Any Unit as to which Construction has commenced within the Loan term must be completed prior to Maturity, and commencement of construction of any Units within four (4) months prior to Maturity shall be prohibited. The Construction Schedule shall be consistent with the foregoing. Failure of the Borrower to meet the requirements of the Construction Schedule shall constitute an Event of Default under this Agreement.

(e) General Contractor. All contracts for Construction of Units shall be subject to the Lender’s approval. The Construction contract shall be assigned to the Lender effective on a default under any of the Loan Documents. The general contractor shall consent to such assignment and agree, in the event of any such default, to continue performance of the contract for the Lender, if the Lender so requests. Comstock Homes of Washington, L.C., an affiliate of the Guarantor, is hereby approved as the general contractor for Construction of Units. Prior to any advances for Construction costs for any Unit, the Borrower shall furnish the Lender with a copy of the contractor’s license for that portion of the Construction. The Borrower shall also furnish the Lender with copies of licenses for all major subcontractors.

(f) Architect’s and Engineer’s Certificate. The architect and the engineer for the Construction shall be subject to the Lender’s approval. In addition, the contracts with the architect and the engineer shall be subject to the Lender’s approval. A certificate from the architect and/or project engineer will be required to the effect that the Construction of the Units being built, if completed in accordance with the Plans and Specifications, will comply with all federal, state, county, and local laws, statutes, ordinances, codes, regulations, rules or other laws applicable to the Construction of the applicable Unit (“Applicable Laws”). Prior to any advances for Construction costs, the Borrower shall furnish the Lender with a copy of the engineer’s license and the architect’s license.

(g) Lender's Construction Consultant. The Plans and Specifications, Construction Budget, Construction Schedule and any and all other Construction documents requested by the Lender and/or its Construction consultant (the "Lender's Inspector"), shall be subject to approval by the Lender and the Lender's Inspector. All draw requests shall be submitted to the Lender and the Lender's Inspector for review and approval. The Borrower shall be responsible for payment of all of the Lender's Inspector's fees.

6.5 Provisions Governing Disbursements of Construction Loan. Disbursements of the Construction Loan shall be governed by the following provisions:

(a) The Construction of all Units shall be performed by the Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, codes, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. Construction of Units shall be completed in a manner so as not to encroach upon any easement or right-of-way, or upon the land of others. Construction of each Unit 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 declarations, covenants, conditions, restrictions and zoning ordinances and regulations.

(b) The Borrower shall have submitted to the Lender and the Lender's Inspector such information as may be requested by the Lender or the Lender's Inspector to verify the Construction costs which are to be incurred in connection with Construction. The Lender shall not be obligated to authorize disbursement of Construction Loan proceeds with respect to Construction of any Unit for an amount in excess of the Construction costs to be incurred in connection therewith as verified by the Lender or the Lender's Inspector pursuant to the provisions of the preceding sentence. The funding of each draw request is subject to an inspection and approval by the Lender's Inspector.

(c) The Construction Loan proceeds will be advanced in installments as the Construction progresses in accordance with the terms of this Agreement to finance the Construction of Units in accordance with the Plans and Specifications, but no more often than once monthly, provided that the Lender is satisfied that the amounts available under the Construction Loan will be sufficient to complete the work and pay or provide for all reasonably anticipated Construction costs through the required Construction completion date under the Construction Schedule. In the event the Lender determines that the amounts available under the Construction Loan, together with any additional cash provided by the Borrower to the Lender, if any, is insufficient to complete the Construction in such manner as the Lender may require, the Borrower shall provide such funds necessary to complete Construction.

(d) Each advance shall be conditioned upon the Lender's receipt of (i) written certification by parties approved by the Lender that the work which is the basis of the requested advance was completed in accordance with the approved Plans and Specifications and within the cost estimates approved by the Lender (or such adjustments of cost estimates of line items as shall be required and approved by the Lender, provided that sufficient funds to complete the Construction will be available under such adjusted estimates), to the satisfaction of the Lender, and (ii) that at that time all necessary certificates required to be obtained from any board, agency or department (government or otherwise) have been obtained. All documents required to be submitted to the Lender as a condition of each disbursement shall be on standard AIA forms and shall be furnished to the Lender at the Lender's address set forth in this Agreement. The Lender shall have at least ten (10) business days after receipt of the foregoing documentation prior to funding an approved advance.

(e) With respect to the Lots, at such time as the footings for the foundation of each "Stick" (hereinafter defined) have been installed, the Lender shall have received a "wall check" or "foundation" survey of that stick that meets the Lender's survey requirements and that shows that (i) all new construction is within the boundary lines of the applicable Lot and is in compliance with all applicable setback, location and area requirements of all applicable governmental approvals, and (ii) there is no change in condition which could adversely affect the applicable Unit. For purposes of this Agreement, a "Stick" means a building containing contiguous Units constructed on a single, shared foundation.

(f) The Lender shall have received a notice of title continuation or an endorsement to the title insurance policy with respect to the Property theretofore delivered to the Lender, showing that since the last preceding advance, there has been no change in the status of title and no other exception not theretofore approved by the 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 by an amount equal to the advance then being made, if the policy does not by its terms provide automatically for such an increase.

