
**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, 2014

or

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

For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

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 13, 2014, 18,872,104 shares of Class A common stock, par value \$0.01 per share, and 2,733,500 shares of Class B common stock, par value \$0.01 per share, of the registrant were outstanding.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

FORM 10-Q
INDEX

	<u>Page</u>
	3
	3
	3
	4
	5
	6
	7
ITEM 2.	19
ITEM 3.	24
ITEM 4.	24
	24
ITEM 1A.	24
ITEM 2.	25
ITEM 6.	25
SIGNATURES	26

PART 1 — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 4,927	\$ 11,895
Restricted cash	2,828	2,458
Trade receivables	335	346
Real estate inventories	41,573	39,843
Property, plant and equipment, net	260	243
Other assets	4,495	2,094
TOTAL ASSETS	\$ 54,418	\$ 56,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 11,723	\$ 7,506
Notes payable—secured by real estate inventories	25,459	22,701
Notes payable—due to affiliates, unsecured	4,350	4,687
Notes payable—unsecured	2,193	2,580
Income taxes payable	73	346
TOTAL LIABILITIES	43,798	37,820
Commitments and contingencies (Note 8)	—	—
STOCKHOLDERS' EQUITY		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 18,872,104 and 18,629,638 issued and outstanding, respectively	189	186
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	171,180	170,811
Treasury stock, at cost (426,633 shares Class A common stock)	(2,480)	(2,480)
Accumulated deficit	(167,781)	(164,379)
TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY	1,135	4,165
Non-controlling interest	9,485	14,894
TOTAL EQUITY	10,620	19,059
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 54,418	\$ 56,879

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Revenue—homebuilding	\$ 18,225	\$ 9,211	\$ 37,713	\$ 32,594
Revenue—other	142	361	408	748
Total revenue	18,367	9,572	38,121	33,342
Expenses				
Cost of sales—homebuilding	15,021	6,850	30,736	25,267
Cost of sales—other	80	59	258	556
Impairment reversal	—	—	—	(722)
Sales and marketing	600	477	1,697	1,434
General and administrative	1,626	1,719	5,833	4,978
Interest, real estate taxes and indirect costs related to inactive projects	18	61	23	405
Operating income (loss)	1,022	406	(426)	1,424
Other income, net	106	41	173	199
Income (loss) before income tax expense	1,128	447	(253)	1,623
Income tax expense	(137)	(197)	(268)	(197)
Net income (loss)	991	250	(521)	1,426
Net income attributable to non-controlling interests	1,150	989	2,881	2,280
Net (loss) attributable to Comstock Holding Companies, Inc.	\$ (159)	\$ (739)	\$ (3,402)	\$ (854)
Basic net loss per share	\$ (0.01)	\$ (0.03)	\$ (0.16)	\$ (0.04)
Diluted net loss per share	\$ (0.01)	\$ (0.03)	\$ (0.16)	\$ (0.04)
Basic weighted average shares outstanding	21,147	20,739	21,058	20,646
Diluted weighted average shares outstanding	21,147	20,739	21,058	20,646

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

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

	Class A		Class B		Additional	Treasury	Retained	Non-	
	Shares	Amount	Shares	Amount	paid-in	stock	earnings	controlling	Total
					capital		(deficit)	interest	
Balance at December 31, 2012	17,628	\$ 176	2,733	\$ 27	\$170,070	\$ (2,480)	\$(162,349)	\$ 935	\$ 6,379
Stock compensation and issuances	755	7	—	—	465	—	—	—	472
Warrants	92	1	—	—	(1)	—	—	—	—
Shares withheld related to net share settlement of restricted stock awards	(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>
Balance at December 31, 2013	18,629	\$ 186	2,733	\$ 27	\$170,811	\$ (2,480)	\$(164,379)	\$ 14,894	\$19,059
Stock compensation and issuances	284	3	—	—	431	—	—	—	434
Shares withheld related to net share settlement of restricted stock awards	(41)	—	—	—	(62)	—	—	—	(62)
Non-controlling interest distributions	—	—	—	—	—	—	—	(8,290)	(8,290)
Net (loss) income	—	—	—	—	—	—	(3,402)	2,881	(521)
Balance at September 30, 2014	<u>18,872</u>	<u>\$ 189</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$171,180</u>	<u>\$ (2,480)</u>	<u>\$(167,781)</u>	<u>\$ 9,485</u>	<u>\$10,620</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
(Dollars in thousands, except per share data)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net (loss) income	\$ (521)	\$ 1,426
Adjustment to reconcile net (loss) income to net cash provided by (used in) operating activities		
Amortization of loan discount and deferred financing fees	234	359
Depreciation expense	73	47
Provision for bad debt	20	(22)
Gain from extinguishment of notes payable	—	(27)
Earnings from unconsolidated joint venture, net of distributions	(34)	(16)
Impairment reversal	—	(722)
Amortization of stock compensation	195	392
Changes in operating assets and liabilities:		
Restricted cash—purchaser deposits	(39)	(504)
Trade receivables	(9)	(248)
Real estate inventories	(1,711)	(10,825)
Other assets	(2,254)	(36)
Accrued interest	660	(13)
Accounts payable and accrued liabilities	4,411	4,006
Income taxes payable	(273)	197
Net cash provided by (used in) operating activities	<u>752</u>	<u>(5,986)</u>
Cash flows from investing activities:		
Investment in unconsolidated joint venture	—	(7)
Purchase of property, plant and equipment	(90)	(75)
Note receivable	(181)	—
Restricted cash	(331)	—
Proceeds from sale of Cascades multi-family—operating real estate, net	—	279
Net cash (used in) provided by investing activities	<u>(602)</u>	<u>197</u>
Cash flows from financing activities:		
Proceeds from notes payable	23,528	22,984
Payments on notes payable	(22,154)	(23,893)
Loan financing costs	(166)	(188)
Distributions to non-controlling interests	(8,290)	(367)
Contributions from non-controlling interests	—	7,909
Proceeds from exercise of stock options	26	1
Taxes paid related to net share settlement of equity awards	(62)	(8)
Net cash (used in) provided by financing activities	<u>(7,118)</u>	<u>6,438</u>
Net (decrease) increase in cash and cash equivalents	(6,968)	649
Cash and cash equivalents, beginning of period	11,895	3,539
Cash and cash equivalents, end of period	<u>\$ 4,927</u>	<u>\$ 4,188</u>
Supplemental disclosure for non-cash activity:		
Interest paid, net of interest capitalized	\$ (660)	\$ 184
Increase in class A common stock par value in connection with vesting and issuance of stock compensation	\$ 2	\$ 8
Accrued liability settled through issuance of stock	\$ 194	\$ —

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data, or as otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited financial statements of Comstock Holding Companies, Inc. and subsidiaries ("Comstock" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies, other than discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

The Company's Class A common stock is traded on the NASDAQ Capital Market ("NASDAQ") under the symbol CHCI and has no public trading history prior to December 17, 2004.

For the three and nine months ended September 30, 2014 and 2013, comprehensive loss equaled net loss; therefore, a separate statement of comprehensive loss is not included in the accompanying consolidated financial statements.

Use of Estimates

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. ASU 2014-09 will be effective for fiscal year beginning after December 1, 2017 and subsequent interim periods. The Company has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this ASU recognized at the date of initial application. Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements.

[Table of Contents](#)

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued, or available to be issued. Should these events arise, ASU 2014-15 requires the entity to disclose information that enables users of the financial statements to understand the conditions or events that raised substantial doubt about the ability to continue as a going concern, management's evaluation of the significance of those conditions or events in relation to meeting its obligations, and management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 will be effective for the Company's fiscal year beginning January 1, 2017 and subsequent interim periods. Early adoption is permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-15 will have on the Company's consolidated financial statements.

2. REAL ESTATE INVENTORIES

Real estate inventories consist of the following:

	September 30, 2014	December 31, 2013
Land and land development costs	\$ 23,873	\$ 26,805
Cost of construction (including capitalized interest and real estate taxes)	17,700	13,038
	<u>\$ 41,573</u>	<u>\$ 39,843</u>

3. WARRANTY RESERVE

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. 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 2008, the Company recorded an additional \$241 in warranty reserves to cover costs and claims related to a project in North Carolina. In August 2014, the Company settled the claim for \$59, including legal costs, releasing the Company from future claims and costs related to this project and reducing the warranty reserve by \$182. The warranty release was recorded as a reduction to homebuilding cost of sales in the three and nine months ended September 30, 2014.

In the third quarter of 2013, the Company settled a legal claim related to one of its projects in Virginia for \$244, releasing the Company from future warranty claims related to this project and accordingly reduced the warranty reserve by \$395. The warranty release was recorded as a reduction to homebuilding cost of sales in the three and nine months ended September 30, 2013.

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,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 722	\$ 1,012	\$ 510	\$ 963
Additions	70	90	414	174
Releases and/or charges incurred	(275)	(418)	(407)	(453)
Balance at end of period	<u>\$ 517</u>	<u>\$ 684</u>	<u>\$ 517</u>	<u>\$ 684</u>

4. CAPITALIZED INTEREST AND REAL ESTATE TAXES

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

Table of Contents

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,	
	2014	2013	2014	2013
Total interest incurred and capitalized	\$ 619	\$ 357	\$ 1,699	\$ 1,258
Total real estate taxes incurred and capitalized	69	57	173	151
Total interest and real estate taxes incurred and capitalized	<u>\$ 688</u>	<u>\$ 414</u>	<u>\$ 1,872</u>	<u>\$ 1,409</u>
Interest expensed as a component of cost of sales	\$ 325	\$ 47	\$ 466	\$ 2,023
Real estate taxes expensed as a component of cost of sales	70	30	126	235
Interest and real estate taxes expensed as a component of cost of sales	<u>\$ 395</u>	<u>\$ 77</u>	<u>\$ 592</u>	<u>\$ 2,258</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,	
	2014	2013	2014	2013
Total interest incurred and expensed for inactive projects	\$ —	\$ —	\$ —	\$ 73
Total real estate taxes incurred and expensed for inactive projects	18	—	23	47
Total production overhead incurred and expensed for inactive projects	<u>—</u>	<u>61</u>	<u>—</u>	<u>285</u>
	<u>\$ 18</u>	<u>\$ 61</u>	<u>\$ 23</u>	<u>\$ 405</u>

5. LOSS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted income per share for the three and nine months ended September 30, 2014 and 2013 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, 2014 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the periods, unless the restricted stock awards, stock options and warrants would be anti-dilutive.

As a result of net losses for the three and nine months ended September 30, 2014 and 2013, the following shares have been excluded from the diluted share computation as their inclusion would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Restricted stock awards	281	679	299	661
Stock options	163	330	213	310
Warrants	275	919	469	858
	<u>719</u>	<u>1,928</u>	<u>981</u>	<u>1,829</u>

6. SEGMENT DISCLOSURES

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

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

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

Table of Contents

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

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

	Homebuilding	Multi-family	Real Estate Services	Total
Three Months Ended September 30, 2014				
Gross revenue	\$ 18,225	\$ —	\$ 142	\$18,367
Gross profit	3,204	—	62	3,266
Net income	950	—	41	991
Depreciation and amortization	25	—	—	25
Interest expense	—	—	—	—
Total assets	54,103	—	315	54,418
Three Months Ended September 30, 2013				
Gross revenue	\$ 9,211	\$ —	\$ 361	\$ 9,572
Gross profit	2,340	—	323	2,663
Net (loss) income	(110)	—	360	250
Depreciation and amortization	145	—	—	145
Interest expense	—	—	—	—
Total assets	50,028	—	1,121	51,149
Nine Months Ended September 30, 2014				
Gross revenue	\$ 37,713	\$ —	\$ 408	\$38,121
Gross profit	6,977	—	150	7,127
Net (loss) income	(650)	—	129	(521)
Depreciation and amortization	73	—	—	73
Interest expense	—	—	—	—
Total assets	54,103	—	315	54,418
Nine Months Ended September 30, 2013				
Gross revenue	\$ 32,650	\$ —	\$ 692	\$33,342
Gross profit	6,960	—	559	7,519
Net income (loss)	844	—	582	1,426
Depreciation and amortization	448	—	—	448
Interest expense	73	—	—	73
Total assets	50,028	—	1,121	51,149

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

7. INCOME TAX

The Company has 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. The Company has recorded a tax provision of \$137 and \$268 for the three and nine months ended September 30, 2014, respectively, based on an effective tax rate of 12% and (106%), respectively, related to statutory tax rates in the District of Columbia where the Company has no deferred tax benefit to offset the tax liability. 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 44% and 12%, respectively.

[Table of Contents](#)

The Company currently has approximately \$120 million in federal and state net operating losses (NOLs), which based on current statutory tax rates represents approximately \$47 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, 2014, 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, 2014, 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, 2014 and 2013. We file U.S. and state and local income tax returns in jurisdictions with varying statutes of limitations. The 2011 through 2013 tax years remain subject to examination by federal and state tax authorities that we are subject to.

8. COMMITMENTS AND CONTINGENCIES

Litigation

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

Letters of credit, performance bonds and compensating balances

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 the commitments entered into are met. These letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. In some circumstances, we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds. We cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds. At September 30, 2014 and 2013, the Company had \$4.8 million and \$4.3 million in letters of credit, respectively. At September 30, 2014 and 2013, the Company had \$4.3 million and \$1.0 million in performance and payment bonds, respectively, outstanding to third parties. No amounts have been drawn against the letters of credit or performance bonds.

We are required to maintain compensating balances in escrow accounts as collateral for certain letters of credit, which are funded upon settlement and release of units. The cash contained within these escrow accounts is subject to withdrawal and usage restrictions. As of September 30, 2014 and December 31, 2013, we had approximately \$389 and \$58, respectively, in these escrow accounts, which is included in ‘Restricted cash’ in the consolidated balance sheets.

9. RELATED PARTY TRANSACTIONS

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

2014	\$ 80
2015	320
2016	329
2017	167
Total	<u>\$896</u>

For the three months ended September 30, 2014 and 2013, total payments made under this lease agreement were \$80 and \$76, respectively. For the nine months ended September 30, 2014 and 2013, total payments under this lease agreement were \$232 and \$225, respectively. As of September 30, 2014 and December 31, 2013, the Company recorded a straight-line rent payable of \$28 and 23, respectively, which is included in ‘Accounts payable and accrued liabilities’ in the consolidated balance sheets.

[Table of Contents](#)

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by our Chief Executive Officer, to provide services related to real estate development and improvements, including legal, accounting, marketing, information technology and other additional support services. For the three months ended September 30, 2014 and 2013, the Company billed Comstock Asset Management, L.C. \$142 and \$98, respectively, for services and out-of-pocket expenses. For the nine months ended September 30, 2014 and 2013, Comstock Asset Management, L.C. was billed \$375 and \$324, 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, 2014 and December 31, 2013, the Company was owed \$196 and \$61, respectively, under this contract, which is included in 'Trade receivables' in the accompanying consolidated balance sheets.

On March 14, 2013, Stonehenge Funding, LC ("Stonehenge"), an entity wholly-owned by our Chief Executive Officer, entered into an Extension Agreement of the Amended and Restated Senior Note with the Company to extend the maturity date of the financing arrangement to January 1, 2016. Beginning on April 1, 2013, the Company is required to pay \$50 monthly to Stonehenge, to be allocated first to accrued interest and then to the outstanding principal. For the three and nine months ended September 30, 2014, the Company made payments of \$150 and \$450, respectively, under this Note. For the three and nine months ended September 30, 2013, the Company made payments of \$200 and \$350, respectively, under this Note.

See Note 11 to the consolidated financial statements for a summary of the Comstock VII Private Placement and Comstock VIII Private Placement, which involved certain of our officers and directors.

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

10. NOTE RECEIVABLE

The Company originated a note receivable to a third party in the amount of \$180 during the quarter ended September 30, 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest. This note bears a fixed interest rate of 6% per annum. As of September 30, 2014, the outstanding balance of the note was \$181 and is included within "Other assets" in the accompanying consolidated balance sheets, the interest income of \$1 for the three and nine months ended September 30, 2014 is included in "Other income, net" in the consolidated statements of operations and the cash flow activity is included within "cash flows from investing activities" in the accompanying consolidated statements of cash flows. There were no note receivables issued, or outstanding, as of December 31, 2013.

11. VARIABLE INTEREST ENTITY

Consolidated Real Estate Inventories

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a joint venture of its subsidiary, Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, for the purpose of acquiring, developing and constructing a 111-unit project (the "NHA Project") in Washington, D.C. The Company evaluated the joint venture and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its complete operational control of the activities that most significantly impact the economic performance and obligation to absorb losses, or receive benefits. The Company contributed its ownership interest in Comstock Ventures XVI, L.C. to Comstock Investors VII, L.C. ("Comstock VII") on March 13, 2013. During the nine months ended September 30, 2014, New Hampshire Ave. Ventures, LLC distributed \$3.1 million to its non-controlling interest member, 6000 New Hampshire Avenue, LLC. No distributions were made in the nine months ended September 30, 2013.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a joint venture of the Company and BridgeCom Development II, LLC, for the purpose of acquiring, developing and constructing 66 condominium units in Loudoun County, Virginia. The Company evaluated the joint venture and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and obligation to absorb losses, or receive benefits. In the nine months ended September 30, 2014, Comstock Eastgate, L.C. distributed \$1.9 million to its non-controlling interest member, BridgeCom Development II, LLC. No distributions were made in the nine months ended September 30, 2013. The Company exited the Eastgate project in the second quarter of 2014 after closing on all 66 units.

[Table of Contents](#)

On March 14, 2013, Comstock VII entered into subscription agreements with certain accredited investors (“Comstock VII Class B Members”), pursuant to which the Comstock VII Class B Members purchased membership interests in Comstock VII for an aggregate amount of \$7.3 million (the “Comstock VII Private Placement”). The Comstock VII Private Placement was exempt from registration under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act. In connection with the Comstock VII Private Placement, the Company issued 112 warrants for the purchase of shares of the Company’s Class A common stock to the non-affiliated accredited investors, having an aggregate fair value of \$146. Comstock VII Class B Members included unrelated third-party accredited investors along with members of the Company’s board of directors and the Chief Financial Officer, the General Counsel and the former Chief Operating Officer, of the Company. The Subscription Agreement provides that the Comstock VII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. After six months, the Company has the right to repurchase the interests of the Comstock VII Class B Members, provided that (i) all of the Comstock VII Class B Members’ interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VII Class B Members’ capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Comstock VII Private Placement provides capital related to the current and planned construction of the Company’s following projects: Townes at Shady Grove Metro in Rockville, Maryland consisting of 36 townhomes, Momentum | Shady Grove consisting of 117 condominium units, City Homes at the Hampshires in Washington D.C. consisting of 38 single family residences, Townes at the Hampshires in Washington, D.C. consisting of 73 townhomes, Single Family Homes at the Falls Grove project in Prince William County, Virginia consisting of 19 single family homes and Townes at the Falls Grove project in Prince William County, Virginia consisting of 110 townhomes (collectively, the “Projects”). Proceeds of the Comstock VII Private Placement 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 the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits. Accordingly, the Company consolidates this entity. During the nine months ended September 30, 2014, the Company paid distributions in the amount of \$3.2 million to the Comstock VII Class B Members which were considered non controlling interests. During the nine months ended September 30, 2013, the Company made a distribution in the amount of \$367 to the Comstock VII Class B Members. Subsequent to the balance sheet date, the Company redeemed the remaining equity interest of the Comstock VII Class B Members. See Subsequent Events, Note 17 to the accompanying consolidated financial statements for further discussion.

In December 2013, Comstock Investors VIII, L.C. (“Comstock VIII”) entered into subscription agreements with certain accredited investors (“Comstock VIII Class B Members”), pursuant to which Comstock VIII Class B Members purchased membership interests in Comstock VIII for an aggregate amount of \$4.0 million (the “Comstock VIII Private Placement”). The Comstock VIII Private Placement was exempt from registration under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act. In connection with the Comstock VIII Private Placement, the Company issued 102 warrants for the purchase of shares of the Company’s Class A common stock to the non-affiliated accredited investors, having an aggregate fair value of \$131. Comstock VIII Class B Members included unrelated third-party accredited investors along with members of the Company’s board of directors and the Company’s former Chief Operating Officer and the Chief Financial Officer. The Comstock VIII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock VIII Class B Members at any time, provided that (i) all of the Comstock VIII Class B Members’ interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VIII Class B Members’ capital accounts plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The proceeds from the Comstock VIII Private Placement will be used for the current and planned construction of the following projects: The Townes at HallCrest in Sterling, Virginia consisting of 42 townhome units, and Townes at Maxwell Square Condominium in Frederick, Maryland consisting of 45 townhome condominium units (collectively, the “Investor VIII Projects”). Proceeds of the Comstock VIII Private Placement are to be utilized (A) to provide capital needed to complete the Investor VIII Projects in conjunction with project financing for the Investor VIII Projects, (B) to reimburse the Company for prior expenditures incurred on behalf of the Investor VIII Projects, and (C) for general corporate purposes of the Company. The Company evaluated Comstock VIII and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits accordingly, the Company consolidates this entity. No distributions have been paid to the Comstock VIII Class B Members through September 30, 2014.

[Table of Contents](#)

At September 30, 2014 and December 31, 2013 total assets of these VIEs were approximately \$45.3 million and \$46.3 million, respectively, and total liabilities were approximately \$31.4 million and \$27.4 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 accompanying consolidated balance sheets.

12. UNCONSOLIDATED JOINT VENTURE

The Company accounts for its interest in its title insurance joint venture using the equity method of accounting and adjusts the carrying value for its proportionate share of earnings, losses and distributions. The investment in the unconsolidated joint venture is included within 'Other assets' in the accompanying consolidated balance sheets. Earnings from this unconsolidated joint venture of \$89 and \$126 are included in 'Other income, net' in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2014, respectively. During the nine months ended September 30, 2014, the Company collected and recorded a distribution of \$91 from this joint venture as a return on investment. During the three and nine months ended September 30, 2013, earnings from this unconsolidated joint venture of \$14 and \$56, respectively, were included in 'Other income, net' within the accompanying consolidated statement of operations. 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Statement of Operations:				
Total net revenue	\$ 206	\$ 56	\$ 338	\$ 176
Total expenses	28	29	87	65
Net income	<u>\$ 178</u>	<u>\$ 27</u>	<u>\$ 251</u>	<u>\$ 111</u>
Comstock Holding Companies, Inc. share of net income	<u>\$ 89</u>	<u>\$ 14</u>	<u>\$ 126</u>	<u>\$ 56</u>

13. CREDIT FACILITIES

Notes payable consisted of the following:

	September 30, 2014	December 31, 2013
Construction revolvers	\$ 5,493	\$ 4,053
Development and acquisition notes	11,933	12,304
Mezzanine notes	5,678	6,344
Line of credit	2,355	—
Total secured notes	25,459	22,701
Unsecured note	2,193	2,580
Notes payable to affiliate, unsecured	4,350	4,687
Total notes payable	<u>\$ 32,002</u>	<u>\$ 29,968</u>

Construction, development and mezzanine debt—secured

The Company enters into secured acquisition and development loan agreements to purchase and develop land parcels. In addition, the Company enters into secured construction loan agreements for the construction of its real estate inventories. The loans are repaid with proceeds from home closings based upon a specific release price, as defined in each respective loan agreement.

As of September 30, 2014, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$26.9 million. The Company may borrow under its facilities to fund its home building activities. The amount the Company may borrow is subject to applicable borrowing base provisions and the number of units under construction, which may also limit the amount available or outstanding under the facilities. The facilities are secured by deeds of trust on the real property and improvements thereon, and the borrowings are repaid with the net proceeds from the first closings of homes sold, subject to a minimum release price. Interest rates charged under the facilities include the London Interbank Offered Rate ("LIBOR") and prime rate pricing options, subject to minimum interest rate floors. As of September 30, 2014, the Company had approximately \$21.4 million of unused loan commitments. The Company had \$5.5 million and \$4.1 million of outstanding construction borrowings as of September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, the weighted average interest rate on the Company's outstanding construction revolving facility was 5.0% per annum and 5.3% per annum, respectively.