(g) Before making any advance of Construction Loan proceeds, the Lender may require the Borrower to obtain from any contractor or materialmen it may engage in connection with the Construction of any Unit, acknowledgements of payment and releases of liens and rights to claim liens, if applicable, down to the date of the last preceding advance and concurrently with the final advance. All such acknowledgements and releases shall be in form and substance satisfactory to the Lender.

(h) No advances will be made for building materials or furnishings that have not yet been incorporated into the Unit(s) ("Stored Materials") unless (a) the Borrower has good title to the Stored Materials and has furnished satisfactory evidence of such title to the Lender, (b) the Stored Materials are components in a form ready for incorporation into the applicable Unit(s) and will be so incorporated within a period of forty-five (45) days from the date of the advance for the Stored Materials, (c) the Stored Materials are in the Borrower's possession and

are satisfactorily stored on the Property or at such other location as the Lender may approve, in each case with adequate safeguards to prevent commingling with materials for other projects, (d) the Stored Materials are protected and insured against loss, theft and damage in a manner and amount satisfactory to the Lender and the Lender has received Certificates of Insurance reflecting Borrower as an additional insured and owner of the Stored Materials, (e) the Stored Materials have been paid for in full or will be paid for in full from the funds to be advanced, (f) the lender has or will have upon the payment for the Stored Materials from the advanced funds a perfected, first priority security interest in the Stored Materials, (g) all lien rights and claims of the supplier have been released or will be released upon payment with the advanced funds, and (h) following the advance for the Stored Materials, the aggregate amount of advances for Stored Materials that have not yet been incorporated into the Construction will not exceed Ten Thousand Dollars (\$10,000.00) per Unit that is then under Construction.

(i) The Lender shall not be obligated to make the final advance of Construction Loan proceeds hereunder with respect to any Unit, which shall include the retainage described above, unless (i) the Lender's Inspector has certified to the Lender on standard AIA forms that the work is complete (except for punch list items which the Lender may approve and for which Lender may retain 150% of the cost of correction) in accordance with the Plans and Specifications; (ii) the 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; (iii) that completion of Construction of the Unit has occurred free and clear of all mechanics' or materialmen's liens and any bills or claims for labor, materials and services; (iv) certificates from the Borrower's architect, engineer and/or contractor, and, if required, from the Lender's Inspector, certifying that Construction of the Unit has been completed in accordance with, and as completed comply with, the Plans and Specifications and all laws and governmental requirements; and (v) a certificate of occupancy or residential use permit shall have been validly issued by the City of Frederick, Maryland, or such other governmental authority as has jurisdiction for the issuance of such certificates or permits, to allow lawful residential occupancy of the completed Unit. All fees and costs of the Lender's Inspector shall be paid by the Borrower.

(j) The Lender shall not be obligated to make any advances of Construction Loan proceeds hereunder unless, in the reasonable judgment of the Lender, 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 the development have been furnished and installed, and no default which has not been cured has occurred under this Agreement or any of the documents evidencing, securing or guaranteeing the Construction Loan.

(k) During default after expiration of any applicable cure period hereunder, the Lender, at its option, may make any and all advances, or any part thereof, directly to the general contractor or subcontractors against requisitions for payment under the general

contractor's contract or the respective contracts or subcontracts, as the case may be; the execution of this Agreement by the Borrower shall and does constitute an irrevocable direction and authorization to so advance funds, and such funds shall be added to the principal balance of the Construction Loan, shall bear interest as set forth in the Construction Loan Note and shall be secured by the Deed of Trust. All payments made pursuant to the foregoing shall be made within the scope of the respective contracts.

SECTION SEVEN
REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to extend credit to the Borrower, the Borrower and the Guarantor each make the following representations and warranties as to itself:

7.1 Organization. The Borrower and each entity comprising the Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is duly qualified as a foreign limited liability company and in good standing under the laws of each other jurisdiction in which such qualification is required. The Guarantor represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required.

7.2 Execution and Delivery. The Borrower and each entity comprising the Borrower has the power, and has taken all of the necessary actions, to execute and deliver and perform its obligations under the Loan Documents, and the Loan Documents, when executed and delivered, will be binding obligations of each such entity enforceable in accordance with their respective terms.

7.3 Power. Each of the Borrower and each entity comprising the Borrower has the power and authority to own its properties and to carry on its business as now being conducted.

7.4 Financial Statements. All financial statements and information delivered to the Lender are correct and complete in all material respects and present fairly the financial conditions, and reflect all known liabilities, contingent and otherwise, of the Borrower and the Guarantor as of the dates of such statements and information, and since such dates no material adverse change in the assets, liabilities, financial condition, business or operations of the Borrower or the Guarantor has occurred.

7.5 Taxes. All tax returns and reports of the Borrower and the Guarantor required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and/or the Guarantor and upon any of their respective properties, assets, income or franchises, that are due and payable have been paid.