[Table of Contents](#)

As of September 30, 2014, the Company had approximately \$28.0 million of aggregate acquisition and development loan commitments of which \$11.9 million was outstanding. The loans have maturity dates ranging from December 2014 to July 2016, including extension options subject to certain conditions. The development and acquisition loans bear variable interest rates based on LIBOR and Prime Rate pricing options, with interest rate floors ranging from 4.50% to 5.75%. At December 31, 2013, the Company had approximately \$12.3 million in outstanding acquisition and development loans. As of September 30, 2014 and December 31, 2013, the weighted average interest rate was 4.9% per annum.

As of September 30, 2014, the Company had three secured mezzanine loans. The first mezzanine loan has a loan commitment and outstanding balance of \$3.0 million at September 30, 2014 and December 31, 2013. This mezzanine financing was utilized to acquire land for the development of the City Homes at the Hampshires and the Townes at the Hampshires projects. The first mezzanine loan bears a fixed interest rate of 13.5% per annum paid on a monthly basis, with the full principal balance due at maturity, September 22, 2015. The mezzanine loan is secured by a second deed of trust.

The second and third mezzanine loans are being used to finance the development of the Townes at Shady Grove Metro and Momentum| Shady Grove projects. The maximum principal commitment amount of these loans was \$3.2 million of which \$2.7 million of principal and accrued interest was outstanding as of September 30, 2014. This financing carries an interest rate of 12% of which 6% is paid on a monthly basis while the remaining 6% is being accrued and paid at maturity. A portion of this financing, \$1.2 million in principal balance plus accrued interest, matures in December 2014 with the remaining \$1.5 million in principal plus accrued interest maturing in March 2015. This loan is guaranteed by the Company and our Chief Executive Officer.

Line of credit—secured

On July 15, 2014, the Company entered into a Line of Credit and Security Agreement and a Revolving Line of Credit Note securing a \$5.0 million line of credit. This line of credit will be used to finance and is secured by the first priority security interest in the Company's wholly owned subsidiaries' predevelopment related expenses and deposits for their current and future projects located in the Washington, D.C. metropolitan area. The line of credit bears a variable interest rate tied to a one-month LIBOR rate plus 3.25% per annum, with an interest rate floor of 5.0%. The line of credit matures on July 15, 2015 with an extension option for an additional twelve months provided that the Company meets certain conditions. The agreement also calls for the Company to adhere to several financial covenants, including a minimum EBITDA, a minimum net worth and minimum liquidity, all measured quarterly on a trailing twelve month basis. As of September 30, 2014, the Company was in compliance with all financial covenants dictated by the agreement. The line of credit is guaranteed by our Chief Executive Officer. As of September 30, 2014, we have drawn \$2.4 million against this line of credit. As of September 30, 2014, the interest rate was 5% per annum.

Unsecured note

As of September 30, 2014 and December 31, 2013, the Company had balances of \$2.2 million and \$2.6 million, respectively, outstanding to a bank under a 10-year unsecured note. Interest is charged on this financing at LIBOR plus 2.2%. As of September 30, 2014 and December 31, 2013, the interest rate was 2.4%. The maturity date of this financing is December 28, 2018. The Company is required to make monthly principal and interest payments through maturity.

Notes payable to affiliate—unsecured

As of September 30, 2014, the Company has one senior unsecured note with Stonehenge. During fiscal year 2013, the Company and Stonehenge, entered into an agreement extending the maturity date to January 1, 2016. Interest is charged to the loan based on LIBOR plus 3% per annum. As of September 30, 2014 and December 31, 2013, the interest rate was 3.6% per annum. The Company had approximately \$4.3 million and \$4.7 million in outstanding borrowings as of September 30, 2014 and December 31, 2013, respectively. Under the terms of the extension agreement, the Company is required to make a monthly payment of \$50 which is allocated first to accrued interest and then to outstanding principal.

[Table of Contents](#)

As of September 30, 2014, maturities and/or curtailment obligations of all borrowings are as follows:

2014	\$ 4,972
2015	20,442
2016	4,395
2017	—
2018	2,193
Total	<u>\$32,002</u>

14. 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, 2014	December 31, 2013
Carrying amount	\$ 32,002	\$ 29,968
Fair value	\$ 30,568	\$ 27,943

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.

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 September 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. 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 \$0.7 million to 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. There were no impairment charges or reversals in the three and nine months ended September 30, 2014.

15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

During the three and nine months ended September 30, 2014, the Company did not issue any stock options. 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. No restricted stock awards were issued during the three and nine months ended September 30, 2014 and 2013.

[Table of Contents](#)

Stock-based compensation cost associated with restricted stock and stock options was recognized based on the fair value of the instruments, over the instruments' vesting period. The following table reflects the consolidated balance sheets and statements of operations line items for stock-based compensation cost for the periods stated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Real estate inventories—Assets	\$ 3	\$ 23	\$ 19	\$ 79
General and administrative—Expenses	99	114	195	392
	<u>\$ 102</u>	<u>\$ 137</u>	<u>\$ 214</u>	<u>\$ 471</u>

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. During the three months ended September 30, 2014, there were no settlements of restricted stock awards and during the nine months ended September 30, 2014, we settled 133 restricted stock awards. Of 133 settlements, 41 were net settled by withholding shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling \$62, to the appropriate tax authorities. The amount remitted to the tax authorities for the employees' tax obligation 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, 2014, the weighted-average remaining contractual term of unexercised stock options was 6.5 years. As of September 30, 2014 and December 31, 2013, there was \$396 and \$843, respectively, of unrecognized compensation cost related to stock grants.

16. SEVERANCE AND RESTRUCTURING

In connection with the departure of Gregory V. Benson, our former President and Chief Operating Officer in May 2014, the Company entered into a Separation Agreement with Mr. Benson on June 24, 2014. The Separation Agreement provides for cash severance payment and incremental healthcare insurance through COBRA. The severance cost was \$597, paid in 36 semi-monthly installments following May 1, 2014. The total healthcare cost is \$14 over 12 months beginning on May 1, 2014. In connection with Mr. Benson's departure, the Company also recorded a forfeiture of the stock options and restricted stock awards against stock based compensation in the amount of \$131. The severance and restructuring charge was included in "General and administrative" expenses in the accompanying consolidated statements of operations for the nine months ended September 30, 2014. There were no severance and restructuring charges in the three months ended September 30, 2014. After the installment payments of the severance cost in the second and third quarter of 2014, the remaining balance of \$439 as of September 30, 2014 is included in the "Accounts payable and accrued liabilities" line in the accompanying consolidated balance sheets.

In addition, per the Separation Agreement, the Company has a call option, but not an obligation, to purchase all or a portion of Mr. Benson's shares of Class A and Class B common stock of the Company at \$1.09 per share by June 30, 2015. If the Company exercises the option and elects to repurchase less than all of his shares of Class A and Class B common stock in a single transaction, then the following applies to each transaction: i) each transaction should include the purchase of a pro-rata portion of the Class A and Class B common stock; ii) the first purchase must include a minimum of 1,000,000 of Mr. Benson's Class A and Class B common stock (cumulative number of Mr. Benson's Class A and Class B common stock); and (iii) each subsequent purchase must include a minimum of 100,000 Class A and Class B Common stock (cumulative number of Mr. Benson's Class A and Class B common stock) until all shares of Class A and Class B common stock have been purchased. Mr. Benson also forfeited all unvested stock options and restricted stock awards outstanding as of the date of his departure. The Company recorded the fair value of the call option, which was considered to be a freestanding equity linked financial instrument, and the corresponding contribution of the call option to the Company by Mr. Benson as offsetting entries within "Additional paid-in-capital" within the consolidated balance sheets. The impact of the call option resulted in a net impact of \$0, in the consolidated statement of changes in stockholders' Equity. As of September 30, 2014, the Company has not exercised any portion of its option under the agreement.

17. SUBSEQUENT EVENTS

On October 17, 2014, Comstock Growth Fund, L.C. (CGF), an administrative entity managed by the Company, was created for purposes of raising capital through a private placement offering. CGF entered into a subscription agreement with Comstock Development Services, LC (“CDS”), an entity wholly-owned by our Chief Executive Officer, pursuant to which CDS purchased membership interests in CGF for an initial aggregate principal amount of \$10 million and received additional commitments from members of the Company’s management and board of directors (the “CGF Private Placement”). CGF is offering additional interests for sale to third party accredited investors, which if fully subscribed would increase the total capital raised up to \$20 million. Purchasers other than CDS who purchase an amount of interests that exceed or equal a minimum investment amount of \$100 may receive warrants that represent the right to purchase an aggregate amount of between 500,000 to 1,000,000 shares of the Company’s Class A common stock, depending upon the investment amount.

Simultaneously, on October 17, 2014, the Company entered into a unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal amount of \$10 million and a maximum amount available for borrowing of up to \$20 million with a three year term. The loan bears an annual interest at a floating rate based on the 30 day LIBOR plus 9.75% per annum with a 10% floor per annum. Interest payments will be made monthly in arrears. There is a principal curtailment requirement of 10% annually based on the average outstanding balance for the prior year. The Loan will be used by the Company (i) to finance the Company’s current and future development pipeline, (ii) to repay all or a portion of the Company’s prior private placements; (iii) to repay all or a portion of the Company’s project mezzanine loans, and (iv) for general corporate purposes. The Company is the administrative manager of CGF but does not own any membership interests.

On October 14, 2014, the Company, through Comstock Two Rivers, I, L.C. and Comstock Two Rivers, II, L.C., subsidiaries of the Company, executed the first four model home lot takedowns, under the respective land purchase option agreements, for a total purchase price of \$580.

On October 15, 2014, the Company redeemed the remaining equity interest of Comstock VII Class B Members by paying \$5.4 million representing final priority returns and capital return.

On November 3, 2014, the Company made distributions in the amount of \$401 to the Comstock VIII Class B Members representing accrued priority returns.

On November 4, 2014, the Company announced that its Board of Directors has approved a new share repurchase program authorizing the Company to repurchase up to three million shares of its Class A common stock (the “Share Repurchase Program”). In connection with its approval of the Share Repurchase Program, the Board of Directors terminated the Company’s share repurchase program that was adopted in February 2006.

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, or as otherwise noted.

Cautionary Notes Regarding Forward-looking Statements

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “estimate,” “may,” “likely,” “intend,” “expect,” “will,” “should,” “seeks” or other similar 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, 2013. Our actual results could differ materially from these projected or suggested by the forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements in light of new information or future events.

Overview

We are a multi-faceted real estate development and services company. We have substantial experience with building a diverse range of products including multi-family units, 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, Multi-family and Real Estate Services as further discussed in Note 6 to the consolidated financial statements. We are currently focused on the Washington, D.C. metropolitan area, which is the seventh largest metropolitan statistical area in the United States.

We currently have communities under development in multiple counties throughout the Washington, D.C. area. As of September 30, 2014, we owned and controlled under purchase option agreements approximately 831 building lots.

Table of Contents

The following table summarizes certain information for our owned or controlled communities as of September 30, 2014:

Pipeline Report as of September 30, 2014

Project	State	Product Type (1)	Estimated Units at Completion	Units Settled	Backlog (6)	Units Owned Unsold	Units Under Control (2)	Total Units Owned, Unsettled and Under Control	Average New Order Revenue Per Unit to Date
City Homes at the Hampshires	DC	SF	38	28	5	5	—	10	743
Townes at the Hampshires (3)	DC	TH	73	34	3	36	—	39	549
Estates at Falls Grove	VA	SF	19	—	3	16	—	19	528
Townes at Falls Grove	VA	TH	110	29	7	74	—	81	300
Townes at Shady Grove Metro	MD	TH	36	9	5	22	—	27	619
Townes at Shady Grove Metro (4)	MD	SF	3	—	—	3	—	3	—
Momentum Shady Grove Metro (5)	MD	Condo	117	—	—	117	—	117	—
Estates at Emerald Farms	MD	SF	84	78	—	6	—	6	452
Townes at Maxwell Square	MD	TH	45	2	7	36	—	43	420
Townes at Hallcrest	VA	TH	42	—	1	41	—	42	484
Estates at Leeland	VA	SF	24	—	—	24	—	24	—
Villas Preserve at Two Rivers 28'	MD	TH	66	—	—	—	66	66	—
Villas Preserve at Two Rivers 32'	MD	TH	54	—	—	—	54	54	—
Villas at New Design Road	MD	TH	78	—	—	—	78	78	—
Estates at Popkins Lane	VA	SF	12	—	—	—	12	12	—
Townes at Richmond Station	VA	TH	70	—	—	—	70	70	—
Richmond Station Multi-family	VA	MF	103	—	—	—	103	103	—
Townes at Somerville	VA	TH	37	—	—	—	37	37	—
Total			1,011	180	31	380	420	831	

- (1) "SF" means single family home, "TH" means townhome, "Condo" means condominium, "MF" means multi-family.
- (2) Under land option purchase contract, not owned.
- (3) 3 of these units are subject to statutory affordable dwelling unit program.
- (4) Units are subject to statutory moderately priced dwelling unit program.
- (5) 16 of these units are subject to statutory moderately priced dwelling unit program.
- (6) "Backlog" means we have an executed order with a buyer but the settlement did not occur prior to report date.

Results of Operations

Three and nine months ended September 30, 2014 compared to three and nine months ended September 30, 2013

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, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross new orders	22	31	100	118
Cancellations	4	4	15	14
Net new orders	18	27	85	104
Gross new order revenue	\$11,185	\$14,476	\$47,779	\$55,883
Cancellation revenue	\$ 1,954	\$ 1,680	\$ 6,518	\$ 6,241
Net new order revenue	\$ 9,231	\$12,796	\$41,261	\$49,642
Average gross new order price	\$ 508	\$ 467	\$ 478	\$ 474
Settlements	35	20	82	63
Settlement revenue—homebuilding	\$18,225	\$ 9,211	\$37,713	\$32,593
Average settlement price	\$ 521	\$ 461	\$ 460	\$ 517
Backlog units	31	50	31	50
Backlog revenue	\$15,896	\$22,470	\$15,896	\$22,470
Average backlog price	\$ 513	\$ 449	\$ 513	\$ 449

[Table of Contents](#)

Revenue – homebuilding

The number of homes settled for the three months ended September 30, 2014 increased to 35 as compared to 20 homes for the same period in the prior year. The number of homes settled for the nine months ended September 30, 2014 increased to 82 as compared to 63 homes for the nine months ended September 30, 2013. Average revenue per home settled increased by approximately \$60 to \$521 for the three months ended September 30, 2014 as compared to \$461 for the three months ended September 30, 2013. Average revenue per home settled decreased by approximately \$47 to \$460 for the nine months ended September 30, 2014 as compared to \$517 for the nine months ended September 30, 2013. Revenue from homebuilding increased by \$9 million to \$18.2 million for the three months ended September 30, 2014 as compared to \$9.2 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 \$5.1 million to \$37.7 million for the nine months ended September 30, 2014 as compared to \$32.6 million for the nine months ended September 30, 2013. For the three months ended September 30, 2014, the Company settled 35 units (14 units at The Hampshires, 10 units at Falls Grove, 2 units at Maxwell Square and 9 units at Shady Grove), as compared to 20 units (13 units at Eastgate and 7 units at The Hampshires) for the three months ended September 30, 2013. For the nine months ended September 30, 2014, 82 units were settled (13 at Eastgate, 29 at The Hampshires, 29 at Falls Grove, 2 at Maxwell Square and 9 units at Shady Grove), as compared to 63 units (24 units at Eastgate, 18 units at The Hampshires, 19 units at Eclipse and 2 units at Penderbrook) for the nine months ended September 30, 2013. Our homebuilding gross margin percentage for the three months ended September 30, 2014 decreased by 8.0% to 17.6%, as compared to 25.6% for the three months ended September 30, 2013. The homebuilding gross margin percentage for the nine months ended September 30, 2014 decreased by 4.0% to 18.5% as compared to the 22.5% for the nine months ended September 30, 2013. The decrease noted in margins was a result of the mix of units settled and two new projects started settling this quarter.

At September 30, 2014, we had a total of 31 units in backlog to generate future revenue of \$15.9 million as compared to \$22.5 million from 50 units at September 30, 2013, resulting in a 29% decrease. Gross new order revenue, consisting of revenue from all units sold, for the three months ended September 30, 2014 was \$11.2 million on 22 units as compared to \$14.5 million on 31 units for the three months ended September 30, 2013. Gross new order revenue for the nine months ended September 30, 2014 was \$47.8 million on 100 units as compared to \$55.9 million on 118 units for the nine months ended September 30, 2013. Net new order revenue, representing revenue for all units sold less revenue from cancellations, for the three months ended September 30, 2014 was \$9.2 million on 18 units as compared to \$12.8 million on 27 units for the three months ended September 30, 2013. Net new order revenue for the nine months ended September 30, 2014 was \$41.3 million on 85 units as compared to \$49.6 million on 104 units for the nine months ended September 30, 2013. Average gross new order revenue per unit for the three months ended September 30, 2014 increased \$41 to \$508, as compared to \$467 for the three months ended September 30, 2013. Average gross new order revenue per unit for the nine months ended September 30, 2014 was \$478, as compared to \$474 for the nine months ended September 30, 2013. The change is related directly to the number and mix of units sold. For the nine months ended September 30, 2014, gross new orders totaled 12 units at Eastgate, 35 units at The Hampshires, 33 units at Falls Grove, 9 units at Shady Grove, 10 units at Maxwell Square, and 1 unit at Hallcrest, as compared to 2 units at Penderbrook 19 units at Eclipse, 18 units at The Hampshires and 24 units at Eastgate for the nine months ended September 30, 2013.

Revenue – other

Revenue-other decreased approximately \$0.3 million to \$0.1 million during the three months ended September 30, 2014, as compared to \$0.4 million for the three months ended September 30, 2013. Revenue-other decreased approximately \$0.3 million to \$0.4 million during the nine months ended September 30, 2014, as compared to \$0.7 million for the nine months ended September 30, 2013. The year-to-date decrease primarily relates to revenue from real estate services as the number of rental units at Penderbrook and Eclipse continued to decline until all units were sold in the second quarter of 2013.

Cost of sales – homebuilding

Cost of sales – homebuilding for the three months ended September 30, 2014 increased by \$8.1 million to \$15.0 million, as compared to \$6.9 million for the three months ended September 30, 2013. Cost of sales – homebuilding for the nine months ended September 30, 2014 increased by \$5.4 million to \$30.7 million, as compared to \$25.3 million for the nine months ended September 30, 2013. The unit mix and number of homes settled during the quarter and the year accounted for the increase in the aggregate cost of sales.

Table of Contents

Cost of sales – other

Cost of sales – other remained consistent at \$0.1 million during the three months ended September 30, 2014 and 2013. Cost of sales – other decreased approximately \$0.3 million to \$0.3 million during the nine months ended September 30, 2014 as compared to \$0.6 million in the nine months ended September 30, 2013. This year-to-date decrease in Cost of sales – other was primarily due to the absorption and sale of the condominium units at Penderbrook and Eclipse through the end of the second quarter leading to a decline in the number of units used in rental operations.

Impairment reversal

We evaluate all of our projects to the extent of the existence of any impairment indicators requiring evaluation to determine if recorded carrying amounts were recoverable by evaluating discount rates, sales prices and absorption and our analysis of the best approach to marketing our projects for sale. Due to a change to an individual unit retail sale model from our previous bulk sale disposition strategy for the Eclipse project, we reversed a previously recorded impairment charge of \$0.7 million during the nine months ended September 30, 2013. There were no similar actions in the current year. See Note 14 to the consolidated financial statements.

Sales and marketing

Sales and marketing expenses for the three months ended September 30, 2014 increased by \$0.1 million to \$0.6 million, as compared to \$0.5 million for the three months ended September 30, 2013. Sales and marketing expenses for the nine months ended September 30, 2014 increased by \$0.3 million to \$1.7 million, as compared to \$1.4 million for the nine months ended September 30, 2013. The increase in sales and marketing expenses over the same period in the prior year is directly attributable to increases in the number of active developments and marketing efforts that resulted in a higher volume of sales and settlements.

General and administrative

General and administrative expenses for the three months ended September 30, 2014 decreased \$0.1 million to \$1.6 million, as compared to \$1.7 million for the three months ended September 30, 2013. General and administrative expenses for the nine months ended September 30, 2014 increased by \$0.8 million to \$5.8 million, as compared to \$5.0 million for the nine months ended September 30, 2013. The increase in general and administrative expenses over the nine month period is primarily attributable to the one-time charge of \$611 recorded in connection with the Separation Agreement entered into with the Company's former Chief Operating Officer in the second quarter of 2014 as further detailed in Note 16 to the consolidated financial statements.

Income taxes

The Company recorded a tax provision of \$137 and \$268 for the three and nine months ended September 30, 2014, respectively, based on an effective tax rate of 12% and (106%), respectively, related to statutory tax rates in the District of Columbia where the Company has no deferred tax benefit to offset the tax liability. The Company recorded a tax provision of \$197 for the three and nine months ended September 30, 2013, based on an effective tax rate of 44% and 12%, respectively, related to statutory tax rates in the District of Columbia where the Company has no deferred tax benefit to offset the tax liability.

Liquidity and Capital Resources

We require capital to operate, to make 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 included, 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.

[Table of Contents](#)

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 anticipate that through settlement curtailments, ongoing refinancing discussions with lenders, equity raises and private placements, we will satisfy the short-term financing obligations, as described in Note 13 to the consolidated financial statements. Further, 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 service its debt, invest in new projects, and cover its overhead/working capital through the next 12 months.

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 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. See Note 13 to the consolidated financial statements for details of our credit facilities and maturities of all of our borrowings.

Cash Flow

Net cash provided by operating activities was \$0.8 million for the nine months ended September 30, 2014. This represents an increase from the net cash used in operating activities of \$6.0 million for the nine months ended September 30, 2013. The change is primarily attributable to the significant cash out flow for real estate inventories in the prior year as the Company was investing in new projects and positioning itself for growth to the current year and beyond.

Net cash used in investing activities was \$0.6 million for the nine months ended September 30, 2014. This usage was mainly attributable to the compensating balances held in escrow accounts as collateral for certain letters of credit, which are funded upon settlement and release of units. The prior year net cash provided by investing activities of \$0.2 million mainly related to the proceeds from the sale of the Cascades multi-family units.

Net cash used in financing activities was \$7.1 million for the nine months ended September 30, 2014, primarily attributable to the distributions made to non-controlling interest members including preferred returns. Net cash provided by financing activities was \$6.4 million for the nine months ended September 30, 2013, primarily attributable to the proceeds from the Comstock VII Private Placement of \$7.3 million and \$23.0 million in proceeds from notes payable offset by \$23.9 million net repayment of notes payable.

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. Because 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 and the general economy.

Recently Issued Accounting Standards

See Note 1 to the accompanying consolidated financial statements included in this Quarterly Report on Form 10-Q.

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, 2014 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, 2013.

[Table of Contents](#)

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, 2014. 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, 2014.

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 changes have occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A. RISK FACTORS

Other than as subsequently discussed, there have been no material changes to the risk factors disclosed under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

We are dependent on the services of certain key employees, and the loss of their services could harm our business.

Our success largely depends on the continuing services of certain key employees, including Christopher Clemente, our Chairman and Chief Executive Officer; Jubal Thompson, our General Counsel and Secretary; and Joseph Squeri, our Chief Financial Officer. Our continued success also depends on our ability to attract and retain qualified personnel. We believe that Messrs. Clemente, Thompson and Squeri each possess valuable industry knowledge, experience and leadership abilities that would be difficult in the short term to replicate. The loss of these or other key employees could harm our operations, business plans and cash flows.