7.6 Litigation. There is no action, suit or proceeding pending or, to the knowledge of the Borrower or the Guarantor, threatened against or affecting the Borrower or the Guarantor that, either in any case or in the aggregate, may result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of the Borrower or the Guarantor, or that may result in any material liability on the part of the Borrower or the Guarantor that would materially and adversely affect the ability of the Borrower or the Guarantor to perform its and/or their obligations under the Loan Documents, or that questions the validity of any of the Loan Documents or any action taken or to be taken in connection with the Loan Documents.

7.7 No Breach. The execution and delivery of the Loan Documents, and compliance with the provisions of the Loan Documents, will not conflict with or violate any provisions of law or conflict with, result in a breach of, or constitute a default under, the organizational documents of the Borrower, or any judgment, order or decree binding on the Borrower, or any other agreements to which the Borrower is a party.

7.8 No Defaults. To the best of the Borrower's knowledge, the Borrower is not in default with respect to any debt, direct or indirect, upon or as to which the Borrower has any liability or obligation.

7.9 Compliance. The Borrower is in compliance in all material respects with all applicable laws and regulations, including, without limitation, the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

7.10 Approvals. No authorizations, approvals or consents of, and no filings and registrations with, any governmental or regulatory authority or agency, are necessary for the execution, delivery or performance of the Loan Documents by the Borrower.

7.11 Title to Assets. The Borrower has good and marketable title to all of its assets, subject only to the liens and security interests permitted by this Agreement.

7.12 Use of Proceeds. The proceeds of the Loans and the LC Facility shall be used only for the purposes described in this Agreement. The proceeds of the Loans and the LC Facility shall not be used to purchase or carry any margin stock, as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System.

7.13 Vacant Status of Property. Other than as provided in the title report for the Property with respect to easement rights of others on the Property, the Property is vacant and free of any tenancy that would or might impair development thereof.

SECTION EIGHT
COVENANTS OF BORROWER AND GUARANTOR

In consideration of credit extended or to be extended by the Lender, the Borrower covenants and agrees as follows:

8.1 Financial Information. The Borrower and the Guarantor shall each deliver to the Lender: (i) with respect to the Borrower, each year within ninety (90) days after the close of its fiscal year, financial statements prepared in accordance with standard accounting principles consistently applied, certified as true and correct by an officer of each such entity; (ii) with respect to the Guarantor, each year within ninety (90) days after the close of its fiscal year, audited financial statements; (iii) each year within thirty (30) days after filing, a copy of each such entity's federal income tax return and all schedules thereto, provided that in the event of such extension such entity shall provide the Lender with a copy of the federal income tax return and all schedules thereto within thirty (30) days of the filing of same with the Internal Revenue Services, and provided further, that if the Borrower and the Guarantor file their returns on a consolidated basis, no separate federal income tax return of the Borrower shall be required to be delivered, and (iv) promptly upon the Lender's request, such financial and other information as the Lender reasonably may require from time to time. All financial statements shall be in such reasonable detail and shall be accompanied by such certificates of the Borrower or the Guarantor, as applicable, as may reasonably be required by the Lender.

8.2 Taxes. All tax returns and reports of the Borrower required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and upon the Borrower's properties, assets, income or franchises, that are due and payable, have been paid.

8.3 Compliance with Laws. The Borrower shall comply with all applicable laws and regulations including, without limitation, ERISA.

8.4 Maintain Existence. The Borrower and the Guarantor each shall maintain its existence in good standing, maintain and keep its properties in good condition (ordinary wear and tear excepted), maintain adequate insurance for all of its properties with financially sound and reputable insurers. The Borrower shall remain in the same line of business as it is on the date of this Agreement and shall not enter into any new lines of business without the prior written consent of the Lender.

8.5 Notices. As soon as it has actual knowledge, the Borrower shall notify the Lender of the institution or threat of any material litigation or condemnation or administrative proceeding of any nature involving the Borrower.

8.6 Books and Records. The Borrower shall maintain complete and accurate books of account and records. The principal books of account and records shall be kept and maintained at 1886 Metro Center Drive, 4th Floor, Reston, VA 10190. The Borrower shall not remove such books of account and records without giving the Lender at least thirty (30) days

prior written notice. The Borrower, upon reasonable notice from the Lender, shall permit the Lender, or any officer, employee or agent designated by the Lender, to examine the books of account and records maintained by the Borrower, and agree that the Lender or such officer, employee or agent may audit and verify the books and records. The Borrower shall reimburse the Lender for any reasonable expenses incurred by the Lender in connection with any such audits. All accounting records and financial reports furnished to the Lender by the Borrower and the Guarantor pursuant to this Agreement shall be maintained and prepared in accordance with GAAP.

8.7 Liens. The Borrower shall not create, incur, assume or permit to exist any mortgage, deed of trust, assignment, pledge, lien, security interest, charge or encumbrance, including, without limitation, the right of a vendor or under a conditional sale contract or the lessor under a capitalized lease (collectively, ("Liens")) of any kind or nature in or upon any of the asset of the Borrower except:

- (a) Liens created or deposits made that are incidental to the conduct of the business of the Borrower, that are not incurred in connection with any borrowing or the obtaining of any credit and that do not and will not interfere with the use by the Borrower of any of its assets in the normal course of its business or materially impair the value of such assets for the purpose of such business; and
- (b) Liens securing the Indebtedness.

8.8 Debt. Except as provided above in Section 8.7, without the prior written consent of the Lender, the Borrower shall not incur or permit to exist any debt for borrowed funds, the deferred purchase price of goods or services or capitalized lease obligations, except for (a) trade debt incurred in the ordinary course of business, and (b) the Indebtedness.

8.9 Contingent Liabilities. Without the prior written consent of the Lender, neither the Borrower nor the Guarantor shall guarantee, endorse, become contingently liable upon or assume the obligation of any person, or permit any such contingent liability to exist, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

8.10 Sale of Assets. Without the prior written consent of the Lender, the Borrower shall not sell, lease, assign or otherwise dispose of any of its assets except for (a) sales in the ordinary course of business including sales of Lots and Units as approved by the Lender from time to time, (b) the disposition of assets that are no longer needed or useful in its business, and (c) assets which have been removed and replaced.

8.11 Mergers and Acquisitions. Without the prior written consent of the Lender, the Borrower shall not merge or consolidate with, or acquire all or substantially all of the assets, stock, partnership interests or other ownership interests of, any other person.

8.12 Loans and Advances. Without the prior written consent of the Lender, the Borrower shall not make any loan or advance to any affiliate, director, member, manager, officer or employee of the Borrower, or any other person, except for the creation of accounts receivable in the ordinary course of business on terms that are no less favorable than would apply in an arms-length transaction.

8.13 Subsidiaries and Joint Ventures. Without the prior written consent of the Lender, the Borrower shall not form any subsidiary, become a general or limited partner in any partnership or become a party to a joint venture. If the Lender grants its consent to the formation or acquisition of a subsidiary Borrower, such entity shall cause each subsidiary to perform and observe all of the covenants contained in this Agreement and the other Loan Documents.

8.14 Affiliates. Without the prior written consent of the Lender, the Borrower shall not engage in business with any of its affiliates except in the ordinary course of business and on terms that are no less favorable to the Borrower than would apply in an arm's length transaction.

8.15 Organization; Control and Management; Transfers. Until such time as the Loans and the LC Facility are fully repaid, there shall be no Transfer (hereinafter defined) of any interest in the Borrower, nor any change in the Control (hereinafter defined) or management of either the Borrower or the Guarantor, nor any Transfer of the Property except for sales of Lots and Units in accordance with the terms of the Loan Documents, without the Lender's prior written consent. "Transfer" means any assignment, pledge, conveyance, sale, transfer, mortgage, encumbrance, grant of a security interest or other disposition, either directly or indirectly, in the aggregate of fifty percent (50%) or more of the beneficial ownership interests of an entity and the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ability to exercise voting power, by contract or otherwise. "Controlled by" and "controlling" shall have the respective correlative meanings thereto.

SECTION NINE DEFAULT AND REMEDIES

9.1 Default. Each of the following shall constitute an "Event of Default" under this Agreement:

(a) Failure to Pay. If: (i) the Borrower shall fail to pay any monthly payment required under the Development Loan Note or the Construction Loan Note ("Monthly Payments") when due thereunder or (ii) the Borrower shall fail to pay any amount (other than the Monthly Payments) as and when due under the LC Note or any of the other Loan Documents;

(b) Failure to Give Notices. If the Borrower fails to give the Lender any notice required by Section 8.5 of this Agreement within thirty (30) days after it has actual knowledge of the event giving rise to the obligation to give such notice.

(c) Failure to Permit Inspections. If the Borrower refuses to permit the Lender to inspect its books and records in accordance with the provisions of Section 8.6 or failure to permit the Lender to inspect the Property upon reasonable advance notice.

(d) Failure to Observe Covenants. If the Borrower fails to perform or observe any non-monetary term, covenant, warranty or agreement contained in this Agreement or in the other Loan Documents for which no cure period or another cure period is provided, and such failure shall continue for a period of thirty (30) days after written notice of such failure has been given to the Borrower by the Lender; provided, however, if such default is not in the payment of any sum due to the Lender hereunder, or was not the subject of an Event of Default for which notice was previously provided, and provided the Borrower is diligently pursuing the cure of such default, then the Borrower shall have an additional sixty (60) days within which to cure such default prior to the Lender exercising any right or remedy available hereunder, or at law or in equity.

(e) Defaults Under Loan Documents. If an Event of Default shall occur under any of the Notes or any other Loan Document and shall not be cured within any applicable grace period.

(f) Breach of Representation. Discovery by the Lender that any representation or warranty made or deemed made by the Borrower in this Agreement or in any other Loan Document or in any statement or representation made in any certificate, report or opinion delivered pursuant to this Agreement or other Loan Document or in connection with any borrowing under this Agreement by the Borrower or the Guarantor or any member, manager, officer, agent, employee or director of the Borrower or the Guarantor, was materially untrue when made or deemed to be made.