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

The descriptions of the offerings related to Comstock Investors VII, L.C. and Comstock Investors VIII, L.C. in Note 11 to the accompanying consolidated financial statements are hereby incorporated by reference. The membership interests and the warrants were offered and sold to purchasers in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act and the certificates representing the securities shall bear legends to that effect. The membership interests, the warrants and the shares of our Class A common stock issuable upon the exercise of the warrants have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On November 4, 2014, the Company announced that its Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to three million shares of its Class A common stock (the “Share Repurchase Program”). In connection with its approval of the Share Repurchase Program, the Board of Directors terminated the Company’s share repurchase program that was adopted in February 2006. The shares may be repurchased pursuant to the Share Repurchase Program from time to time in open market, in privately negotiated transactions or by other means in accordance with federal securities laws. There is no fixed termination date for the Share Repurchase Program, and it may be suspended or discontinued at any time.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to an Exhibit 3.1 to the Registrant’s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
- 3.2 Amended and Restated Bylaws (incorporated by reference to an Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
- 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 (File No. 333-118193)).
- 10.87* Guidance Line of Credit and Security Agreement, dated July 15, 2014, between the Registrant and Eagle Bank.
- 10.88* Revolving Line of Credit Note, dated July 15, 2014, between the Registrant and Eagle Bank.
- 10.89* Revolving Line of Credit Note, dated July 23, 2014, between Comstock Yorkshire, L.C. and Eagle Bank.
- 31.1* Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, 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 Stockholder’s Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Filed herewith.

SIGNATURES

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

COMSTOCK HOLDING COMPANIES, INC.

Date: November 13, 2014

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

Date: November 13, 2014

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

GUIDANCE LINE OF CREDIT AND SECURITY AGREEMENT

THIS GUIDANCE LINE OF CREDIT AND SECURITY AGREEMENT, dated as of the 15th day of July 2014, is made by and between COMSTOCK HOLDING COMPANIES, INC., a Delaware corporation (the “Borrower”), and EAGLEBANK, a Maryland banking corporation (the “Bank”). The Bank has agreed to extend a guidance line of credit to the Borrower and the Borrower has agreed to obtain credit from the Bank on the terms and conditions set forth in this Agreement. Accordingly, for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Bank and the Borrower agree as follows:

Article 1**DEFINITIONS AND ACCOUNTING TERMS**

Section 1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings assigned to them below, which meanings shall be equally applicable to the singular and plural forms of the terms defined.

“Accounts” means collectively and includes all of the following, whether now owned or hereafter acquired by the Borrower: all property included within the definitions of “accounts,” “chattel paper,” “documents,” “general intangibles” and “instruments” set forth in the UCC; all present and future rights to payments for goods sold or leased or for services rendered, whether or not represented by instruments or chattel paper, and whether or not earned by performance; all present and future rights to payments for computer software, computer hardware or computer systems sold, leased or licensed; proceeds of any letter of credit of which the Borrower is a beneficiary; all forms of obligations whatsoever owed to the Borrower, together with all instruments and documents of title representing any of the foregoing; all rights in any goods which any of the foregoing may represent; any and all rights in any returned or repossessed goods; and all rights, security and guaranties with respect to any of the foregoing, including, without limitation, any right of stoppage in transit; but excluding any letters of credit held by, or funds otherwise payable to, the Borrower as beneficiary, escrow agent or trustee for third parties, excluding, however, those Accounts (if any) listed on the Schedule of Excluded Assets attached hereto.

“Advances” means the Advances to be made to the Borrower by the Bank pursuant to Section 2.01(a) of this Agreement.

“Affiliate” means with respect to any specified Person, any other Person which, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a Person, whether through ownership of common stock, by contract or otherwise.

“Agreement” means this Guidance Line of Credit and Security Agreement, as the same may be amended, modified or supplemented from time to time.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks in the State of Maryland are authorized or required to close.

“Capital Lease” means all leases which have been or should be capitalized on the books of the lessee in accordance with GAAP.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

“Collateral” means collectively and includes all Accounts, Equipment, Inventory and all other property of the Borrower in which a Lien is granted to the Bank pursuant to this Agreement or any other agreement between the Borrower and the Bank.

“Commonly Controlled Entity” means an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 414(b) or 414(c) of the Code.

“Current Assets” means at any date, the aggregate amount of all consolidated assets of the Borrower (including, but not limited to, cash, marketable securities, accounts receivable) that would be classified as current assets, other than prepaid expenses and deferred tax benefits, all as computed in accordance with GAAP.

“Current Liabilities” means at any date, the aggregate amount of all consolidated liabilities of the Borrower (including tax and other proper accruals) that would be classified as current liabilities, computed in accordance with GAAP.

“Debt” means (1) indebtedness or liability for borrowed money; (2) obligations evidenced by bonds, debentures, notes, or other similar instruments; (3) obligations for the deferred purchase price of property or services (including trade obligations); (4) obligations as lessee under Capital Leases; (5) current liabilities in respect of unfunded vested benefits under Plans covered by ERISA; (6) obligations under letters of credit; (7) obligations under acceptance facilities; (8) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person or entity, or otherwise to assure a creditor against loss; and (9) obligations secured by any Liens, whether or not the obligations have been assumed.

“Default” means any event which with the giving of notice, the lapse of time, or both, would constitute an Event of Default.

“EBITDA” means, as of the date of any determination, Net Income (including income attributable to non-controlling interests), plus interest expense (including interest capitalized as a component of cost of sales), plus income tax expense, plus depreciation expense, plus amortization expense, plus non-cash stock compensation (to the extent deducted in calculating Net Income), plus any other non-cash, non-recurring charges against income approved in writing by the Bank, minus any income or gain from asset sales (except as earned in the normal course of the Borrower’s primary homebuilding business), plus any loss from asset sales (to the extent deducted in determining Net Income), plus any other add-backs approved by the Lender in writing, and otherwise determined in accordance with GAAP.

“Equipment” means collectively and includes all of the following, whether now owned or hereafter acquired by the Borrower: all items which are included within the definitions of “equipment” and “fixtures” as set forth in the UCC, including, without limitation, computer software, computer hardware, computer systems, furniture, machinery, removable leasehold improvements and trade fixtures, together with any and all accessories, accessions, parts and appurtenances thereto, substitutions therefor and replacements thereof, excluding, however, those items of Equipment (if any) listed on the Schedule of Excluded Assets attached hereto.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

“Event of Default” means any of the events specified as an “Event of Default” under this Agreement, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

“GAAP” means generally accepted accounting principles consistently applied.

“Guaranty” means the guaranty agreement from Christopher Clemente (the “Guarantor”) unconditionally guaranteeing to the Bank the full repayment of the Loan and all other obligations of the Borrower hereunder, as the same may be amended, modified or supplemented from time to time.

“Inventory” means all inventory in all of its forms and of every nature, kind and description, wherever located and whether now owned or hereafter acquired including, without limitation, goods held for sale or lease or to be furnished under contracts of service, raw materials, work in progress and materials to be used or consumed in the Borrower’s business and all accessions thereto and products thereof and documents therefor, excluding, however, those items of Inventory (if any) listed on the Schedule of Excluded Assets attached hereto.

“Investments” means all debt or equity securities or share, participation, or other interest in any Person, which is, or is of a type, dealt in or traded on financial markets, or which is recognized in any area in which it is issued or dealt in as a medium for investment.

“Lien” means any mortgage, deed of trust, pledge, security interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), restriction or preference, priority, or other security agreement or preferential arrangement, charge, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction to evidence any of the foregoing).

“Line of Credit Usage Fee” is defined in Section 2.04(b) of this Agreement.

“Loan” means the loan to be made to the Borrower by the Bank pursuant to Section 2.01(b) of this Agreement.

“Loan Documents” means this Agreement, the Note, the Guaranty, and any other document now or hereafter executed or delivered in connection with the Obligations in evidence thereof or as security therefor, including, without limitation, any life insurance assignment, pledge agreement, security agreement, deed of trust, mortgage, promissory note or subordination agreement.

“Maximum Amount” means (i) Five Million and no/100 Dollars (\$5,000,000.00) with respect to the Loan, and (ii) Seven Hundred Fifty Thousand and no/100 Dollars (\$750,000.00) with respect to Advances for any one Project.

“Multiemployer Plan” means a Plan described in Section 4001(a)(3) of ERISA.

“Net Income” means, with respect to any Person, income after deduction of all expenses, taxes and other proper charges, determined in accordance with GAAP and shall exclude all unrealized gains or losses on Investments.

“Net Worth” means consolidated total equity (including non-controlling interest and Debt owed to shareholders) as computed in accordance with GAAP and reported in the financial statements of Borrower delivered to Bank.

“Note” means that certain Revolving Line of Credit Note from the Borrower to the Bank, dated as of the date hereof, in the original principal amount of Five Million and no/100 Dollars (\$5,000,000.00) evidencing the obligation of the Borrower to pay the principal amount of the Advances, together with interest on the Advances, as the same may be amended, modified or supplemented from time to time.

“Obligations” means the Loan, the Note, all indebtedness and obligations of the Borrower under this Agreement and the other Loan Documents, as well as all other obligations, indebtedness and liabilities of the Borrower to the Bank, now existing or hereafter arising, of every kind and description, whether or not evidenced by notes or other instruments, and whether such obligations, indebtedness and liabilities are direct or indirect, fixed or contingent, liquidated or unliquidated, due or to become due, secured or unsecured, joint, several or joint and several, related or unrelated to the Loan, similar or dissimilar to the indebtedness arising out of this Agreement, of the same or a different class of indebtedness as the indebtedness arising out of this Agreement, including, without limitation, any overdrafts in any deposit account maintained by the Borrower with the Bank, all obligations of the Borrower with respect to letters of credit issued by the Bank for the account of the Borrower, any indebtedness of the Borrower that is assigned to the Bank and any indebtedness of the Borrower to any assignee of this Agreement.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Person” means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

“Plan” means any pension plan which is covered by Title IV of ERISA and in respect of which the Borrower or a Commonly Controlled Entity is an “employer” as defined in Section 3(5) of ERISA.

“Prohibited Transaction” means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

“Project” means any residential projects pursued by Borrower or any Subsidiary for future development in the metropolitan Washington, DC area.

“Reportable Event” means any of the events set forth in Section 4043 of ERISA.

“Subsidiary” means a corporation, limited liability company, limited partnership or other entity of which the Borrower has the ordinary voting power to elect a majority of the board of directors, managers or general partners of such entity.

“Termination Date” means July 14, 2015, and any extension or extensions thereof granted by the Bank in its sole discretion.

“UCC” means the Uniform Commercial Code as adopted by the State of Maryland.

Section 1.02 Accounting Terms. All accounting terms used herein which are not otherwise expressly defined in this Agreement shall have the meanings respectively given to them in accordance with GAAP in effect on the date of this Agreement. Except as otherwise provided herein, all financial computations made pursuant to this Agreement shall be made in accordance with GAAP and all balance sheets and other financial statements shall be prepared in accordance with GAAP. Except as otherwise provided herein, whenever reference is made in any provision of this Agreement to a balance sheet or other financial statement or financial computation with respect to the Borrower, such terms shall mean a consolidated balance sheet or other financial statement or financial computation, as the case may be, with respect to the Borrower.

Article 2

TERMS OF THE LOAN

Section 2.01 Amount and Borrowing Procedure.

(a) Subject to the terms and conditions of this Agreement, the Borrower may, from time to time, but not more frequently than once per calendar month, until the Termination Date request Advances from the Bank as provided herein in an aggregate principal amount not to exceed at any one time outstanding the Maximum Amount. At such time as the Borrower requests an Advance be made, documentation shall be provided to the Bank in its sole discretion such as paid invoices, executed Letters of Intent, ratified purchase contracts, etc. Because the Loan under this Agreement is a guidance credit facility, the Bank reserves the right to approve or decline any request for an Advance in its sole, reasonable discretion. Up to the Maximum Amount, the Borrower may borrow, repay as permitted by the Note, and re-borrow hereunder from the date of this Agreement until the Termination Date. The Borrower covenants and agrees that at no time shall the aggregate principal amount of the Advances outstanding exceed the Maximum Amount.

(b) The obligation of the Borrower to repay the Advances, together with interest thereon as provided in the Note, shall be evidenced by the Note.

(c) The Borrower and the Bank from time to time may agree to extend the Termination Date or increase the amount of credit to be provided under this Agreement, or both. During any such periods of extension, the remaining terms and conditions of this Agreement shall remain in full force and effect, and the Borrower shall execute and deliver any amendments or modifications to the Loan Documents as the Bank may require in connection with any such extension or increase. In order to be eligible for an extension of the Termination Date, (i) the Borrower must be in compliance with all financial covenants, (ii) there shall be no Event of Default or event or condition, but for the passing of time or giving of notice, would constitute an Event of Default, and (iii) the Borrower shall have delivered to the Bank audited financial statements for the previous fiscal year, current financial statements, tax return, liquidity verification and schedule of contingent liabilities for Guarantor. Nothing in this Section 2.01(c) shall obligate the Bank to grant such extensions or to increase the amount of credit provided under this Agreement.