(g) Voluntary Bankruptcy. If the Borrower or the Guarantor makes an assignment for the benefit of creditors, files a petition in bankruptcy, petitions or applies to any tribunal for any receiver or any trustee of the Borrower or the Guarantor or any substantial part of the property of the Borrower or the Guarantor, or commences any proceeding relating to the Borrower or the Guarantor under any reorganization, arrangement, composition, readjustment, liquidation or dissolution law or statute of any jurisdiction, whether in effect now or after this Agreement is executed.

(h) Involuntary Bankruptcy. If, within sixty (60) days after the filing of a bankruptcy petition or the commencement of any proceeding against the Borrower or the Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding shall not have been dismissed, or, if within sixty (60) days, after the appointment, without the consent or acquiescence of the Borrower or the Guarantor, of any trustee, receiver or liquidator of any Borrower or all or any substantial part of the properties of the Borrower or the Guarantor, the appointment shall not have been vacated.

(i) Cross Default. If, as a result of default, any present or future obligations of the Borrower or the Guarantor or any affiliate of the Borrower or the Guarantor to the Lender or any other creditor, whether due to acceleration provisions or otherwise therein, are declared to be due and payable prior to the expressed maturity of such obligations.

(j) Material Adverse Change. A material adverse change occurs in the financial or business condition of the Borrower or the Guarantor.

(k) Judgment. If a judgment, attachment, garnishment or other process is entered against the Borrower and is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure), or if a judgment, attachment, garnishment or other process is entered against the Guarantor that would materially affect the Guarantor's ability to perform its obligations under the Loan Documents, and such judgment, attachment, garnishment or other process is not vacated or bonded with in sixty (60) day after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure).

(l) Dissolution. The dissolution, liquidation or termination of existence of the Borrower or the Guarantor unless a substitute guarantor, satisfactory to the Lender in its sole and absolute discretion, assumes all liability under the Guaranty and Environmental Indemnity and executes any documents which the Lender may reasonably require to implement such substitution, within sixty (60) days after event of dissolution, liquidation or termination of existence.

(m) Change in Management/Control. A change in the management of or controlling interest in the Borrower or the Guarantor without the prior written consent of the Lender.

9.2 Remedies. Upon the occurrence of an Event of Default (a) the Lender, at its option, by written notice to the Borrower, may declare all Indebtedness to the Lender to be immediately due and payable, whether such Indebtedness was incurred prior to, contemporaneous with or subsequent to the date of this Agreement and whether represented in writing or otherwise, without presentment, demand, protest or further notice of any kind, and (b) the Lender may exercise all rights and remedies available to it under the Loan Documents and applicable law. The Borrower agrees to pay all costs and expenses incurred by the Lender in

enforcing any obligation under this Agreement or the other Loan Documents, including, without limitation, attorneys' fees. No failure or delay by the Lender in exercising any power or right will operate as a waiver of such power or right, nor will any single or partial exercise of any power or right preclude any other future exercise of such power or right, or the exercise of any other power or right.

9.3 Borrower to Pay Fees and Charges. The Borrower shall pay all fees and charges incurred in the procuring, making and enforcement of the Loans, including without limitation the reasonable fees and disbursements of Lender's attorneys, charges for appraisals, the fee of Lender's inspector and construction consultant, fees and expenses relating to examination of title, title insurance premiums, surveys, and mortgage recording, documentary, transfer or other similar taxes and revenue stamps, loan extension fees, if any, and the Lender's fees for the Loans.

SECTION TEN GENERAL PROVISIONS

10.1 Defined Terms. Each accounting term used in this Agreement, not otherwise defined, shall have the meaning given to it under GAAP applied on a consistent basis. The term "person" shall mean any individual partnership, corporation, trust, joint venture, unincorporated association, governmental subdivision or agency or any entity of any nature. The term "subsidiary" means, with respect to any person, a corporation or other person of which shares of stock or other ownership interest having ordinary voting power to elect a majority of the board of directors or other managers of such corporation or person are at the time owned, or the management of which it otherwise controlled, directly or indirectly, through one or more intermediaries, by such person. The term "affiliate" means, with respect to any specified person, any other person that, directly or indirectly, controls or is controlled by, or is under common control with, such specified person. All meanings assigned to defined terms in this Agreement shall be applicable to the singular and plural forms of the terms defined.

10.2 Notices. All notices, requests, demands and other communication with respect hereto shall be in writing and shall be delivered by hand, prepaid by Federal Express (or a comparable overnight delivery service), or sent by the United States first-class mail, certified, postage prepaid, return receipt requested, to the parties at their respective addresses set forth as follows:

If to the Lender, to:

EAGLEBANK
7815 Woodmont Avenue
Bethesda, MD 20814
Attn: Jenifer Bush, Vice President

With a copy to:

Friedlander Misler, PLLC
5335 Wisconsin Avenue, N.W., Suite 600
Washington, D.C. 20015
Attn: Leonard A. Sloan, Esq.

If to the Borrower, to:

Comstock Maxwell Square, L.C.
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Christopher Clemente

With a copy to:

Comstock Maxwell Square, L.C.
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Jubal Thompson, Esq.