Section 2.02 Payments and Computations.

(a) Notwithstanding that the Termination Date may not have occurred, the Borrower shall repay Advances made with respect to a particular Project on or before the earliest to occur of (i) 12 months from the date of the initial Advance for such Project, (ii) the date the Subsidiary takes full title to the Project, or (iii) within 10 days after a written termination of a letter of intent or purchase contract made by Borrower or any of its Subsidiaries pertaining to a Project. Notwithstanding the foregoing, with respect to two Projects known as Two Rivers I (66 – 28' villa lots) and Two Rivers II (54 – 32' villa lots), Advances shall be repaid as follows: subsequent to the initial takedown of two model lots for each of Two Rivers I and Two Rivers II, (i) \$14,000 per lot upon acquisition of each production lot in Two Rivers I, and (ii) \$15,000 per lot upon acquisition of each production lot in Two Rivers II; provided however that all Advances made for Two Rivers I and Two Rivers II shall be repaid no later than 12 months from the date of the initial Advance for each such Project.

(b) All payments due under this Agreement (including any payment or prepayment of principal, interest, late fees, other fees and other charges) or with respect to the Note or the Advances shall be made in lawful money of the United States of America, in immediately available funds, to the Bank at its office at 7815 Woodmont Avenue, Bethesda, Maryland 20814, or at such other place as the Bank may designate, and shall be applied first to accrued fees, next to accrued late charges, next to accrued interest and then to principal. If any payment of principal, interest or fees is not due on a Business Day, then the due date will be extended to the next succeeding full Business Day and interest and fees will be payable with respect to the extension. Upon the occurrence of an Event of Default and during the continuation of such Event of Default, interest shall accrue on the Advances at a per annum rate as provided in the Note for such event.

Section 2.03 Use of Proceeds. The proceeds of Advances hereunder shall be used by the Borrower for to fund (i) cash deposits due under certain purchase contracts made by the Borrower or any of its Subsidiaries and (ii) predevelopment costs, such as architectural, engineering, legal and entitlement costs incurred with respect to any Project. All Advances hereunder shall be used by the Borrower for carrying on a business, professional or commercial activity. The Borrower will not, directly or indirectly, use any part of such proceeds for the

purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock, or for any purpose which violates, or is inconsistent with, Regulation X of such Board of Governors.

Section 2.04 Fees

(a) On the date hereof and as a condition to the initial Advance, the Borrower shall pay to the Bank a one-time transaction fee equal to one percent of the Maximum Amount, or \$50,000.00.

(b) The Borrower shall pay to the Bank, on the last day of January of each year and on the Termination Date (as extended, if applicable), a fee ("Line of Credit Usage Fee") on the unused portion of the Maximum Amount equal to one quarter of one percent (0.25%) per annum (calculated in arrears on the average daily unused portion of the amount available to the Borrower hereunder).

Article 3

CONDITIONS PRECEDENT

Section 3.01 Condition Precedent to Initial Advance. The obligation of the Bank to make the initial Advance to the Borrower is subject to the condition precedent that the Bank shall have received on or before the day of such Advance each of the following, in form and substance satisfactory to the Bank and its counsel:

(a) Note. The Note duly executed by the Borrower.

(b) Evidence of All Corporate Action by the Borrower. Certified (as of the date of this Agreement) copies of all corporate action taken by the Borrower, including resolutions of its Board of Directors, authorizing the execution, delivery, and performance of the Loan Documents to which it is a party and each other document to be delivered pursuant to this Agreement.

(c) Incumbency and Signature Certificate of the Borrower. A certificate (dated as of the date of this Agreement) of the Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign the Loan Documents to which it is a party and the other documents to be delivered by the Borrower under this Agreement.

(d) Borrower's Certificate. A certificate (dated as of the date of this Agreement) of the Secretary of the Borrower certifying as to the Borrower's organizational documents and good standing certificate(s).

(e) Statement of Covenant Calculations. A statement of the Borrower's chief financial officer certifying as to calculations showing compliance with the financial covenants set forth in Article 7 of this Agreement.

(f) UCC Searches. Receipt by the Bank of UCC searches confirming that there are no UCC financing statements in favor of any Person with respect to the Collateral.

(g) Opinion of Counsel for the Borrower. A favorable opinion of counsel for the Borrower as to such matters as the Bank may reasonably request.

(h) Guaranty. The Guaranty duly executed by the Guarantor.

(i) Payment of Fees. The Borrower shall have paid the Bank the transaction fee specified in Section 2.04(a) of this Agreement and the closing costs, fees and expenses of the Bank, including without limitation, the reasonable fees and expenses of counsel to the Bank incurred in the preparation of this Agreement and the closing of the Loan.

Section 3.02 Conditions Precedent to All Advances. The obligation of the Bank to make each Advance (including the initial Advance) shall be subject to the further conditions precedent that on the date of such Advance:

(a) The following statements shall be true and the Bank shall have received a certificate signed by a duly authorized officer of the Borrower dated the date of such Advance, stating that:

(i) The representations and warranties contained in Article IV of this Agreement are correct on and as of the date of such Advance as though made on and as of such date.

(ii) There has been no material adverse change in the condition (financial or otherwise), business or operations of the Borrower and its Subsidiaries.

(iii) No Default or Event of Default has occurred and is continuing, or would result from such Advance.

(b) The Bank shall have received such other approvals, opinions, or documents as the Bank may reasonably request.

Article 4 **REPRESENTATIONS AND WARRANTIES**

The Borrower represents and warrants that:

Section 4.01 Incorporation, Good Standing and Due Qualification. As of the date of this Agreement, the Borrower has the Subsidiaries listed in the Schedule of Subsidiaries attached hereto which are established for the purposes of owning, constructing or developing real property. Borrower is a corporation and each Subsidiary is a limited liability company, limited partnership or other entity, and each of Borrower and each Subsidiary is (a) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its formation; (b) has the corporate, limited liability company or limited partnership power and authority to own its assets and to transact the business in which it is now engaged or in which it is proposed to be engaged; and (c) is duly qualified as a foreign entity and in good standing under the laws of each other jurisdiction in which such qualification is required.

Section 4.02 Corporate Power and Authority. The execution, delivery and performance by the Borrower of the Loan Documents to which it is a party have been duly authorized by all necessary corporate action and do not and will not (a) require any consent or approval of, or filing or registration with, any governmental agency or authority or the stockholders of such corporation; (b) contravene such corporation's charter or bylaws; (c) result in a breach of or constitute a default under any agreement or instrument to which such corporation is a party or by which it or its properties may be bound or affected; (d) result in, or require, the creation or imposition of any lien upon or with respect to any of the properties now owned or hereafter acquired by such corporation; or (e) cause such corporation to be in default under any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award applicable to such corporation.

Section 4.03 Legally Enforceable Agreement. This Agreement is, and each of the other Loan Documents when delivered under this Agreement will be, legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

Section 4.04 Financial Statements. The most recent financial statements of the Borrower which have been furnished to the Bank in connection with this Agreement are complete and correct and fairly present the financial condition of the Borrower and its Subsidiaries as at the dates of such statements. The Borrower and its Subsidiaries have no Debt outstanding which is not reflected on such financial statements. Since the dates of such statements, there has been no material adverse change in the condition (financial or otherwise), business or operations of the Borrower and its Subsidiaries.

Section 4.05 Litigation. Except as set forth in the Borrower's most recent 10-Q and 10-K filed with the Securities and Exchange Commission, there is no pending or threatened action or proceeding against or affecting the Borrower, before any court, governmental agency or arbitrator, which may, in any one case or in the aggregate, materially adversely affect the financial condition, operations, properties or business of the Borrower.

Section 4.06 Other Agreements. The Borrower is not a party to any indenture, loan, or credit agreement, or to any lease or other agreement or instrument, or subject to any charter or corporate restriction which could have a material adverse effect on the business, properties, assets, operations, or conditions, financial or otherwise, of the Borrower, or the ability of the Borrower to carry out its obligations under the Loan Documents to which it is a party. Except for those entities identified on the schedule of other agreements attached hereto who are subject to extended forbearance agreements, the Borrower is not in default in any respect in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument material to its business to which it is a party.

Section 4.07 No Defaults on Outstanding Judgments or Orders. The Borrower has satisfied all judgments and the Borrower is not in default with respect to any judgment, writ, injunction, decree, rule, or regulation of any court, arbitrator, or federal, state, municipal, or other governmental authority, commission, board, bureau, agency or instrumentality, domestic or foreign.

Section 4.08 Ownership and Liens. The Borrower has title to, or valid leasehold interests in, all of its properties and assets, real and personal, including the properties and assets and leasehold interests reflected in the financial statements referred to in Section 4.04 (other than any properties or assets disposed of in the ordinary course of business), and none of the properties and assets owned by the Borrower and none of its leasehold interests is subject to any Lien, except such as may be permitted pursuant to Section 6.01 of this Agreement.

Section 4.09 Operation of Business. The Borrower possesses all licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted, and the Borrower is not in violation of any valid rights of others with respect to any of the foregoing.

Section 4.10 Taxes. The Borrower has filed all tax returns (federal, state, and local) required to be filed and have paid all taxes, assessments, and governmental charges and levies thereon to be due, including interest and penalties.

Section 4.11 Compliance with Applicable Laws. The Borrower has duly complied with, and their businesses, operations, assets, equipment, property, leaseholds, or other facilities are in compliance with, all applicable laws, including without limitation, ERISA and the provisions of all federal, state, and local environmental, health, and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder. The Borrower has not received notice of, nor knows of, or suspects facts which might constitute any violations of any federal, state, or local environmental, health, or safety laws, codes or ordinances, and any rules or regulations promulgated thereunder with respect to any Project or its businesses, operations, assets, equipment, property, leaseholds, or other facilities.

Article 5

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that:

Section 5.01 Maintenance of Existence. The Borrower will preserve and maintain and cause each of its Subsidiaries to preserve and maintain its corporate, limited liability company or limited partnership existence and good standing in the jurisdiction of its formation, and qualify and remain qualified as a foreign entity in each jurisdiction in which such qualification is required.

Section 5.02 Maintenance of Records. The Borrower will, and will cause each of its Subsidiaries to, keep adequate records and books of account, in which complete entries will be made in accordance with GAAP, reflecting all financial transactions of the Borrower. The principal records and books of account, shall be kept at the chief executive office of the Borrower at the address set forth in Section 10.03 hereof. The Borrower will not move such records and books of account or change its chief executive office or the name under which it does business without giving the Bank at least thirty days' prior written notice.

Section 5.03 Maintenance of Properties. The Borrower will maintain, keep, and preserve, and cause each Subsidiary to maintain, keep, and preserve, all of its properties (tangible and intangible) necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

Section 5.04 Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, continue to engage in an efficient and economical manner in a business of the same general type as conducted by it on the date of this Agreement and to pay all Debt as it becomes due.

Section 5.05 Compliance With Laws. The Borrower will comply in all respects with all applicable laws, rules, regulations and orders (including, without limitation, the Employee Retirement Income Security Act, as amended from time to time), such compliance to include, without limitation, paying, before the same become delinquent, all duly imposed taxes, assessments and governmental charges imposed upon it or upon its property.

Section 5.06 Maintenance of Insurance. The Borrower will, and will cause each of its Subsidiaries to, maintain insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated.

Section 5.07 Maintenance of Accounts. The Borrower shall maintain with the Bank the Borrower's primary operating and deposit accounts. Bank acknowledges that that Borrower maintains operating accounts with other financial institutions in the ordinary course of business, and such practice is acceptable to Bank.

Section 5.09 Reporting Requirements. The Borrower will furnish to the Bank:

(a) Quarterly financial statements. As soon as available and, in any event, within 45 days after the end of each of the quarters of each fiscal year of the Borrower unaudited financial statements consisting of consolidated and consolidating balance sheets of the Borrower, as of the end of such quarter and consolidated and consolidating statements of income and retained earnings and cash flows of the Borrower for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and stating in comparative form the respective consolidated and consolidating figures for the corresponding date and period in the previous fiscal year and all prepared in accordance with GAAP. Such financial statements shall be certified to be accurate by the chief financial officer of the Borrower (subject to year-end adjustments).

(b) Annual Financial Statements. As soon as available and, in any event, within 120 days after the end of each fiscal year of the Borrower audited financial statements consisting of consolidated and consolidating balance sheets of the Borrower as of the end of such fiscal year, consolidated and consolidating statements of income and retained earnings and cash flows of the Borrower for such fiscal year, and consolidated and consolidating statements of change in financial position of the Borrower for such fiscal year, all in reasonable detail and stating in comparative form the respective consolidated and consolidating figures for the corresponding date and period in the prior fiscal year and all prepared in accordance with GAAP.

The consolidated statements shall be accompanied by an opinion thereon acceptable to the Bank of an independent certified public accounting firm selected by the Borrower and acceptable to the Bank.

(c) Management Letters. Promptly upon receipt thereof, copies of any reports submitted to the Borrower by independent certified public accountants in connection with examination of the financial statements of the Borrower made by such accountants.

(d) Projections for Next Year. No later than 30 days prior to the close of each of the Borrower's fiscal years, the Borrower will submit to the Bank annual consolidated and consolidating projections for the Borrower for the next fiscal year.

(e) Borrowing Certificate. No later than 20 days after the end of each calendar month, a completed and executed Borrowing Certificate in the form attached hereto.

(f) Notice of Litigation. Promptly after the commencement thereof, notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the Borrower, which, if determined adversely to the Borrower could have a material adverse effect on the financial condition, properties or operations of the Borrower.

(g) Notice of Defaults and Events of Default. As soon as possible and, in any event, within fifteen (15) days after the occurrence of each Default and Event of Default, a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken by the Borrower with respect thereto.

(h) Proxy Statements, etc. Promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports which the Borrower sends to its stockholders, and copies of all regular, periodic and special reports, and all registration statements which the Borrower files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor, or with any national securities exchange;

(i) ERISA Reports. As soon as possible, and in any event within thirty (30) days after the Borrower knows or has reason to know that any circumstances exist that constitute grounds entitling the PBGC to institute proceedings to terminate a Plan subject to ERISA with respect to the Borrower or any Commonly Controlled Entity, and promptly but in any event within two (2) Business Days of receipt by the Borrower or any Commonly Controlled Entity of notice that the PBGC intends to terminate a Plan or appoint a trustee to administer the same, and promptly but in any event within five (5) Business Days of the receipt of notice concerning the imposition of withdrawal liability with respect to the Borrower or any Commonly Controlled Entity, the Borrower will deliver to the Bank a certificate of the chief financial officer of the Borrower setting forth all relevant details and the action which the Borrower proposes to take with respect thereto.

(j) General Information. Such other information respecting the condition or operations, financial or otherwise, of the Borrower or any Subsidiary as the Bank may from time to time reasonably request.

Section 5.10 Environment. The Borrower will be and remain, and cause each Subsidiary to be and remain for so long as there is an outstanding Advance to such Subsidiary, in compliance with the provisions of all federal, state, and local environmental, health, and safety laws, codes and ordinances, and all rules and regulations issued thereunder.

Section 5.11 Subordination of Shareholder Debt. The Borrower shall cause all Debt owed to its shareholders to be subordinated to the Loan upon terms satisfactory to the Bank; provided, however, the Bank shall permit current monthly payments of principal and accrued interest on such Debt not to exceed \$50,000.

Section 5.13 Assignment of Insurance Escrow Account. As and when such escrow funds are incrementally released to the Borrower (currently scheduled for \$1,000,000 in December 2014 and \$1,000,000 in December 2016), the Borrower shall promptly deposit in a collateralized escrow account held at the Bank funds currently held in an insurance escrow account by Old Republic Risk Management in the current amount of \$2,000,000 as shown on the Borrower's balance sheet as Restricted Cash.

Article 6

NEGATIVE COVENANTS

The Borrower agrees that, without first obtaining the prior written consent of the Bank:

Section 6.01 Liens. The Borrower will not create, incur, assume or permit to exist any Lien upon or with respect to any of its properties or assets, now owned or hereafter acquired, except: (a) Liens in favor of the Bank; (b) Liens which are incidental to the conduct of the business of the Borrower, are not incurred in connection with the obtaining of credit and do not materially impair the value or use of assets of the Borrower; and (c) Liens in existence on the date of this Agreement and disclosed in writing to the Bank.

Section 6.02 Debt. The Borrower will not create, incur, assume or permit to exist Debt, except (a) the Obligations; (b) Debt in existence on the date of this Agreement and disclosed in the Borrower's most recent SEC quarterly reports; (c) Debt of the Borrower subordinated to the Obligations on terms satisfactory to the Bank; (d) Debt of any Subsidiary to the Borrower or another Subsidiary; and (e) ordinary trade accounts payable; provided, however, that nothing herein shall restrict Borrower from guaranteeing the debt of Borrower's Subsidiaries made in the ordinary course of business.

Section 6.03 Mergers, Etc. The Borrower will not merge or consolidate with any Person and will not permit any Subsidiary to merge with any person except that Borrower may merge with a Subsidiary and any Subsidiary may merge with another Subsidiary.

Section 6.04 Sale and Leaseback. The Borrower will not sell, transfer or otherwise dispose of any real or personal property to any Person and thereafter, directly or indirectly, lease back the same or similar property.

Section 6.05 Sale of Assets. The Borrower will not sell, lease, assign, transfer or otherwise dispose of any of its now owned or hereafter acquired assets except: (a) for assets disposed of in the ordinary course of business, (b) the sale or other disposition of assets no longer used or useful in the conduct of its business, and (c) Equipment for which other Equipment of equivalent or greater value has not been substituted.

Section 6.06 Guaranties, Etc. Borrower will not assume, guarantee, endorse or otherwise be or become directly or contingently responsible or liable (including, but not limited to, any liability arising out of any agreement to purchase any obligation, stock, assets, goods or services, or to supply or advance any funds, assets, goods or services, or to maintain or cause such Person to maintain a minimum working capital or net worth or otherwise to assure the creditors of any Person against loss) for obligations of any Person, or permit any such guaranties or liabilities to exist, except (i) with respect to debt in existence on the date hereof and previously disclosed to the Bank in writing and (ii) guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, and (iii) nothing herein shall restrict Borrower from guaranteeing the debt of Borrower's Subsidiaries made in the ordinary course of business.

Section 6.07 Accounting Practices. The Borrower will not change its accounting practices or fiscal year end date.

Section 6.08 Transactions with Affiliate. The Borrower will not enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be applicable in a comparable arm's length transaction with a Person not an Affiliate.

Article 7

FINANCIAL COVENANTS

So long as the Note shall remain unpaid or the Bank shall have any commitment under this Agreement:

Section 7.01 Minimum Liquidity. The Borrower will maintain at all times minimum Unrestricted Cash plus Restricted Cash assigned to the Bank of not less than \$5,000,000.

Section 7.02 Minimum Net Worth. The Borrower will maintain at all times a Net Worth of not less than \$10,000,000.

Section 7.03 Minimum EBITDA. The Borrower will maintain minimum EBITDA of no less than \$1,000,000 in calendar year 2014 and no less than \$3,500,000 in calendar year 2015 and thereafter.

The foregoing financial covenants shall be calculated based on the consolidated financial statements of the Borrower delivered to the Bank pursuant to Section 5.09 of this Agreement and shall be measured quarterly on a trailing twelve months basis.

Article 8
EVENTS OF DEFAULT

Section 8.01 Events of Default . Each of the following shall constitute an Event of Default under this Agreement:

- (a) Failure of the Borrower to pay any Obligation to the Bank, including, without limitation, the principal of or interest on the Note or any of the Advances, when the same shall become due and payable, and such failure shall continue for a period of five (5) days or
- (b) Failure of the Borrower to perform or observe any covenant set forth in this Agreement (except any such failure resulting in the occurrence of another Event of Default described in this section), or to perform or observe any other term, condition, covenant, warranty, agreement or other provision contained in this Agreement within fifteen (15) days after receipt of notice from the Bank specifying such failure; or
- (c) Discovery that any representation or warranty by the Borrower in this Agreement or any statement or representation made in any certificate, report or opinion delivered pursuant to this Agreement or in connection with any Advance under this Agreement was materially untrue in any material respect provided, however, the Bank shall take no action based on a default under this paragraph unless the Borrower shall have been provided a reasonable opportunity to render such misrepresentation or untruth immaterial; or
- (d) If, as a result of default, any other obligation of the Borrower to Lender for the payment of any debt becomes or is declared to be due and payable prior to the expressed maturity thereof, unless and to the extent that the declaration is being contested in good faith in a court of appropriate jurisdiction; or
- (e) The Borrower terminates its existence as a going business, 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 any substantial part of its property, or commences any proceeding relating to the Borrower under any reorganization, arrangement, readjustments of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or
- (f) If, within sixty (60) days after the filing of a bankruptcy petition or the commencement of any proceeding against the Borrower 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, of any trustee, receiver or liquidator of the Borrower or of all or any substantial part of the properties of the Borrower, the appointment shall not have been vacated; or
- (g) Any judgment against the Borrower in excess of \$100,000.00 or any attachment in excess of \$100,000.00 against any property of the Borrower that remains unpaid, undischarged, unbonded or undismissed for a period of thirty (30) days, unless and to the extent that the judgment or attachment is appealed in good faith in a court of higher jurisdiction and the appeal remains pending; or

(h) The occurrence of an event of default beyond any applicable cure period under any other Loan Document; or

(i) There shall occur a material adverse change in the financial condition of the Borrower which, in the judgment of the Bank, affects the ability of the Borrower to perform its obligations hereunder; or

(j) Any of the following events shall occur or exist with respect to the Borrower and any Commonly Controlled Entity under ERISA: any Reportable Event shall occur; complete or partial withdrawal from any Multiemployer Plan shall take place; any Prohibited Transaction shall occur; a notice of intent to terminate a Plan shall be filed, or a Plan shall be terminated; or circumstances shall exist which constitute grounds entitling the PBGC to institute proceedings to terminate a Plan, or the PBGC shall institute such proceedings; and in each case above, such event or condition, together with all other events or conditions, if any, could subject the Borrower to any tax, penalty, or other liability which in the aggregate may exceed \$100,000.00.

Section 8.02 Remedies Upon Default. Upon the occurrence of an Event of Default, the following provisions shall be applicable:

(a) The Bank may, at its option, terminate its obligation to make Advances under this Agreement and declare all Obligations, whether incurred prior to, contemporaneous with or subsequent to the date of this Agreement, and whether represented in writing or otherwise, immediately due and payable and may exercise all of its rights and remedies against the Borrower and any collateral.

(b) The Bank shall have such set-off rights as are provided by applicable common law or statute.

(c) THE BORROWER EXPRESSLY WAIVES ITS RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(d) The Bank may (i) notify the obligor of any Account of the Bank's security interest in the Account and require payments to be made directly to the Bank to be held as additional cash collateral for the Obligations, and, to facilitate direct collection, the Bank shall have the right to establish a lockbox or make other arrangements, with which the Borrower shall cooperate, for the Bank to receive payments on the Accounts directly, and (ii) at the Bank's discretion, apply any and all of the cash collateral to payment of the Obligations from time to time, whether or not such Obligations are then due.

(e) The Bank may foreclose its lien and security interest in the Collateral in any way permitted by law and shall have, without limitation, the remedies of a secured party under the UCC. The Bank may enter the Borrower's premises without legal process and without incurring liability to the Borrower and remove the Collateral to such place or places as the Bank may deem advisable, or the Bank may require the Borrower to assemble the Collateral and make the Collateral available to the Bank at a convenient place and, with or without having the Collateral at the time or place of sale, the Bank may sell or otherwise dispose of all or any part of

the Collateral whether in its then condition or after further preparation or processing, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, at any time or place, in one or more sales and upon such terms and conditions as the Bank may elect. The Bank shall give not less than five (5) days' prior written notice to the Borrower of the time and place of any public sale of the Collateral or the time after which the Collateral may be sold in a private sale, which the Borrower agrees constitutes commercially reasonable notice. At any such sale the Bank may be the purchaser, subject to the applicable provisions of the UCC.