Any notice, request, demand or other communication delivered or sent in the manner aforesaid shall be deemed given or made (as the case may be) upon the earliest of (a) the date it is actually received, (b) on the business day after the day on which it is delivered by hand, (c) on the business day after the day on which it is properly delivered by Federal Express (or a comparable overnight delivery service), or (d) on the third (3rd) business day after the day on which it is deposited in the United States mail. Any party may change such party's address by notifying the other parties of the new address in any manner permitted by this Section.

10.3 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Lender and the Borrower and their respective successors, assigns, personal representatives, executors and administrators, provided that the Borrower may not assign or transfer its rights under this Agreement.

10.4 Entire Agreement. Except for the other Loan Documents expressly referred to in this Agreement, this Agreement represents the entire agreement between the Lender and the Borrower, supersedes all prior commitments and may be modified only by an agreement in writing.

10.5 Survival. All agreements, covenants, representations and warranties made in this Agreement and all other provisions of this Agreement will survive the delivery of this Agreement and the other Loan Documents and the making of the advances under this Agreement and will remain in full force and effect until the obligations of the Borrower under this Agreement and the other Loan Documents are indefeasibly satisfied.

10.6 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Maryland, without reference to conflict of laws principles.

10.7 Headings. Section headings are for convenience of reference only and shall not affect the interpretation of this Agreement.

10.8 Participations. The Lender shall have the right to sell all or any part of its rights under the Loan Documents, and the Borrower authorizes the Lender to disclose to any prospective participant in or purchaser of any of the Loans any and all financial and other information in the Lender's possession concerning the Borrower or the collateral for the Loans.

10.9 No Third Party Beneficiary. The parties do not intend the benefits of this Agreement or any other Loan Document to inure to any third party.

10.10 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY LAW, THE LENDER AND THE BORROWER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY BASED ON, ARISING OUT OF OR UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS.

10.11 Waiver. The rights of the Lender under this Agreement and the other Loan Documents shall be in addition to all other rights provided by law. No waiver of any provision of this Agreement, or any other Loan Document, shall be effective unless in writing, and no waiver shall extend beyond the particular purpose involved. No waiver in any one case shall require the Lender to give any subsequent waivers.

10.12 Severability. If any provision of this Agreement or any other Loan Document is held to be void, invalid, illegal or unenforceable in any respect, such provision shall be fully severable and this Agreement or the applicable Loan Document shall be construed as if the void, invalid, illegal or unenforceable provision were not included in this Agreement or in such Loan Document.

10.13 No Setoffs. With respect to a monetary default claimed by the Lender under the Loan Documents, no setoff, claim, counterclaim, reduction or diminution of any obligation or defense of any kind or nature that the Borrower has or may have against the Lender (other than the defenses of payment, the Lender's gross negligence or willful misconduct) shall be available against the Lender in any action, suit or proceeding brought by the Lender to enforce this Agreement or any other Loan Document. The foregoing shall not be construed as a waiver by the Borrower of any such rights or claims against the Lender, but any recovery upon any such rights or claims shall be had from the Lender separately, it being the intent of this Agreement and the other Loan Documents that the Borrower shall be obligated to pay, absolutely and unconditionally, all amounts due under this Agreement and the other Loan Documents.

10.14 No Merger. The Borrower and the Lender expressly agree that the Borrower's agreement and obligation to pay the Lender's reasonable attorneys' fees and costs, and all other litigation expenses, shall not be merged into any judgment obtained by the Lender, but shall survive the same and shall not be extinguished by any monetary judgment. It is the express intent of the parties hereto that all post-judgment collection fees and expenses (including reasonable attorneys' fees and costs) shall survive entry of a final judgment and shall be collectible by the Lender against the Borrower from time to time following entry of any final judgment obtained by the Lender against the Borrower.

10.15. Counterparts. This Agreement may be executed for the convenience of the parties in several counterparts, which are in all respects similar and each of which is to be deemed to be complete in and of itself, and any one of which may be introduced in evidence or used for any other purpose with the production of the other counterparts thereof.

10.16 Consent to Jurisdiction. The Borrower irrevocably submits to jurisdiction of any state or federal court sitting in the Commonwealth of Virginia or the State of Maryland over any suit, action or proceeding arising out of or relating to this Agreement, the Notes or any other Loan Documents. The undersigned irrevocably waives, to the fullest extent permitted by law, any objection that the undersigned may now or hereafter have to the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Final judgment in any such court shall be conclusive and binding and may be enforced in any court in which the undersigned is subject to jurisdiction by a suit upon such judgment provided that service of process is effected as provided herein or as otherwise permitted by applicable law.

10.17 Service of Process. The Borrower hereby consents to process being served in any suit, action or proceeding instituted in the Commonwealth of Virginia or the State of Maryland in connection with the Loans by (i) the mailing of a copy thereof by certified mail, postage prepaid, return receipt requested, to the Borrower at the address set forth in the Notices section of this Agreement and (ii) serving a copy thereof upon the Borrower's registered agent for service of process. The undersigned irrevocably agrees that such service shall be deemed to be service of process upon the undersigned in any such suit, action or proceeding. Nothing in this Agreement shall affect the right of the Lender otherwise to bring proceedings against the undersigned in the courts of any jurisdiction or jurisdictions.

10.18 Exhibits. All exhibits referred to herein as attached hereto are incorporated in full by reference as though fully set forth in this Agreement. The Exhibits are:

Exhibit A: Legal Description of the Property
Exhibit B: City of Frederick Letter of Credit Form
Exhibit C: LC Promissory Note Form
Exhibit D: Carve Out Obligations

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the Borrower and the Lender have caused this Agreement to be executed in their respective names by duly authorized representatives as of the day and year first above written. The Guarantor joins herein to consent and agree to the terms, conditions, provisions and covenants of those sections of this Agreement that address a covenant or obligation of the Guarantor.

WITNESS:

BORROWER:

COMSTOCK MAXWELL SQUARE, L.C., a Virginia limited liability company

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

By: _____

Christopher D. Clemente
Chief Executive Officer

[SEAL]

COMMONWEALTH OF VIRGINIA

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Christopher D. Clemente personally appeared before me in said jurisdiction and acknowledged that he is the Chief Executive Officer of Comstock Holding Companies, Inc., which is the Manager of Comstock Maxwell Square, L.C., a Virginia limited liability company, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Maxwell Square, L.C.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2013.

Notary Public

[SEAL]

My Commission expires: _____ .

Notary Registration No. _____ .

Witness:

GUARANTOR:

COMSTOCK HOLDING COMPANIES, INC., a Delaware corporation

Print Name:

By:

Christopher D. Clemente
Chief Executive Officer

COMMONWEALTH OF VIRGINIA

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Christopher D. Clemente personally appeared before me in said jurisdiction and acknowledged that he is the Chief Executive Officer of Comstock Holding Companies, Inc., a Delaware corporation, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Holding Companies, Inc.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2013.

[SEAL]

Notary Public

My Commission expires: _____.

Notary Registration No. _____.

Witness:

LENDER:

EAGLEBANK

Print Name:

By: _____

Jenifer Bush
Vice President

[SEAL]

COMMONWEALTH OF VIRGINIA

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Jenifer Bush personally appeared before me in said jurisdiction and acknowledged that she is a Vice President of EAGLEBANK; that she has been duly authorized to execute and deliver the foregoing instrument for the purposes therein contained and that the same is her act and deed; that the seal affixed to said instrument is such corporate seal and that it was so affixed by order of the Board of Directors of said Bank; and that she signed her name thereon by like order.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2013.

Notary Public

[SEAL]

My Commission expires: _____ .

Notary Registration No. _____ .

SECURED PROMISSORY NOTE

\$1,372,392

, 2013

FOR VALUE RECEIVED, COMSTOCK HALL ROAD, L.C., a Virginia limited liability company ("Borrower"), having an address of 1886 Metro Center Drive, Suite 410, Reston, Virginia 20190, promises to pay to the order of Bennett-Williams Partnership, Tammie Compton Crank and Betty Corbitt, Darren T. Ewing, AND Estate of Mabel B. Page (collectively, "Lender"), in lawful money of the United States of America, at Mr. Robert Jackson 1420 Spring Hill Road Suite 401 McLean, VA 22101 or at such other place as Lender or its transferee may designate in writing, the principal sum of **ONE MILLION THREE HUNDRED AND SEVENTY-TWO THOUSAND THREE HUNDRED AND NINETY-TWO AND 00/100 DOLLARS (\$1,372,392) (the "Loan")**, with interest on the unpaid principal balance at the rate and on the terms provided in this Promissory Note (including all renewals, extensions or modifications hereof, the "Note").

1. Interest Rate. Interest shall be charged on the principal balance hereof at the rate of six percent (6%) per annum. Interest shall be calculated using a 360-day year, based upon the actual number of days for which the calculation is being made.

2. Payment of Principal and Interest. The entire unpaid principal amount hereof, together with accrued and unpaid interest and all other amounts payable hereunder, shall be due and payable on December 13, 2013 (the "**Maturity Date**"). No payment of principal or interest shall be due and payable prior to the Maturity Date.

3. Prepayment. Borrower may prepay this Note, in whole or in part, at any time, without payment of a prepayment fee. Any prepayment shall include accrued and unpaid interest to the date of prepayment on the principal amount prepaid and all other sums due and payable hereunder. No partial prepayment shall affect the obligation of the Borrower to make any payment of principal or interest on the due dates specified.

4. Events of Default. The following shall constitute an event of default (an "**Event of Default**") hereunder: the occurrence of any default (monetary or otherwise) in any term, covenant or condition hereunder or the Deed of Trust (described below) which continues for a period of thirty (30) days following the giving of notice thereof by Lender to Borrower (except, however, for a default the nature of which takes longer than thirty (30) days to cure, Borrower commences to cure such default prior to the end of such thirty (30) day period and diligently prosecutes such cure to completion).

5. Remedies. If an Event of Default exists, Lender may exercise any right, power or remedy permitted by law.

6. Miscellaneous.

6.1 **No Implied Waiver.** Lender shall not be deemed to have modified or waived any of its rights or remedies hereunder unless such modification or waiver is in writing and signed by Lender, and then only to the extent specifically set forth therein. A waiver in one event shall not be construed as continuing or as a waiver or a bar to such right or remedy in a subsequent event.

6.2 **Waiver.** Borrower waives demand, notice, presentment, protest, demand for payment, notice of dishonor, notice or protest and diligence of collection of this Note. Borrower consents to any and all extensions for time, renewals, waivers, or modifications that may be granted by Lender with respect to the payment or other provisions of this Note.

6.3 **Partial Invalidity.** The invalidity or unenforceability of any one or more provision of this Note shall not render any other provision invalid or unenforceable. In lieu of any invalid or unenforceable provision, there shall be added automatically a valid and enforceable provision as similar in terms to such invalid or unenforceable provision as may be possible.

6.4 **Binding Effect.** The covenants, conditions, waiver, releases and agreements contained in this Note shall bind, and the benefits thereof shall inure to, the parties hereto and their respective heirs, executors, administrators, successors and assigns; provided, however, that this Note cannot be assigned by either Lender or Borrower without the prior written consent of the other, and any such assignment or attempted assignment by either party shall be void and of no effect.

6.5 **Modifications.** This Note may not be supplemented, extended, modified or terminated except by an agreement in writing signed by the party against whom enforcement of any such waiver, change, modification or discharge is sought.

6.6 **Jurisdiction.** ANY PARTY WHO DESIRES TO BRING AGAINST THE OTHER PARTY A CIVIL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO EITHER THIS NOTE OR THE RELATIONSHIP OF THE PARTIES MAY BRING SUCH ACTION OR PROCEEDING ONLY IN A STATE COURT LOCATED IN LOUDOUN COUNTY, VIRGINIA. FOR THIS PURPOSE, EACH PARTY CONSENTS TO PERSONAL JURISDICTION IN SUCH STATE COURT AND WAIVES ANY RIGHT TO DISMISS OR TRANSFER SUCH ACTION OR PROCEEDING. NOTHING IN THIS SECTION SHALL PREVENT ENFORCEMENT IN ANOTHER FORUM OF ANY JUDGMENT OBTAINED IN A COURT IDENTIFIED HEREIN.

For purposes of service of process, hand delivery of lawful process to the Borrower in accordance with the Notice provisions of Section 6.9 shall be deemed acceptable and adequate by Borrower.

6.7 **Governing Law.** This Note shall be governed by and construed in accordance with the substantive laws of the Commonwealth of Virginia without reference to conflict of laws principles.

6.8 WAIVER OF JURY TRIAL. BORROWER AND LENDER AGREE THAT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY SUIT, ACTION OR PROCEEDING, WHETHER CLAIM OR COUNTERCLAIM, BROUGHT BY LENDER OR BORROWER, ON OR WITH RESPECT TO THIS NOTE OR ANY OTHER LOAN DOCUMENT OR THE DEALINGS OF THE PARTIES WITH RESPECT HERETO OR THERETO, SHALL BE TRIED ONLY BY A COURT AND NOT BY A JURY. LENDER AND BORROWER EACH HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY AND INTELLIGENTLY, AND WITH THE ADVICE OF THEIR RESPECTIVE COUNSEL, WAIVE TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. BORROWER ACKNOWLEDGES AND AGREES THAT THIS SECTION IS A SPECIFIC AND MATERIAL ASPECT OF THIS NOTE AND THAT LENDER WOULD NOT EXTEND CREDIT TO BORROWER IF THE WAIVERS SET FORTH IN THIS SECTION WERE NOT A PART OF THIS NOTE.

6.9 Notices. All notices and communications under this Note shall be in writing and shall be given by either (a) hand-delivery, (b) certified or registered mail, postage prepaid, return receipt requested, or (c) reliable overnight commercial courier (charges prepaid), to the address of Borrower listed above, attention Christopher Clemente, CEO, with a copy to Jubal Thompson, and to the address of Lender listed above, attention Rob Jackson , with a copy to Darren Ewing. Notice shall be deemed to have been given and received: (i) if by hand delivery, upon delivery; (ii) if by certified or registered mail, return receipt requested, upon receipt or rejection; and (iii) if by overnight courier, on the date scheduled for delivery. A party may change its address by giving written notice to the other party as specified herein.

6.10. Security Property. This Promissory Note is secured by a Deferred Purchase Money First Deed of Trust of even date herewith (the Deed of Trust) on certain real property located in Loudoun County, Virginia more particularly identified in such Deed of Trust. A default under such Deed of Trust shall also constitute a default under this Promissory Note.

[Signatures to Follow]

IN WITNESS WHEREOF, Borrower, intending to be legally bound, has duly executed and delivered this Note as of the day and year first above written.

ATTEST:

BORROWER:

COMSTOCK HALL ROAD, L.C.

BY: COMSTOCK HOLDING COMPANIES, INC., its Manager

BY: _____

Name:
Title:

Name:
Title:

**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: November 12, 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: November 12, 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 September 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: November 12, 2013

/s/ Christopher Clemente

Christopher Clemente
Chairman and Chief Executive Officer

Date: November 12, 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.