(f) The proceeds from any sale of the Collateral by the Bank shall first be applied to any costs and expenses in securing possession of the Collateral and to any expenses in connection with the sale. The net proceeds will be applied toward the payment of the Obligations. Application of the net proceeds as to particular Obligations or as to principal or interest shall be in the Bank's absolute discretion. Any deficiency will be paid to the Bank forthwith upon demand, and any surplus will be paid to the Borrower if the Borrower is not otherwise indebted to the Bank.

(g) To the extent that the Obligations are now or hereafter secured by property other than the Collateral described herein or by the guarantee, endorsement or property of any other Person, the Bank shall have the right to proceed against such other property, guarantee or endorsement, and the Bank shall have the right, in its sole discretion, to determine which rights, security, liens, security interests or remedies the Bank shall at any time pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of them or any of the Bank's rights hereunder.

(h) The Bank may itself perform or comply, or otherwise cause performance or compliance, with the obligations of the Borrower contained in this Agreement, including, without limitation, the obligations of the Borrower to defend and insure the Collateral. The expenses of the Bank incurred in connection with such performance or compliance, together with interest thereon at the default rate specified in the Note, shall be payable by the Borrower to the Bank on demand and shall constitute a part of the Obligations.

Article 9

GRANT OF SECURITY AND OTHER TERMS REGARDING COLLATERAL

Section 9.01 Security Interest. The Borrower grants to the Bank, its successors and assigns, a security interest in the Accounts, Equipment, Inventory, all additions and accessions thereto and replacements thereof, all proceeds and products thereof, all books of account and records, including all computer software relating thereto, and all policies of insurance on any property of the Borrower and all proceeds of such policies, all of which shall secure the Obligations.

Section 9.02 Ownership; First Lien. Except for Liens in favor of the Bank or permitted by Section 6.01(c), the Borrower is the sole owner of each item of Collateral, having good and marketable title thereto, free and clear of all Liens. The security interest granted to the Bank hereunder constitutes and creates a valid and continuing first priority security interest in the Collateral in the favor of the Bank, prior to all other Liens and rights of others.

Section 9.03 Accounts. To the best of its knowledge, the Borrower represents and warrants as to each and every Account now existing that: (1) it is a bona fide existing obligation, valid and enforceable against the obligor; (2) the supporting documents, instruments, chattel paper and other evidences of indebtedness, if any, delivered to the Bank are genuine, complete, valid and enforceable in accordance with their terms; and (3) it is not and shall not be subject to any prohibition or limitation upon assignment. The Borrower covenants and agrees that each Account arising after the date of this Agreement will be in conformance with the foregoing representations.

Section 9.05 Equipment and Inventory.

(a) All of the Equipment and Inventory (other than Inventory sold in the ordinary course of business) will be kept only at the address of Borrower set forth in Section 10.03 hereof or at the locations described on the Schedule of Locations of Equipment and Inventory attached to this Agreement. The Borrower shall give the Bank at least thirty (30) days' prior written notice before Equipment is moved or delivered to a location other than such designated places of business except in the ordinary course of business within the three jurisdictions in which Borrower operates as of the date hereof, and the Bank's security interest will be maintained despite the location of the Equipment. The Borrower shall execute and deliver financing statements satisfactory to the Bank prior to any such move or delivery. The Borrower shall not, without the prior written consent of the Bank, move or deliver the Equipment to a location outside of the United States of America.

(b) The Borrower shall keep and maintain the Equipment in good operating condition and repair. The Borrower shall not permit any of the Equipment to become a fixture to any real estate unless subordination agreements satisfactory to the Bank are obtained from any owner or mortgagee of such real estate. The Borrower shall, immediately on demand therefor by the Bank, deliver to the Bank any and all evidence of ownership of any of the Equipment and Inventory. None of the Equipment shall be sold, transferred, leased or otherwise disposed of without the prior written consent of the Bank, except for (a) sales or dispositions of obsolete Equipment, and (b) sales or dispositions of Equipment which is contemporaneously replaced with Equipment of comparable value and utility; provided, however, that the Borrower shall not sell or dispose of any Equipment specifically financed by the Bank unless the Borrower repays the outstanding balance of the extension of credit relating to such Equipment.

Section 9.06 Insurance of Collateral. The Borrower shall have the Equipment and Inventory insured against loss or damage by fire, theft, burglary, pilferage, loss in transportation and such other hazards as the Bank shall specify, by insurers satisfactory to the Bank, in amounts satisfactory to the Bank and under policies containing loss payable and additional insured clauses satisfactory to the Bank. Any such insurance policies, or evidence thereof satisfactory to the Bank, shall be deposited with the Bank. The Borrower agrees that the Bank shall have a security interest in such policies and the proceeds thereof, and, if any loss should occur, the proceeds may be applied to the payment of the Obligations or to the replacement or restoration of the Equipment and Inventory damaged or destroyed, as the Bank may elect or direct. After the occurrence of a Default or an Event of Default, the Bank shall have the right to file claims under any insurance policies, to receive any payments that may be made thereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any of the insurance policies.

Section 9.07 Defense of Collateral. The Borrower shall keep the Collateral free of all Liens except Liens in favor of the Bank or permitted by Section 6.01. The Borrower, at its expense, will defend the Collateral against any claims or demands adverse to the Bank's security interest and will promptly pay, when due, all taxes or assessments levied against the Borrower on the Collateral.

Section 9.08 Information Regarding Collateral. The Borrower shall provide the Bank such information as the Bank may from time to time reasonably request with respect to the Collateral, including, without limitation, copies of or access to the Borrower's accounts and books of records and such other information concerning the Collateral as the Bank shall from time to time reasonably request.

Section 9.09 Perfection of Security Interest. The Borrower shall perform any and all steps in all relevant or appropriate jurisdictions as may be necessary or reasonably requested by the Bank to perfect, maintain and protect the Bank's security interest in the Collateral. The Borrower shall pay the taxes and costs of, or incidental to, any recording or filing of any financing statements concerning the Collateral. The Borrower agrees that a carbon, photographic, photostatic or other reproduction of this Agreement is sufficient as a financing statement.

Section 9.10 Indemnification. In any suit, proceeding or action brought by or against the Bank relating to the Collateral, the Borrower will save, indemnify and keep the Bank harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of any obligor thereunder, arising out of a breach by the Borrower of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such obligor or its successors from the Borrower, and all such obligations of the Borrower shall be and remain enforceable against and only against the Borrower and shall not be enforceable against the Bank. The foregoing obligation of the Borrower to indemnify the Bank shall not extend to any suit, proceeding or action arising out of the Bank's gross negligence or willful misconduct.

Section 9.11 Bank Appointed Attorney-in-Fact. The Borrower hereby appoints the Bank its agent and attorney-in-fact for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments which the Bank may deem necessary or advisable to accomplish the purpose hereof, which appointment as agent and attorney-in-fact is irrevocable and coupled with an interest.

Section 9.12 Corporate Name; Principal Place of Business. The Borrower represents and warrants that during the five years immediately preceding the date of this Agreement, neither the Borrower nor any predecessor of the Borrower has used any corporate or fictitious name other than its current corporate name and the names Comstock Homebuilding Companies, Inc. The principal place of business of the Borrower within the meaning of Section 9.103(3)(d) of the UCC, is the address set forth in Section 10.03 hereof.

Section 9.13 Right of Inspection. At any reasonable time and from time to time, the Borrower will permit the Bank or any agent or representative of the Bank to audit and verify the Collateral, examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and discuss the affairs, finances and accounts of the Borrower with any of its officers and employees and the Borrower's independent accountants.

Article 10
MISCELLANEOUS

Section 10.01 Collection Costs. The Borrower shall pay all of the reasonable costs and expenses incurred by the Bank in connection with the enforcement of this Agreement and the other Loan Documents, including, without limitation, reasonable attorneys' fees and expenses.

Section 10.02 Modification and Waiver. Except for the other documents expressly referred to in this Agreement, this Agreement contains the entire agreement between the parties and supersedes all prior agreements between the Bank and the Borrower concerning the Loan and the Collateral. No modification or waiver of any provision of the Note or this Agreement and no consent by the Bank to any departure therefrom by the Borrower shall be effective unless such modification or waiver shall be in writing and signed by an officer of the Bank with a title of vice president or any higher office, and the same shall then be effective only for the period and on the conditions and for the specific instances and purposes specified in such writing. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances. No failure or delay by the Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies of the Bank contained in this Agreement are cumulative and not exclusive of any rights or remedies otherwise provided by law.

Section 10.03 Notices. Any notice, demand or request shall be provided in writing, shall be delivered to the address noted below and shall be (i) deemed fulfilled upon personal service or hand delivery, or (ii) deemed given three (3) business days after deposited in any post office or letter box, postage prepaid, by certified mail, return receipt requested, or (iii) shall be deemed given on the next business day after deposited with a recognized overnight courier that provides confirmation of delivery. All notices shall be sent to the following address (or such other address as the parties hereto may provide in writing from time to time):

If to Borrower to: Comstock Holding Companies, Inc.
 1886 Metro Center Drive
 Fourth Floor
 Reston, Virginia 20190
 Attn: Christopher Clemente

With a copy to: Comstock Holding Companies, Inc.
 1886 Metro Center Drive
 Fourth Floor
 Reston, Virginia 20190
 Attn: Jubal R. Thompson, General Counsel

If to Bank to: EagleBank
11911 Freedom Dr, Suite 610
Reston, VA 20190
Attn: Jenifer J. Bush, Vice President

With a copy to: Ballard Spahr, LLP
1909 K Street, NW, 12th Floor
Washington, DC 20006
Attn: James P. Cooke, Esq.

Section 10.04 Captions. The captions of the various sections and paragraphs of this Agreement have been inserted only for the purposes of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any of the provisions of this Agreement.

Section 10.05 Survival of Agreements. All agreements, representations and warranties made herein shall survive the delivery of this Agreement and the making of the Advances hereunder.

Section 10.06 Fees and Expenses. Whether or not any Advances are made hereunder, the Borrower shall pay on demand all reasonable out of pocket costs and expenses incurred by the Bank in connection with the preparation, negotiation, execution, delivery, filing, recording and administration of any of the documents and instruments executed or delivered in connection herewith, including, without limitation, the reasonable fees and expenses of counsel to the Bank.

Section 10.07 Use of Defined Terms. All terms defined in this Agreement shall have the defined meanings when used in certificates, reports or other documents made or delivered pursuant to this Agreement, unless the context shall otherwise require.

Section 10.08 Successors and Assigns. This Agreement shall inure to the benefit of and bind the respective parties hereto and their successors and assigns; provided, however, that the Borrower may not assign its rights hereunder without the prior written consent of the Bank.

Section 10.09 Interpretation. This Agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of Maryland, without reference to conflicts of law principles.

IN WITNESS WHEREOF, the Borrower and the Bank have caused this Agreement to be signed by their duly authorized representatives all as of the day and year first above written.

Borrower:

COMSTOCK HOLDING COMPANIES, INC., a Delaware corporation

By: _____(Seal)

Name:

Title:

Bank:

EAGLEBANK, a Maryland banking corporation

By: _____(Seal)

Name:

Title:

Schedule of Subsidiaries

Schedule of Excluded Assets

Schedule of Locations of Equipment and Inventory

Schedule of Other Agreements

Schedule A to UCC-1 Financing Statement

All of Debtor's right, title and interest in and to the following types (or items) of property, whether now owned or hereafter acquired by the Debtor:

1. All property included within the definitions of "accounts," "chattel paper," "documents," "general intangibles" and "instruments" set forth in the UCC; all present and future rights to payments for goods sold or leased or for services rendered, whether or not represented by instruments or chattel paper, and whether or not earned by performance; all present and future rights to payments for computer software, computer hardware or computer systems sold, leased or licensed; proceeds of any letter of credit of which the Debtor is a beneficiary; all forms of obligations whatsoever owed to the Debtor, together with all instruments and documents of title representing any of the foregoing; all rights in any goods which any of the foregoing may represent; any and all rights in any returned or repossessed goods; and all rights, security and guaranties with respect to any of the foregoing, including, without limitation, any right of stoppage in transit; but excluding any letters of credit held by, or funds otherwise payable to, the Debtor as beneficiary, escrow agent or trustee for third parties.
2. All items which are included within the definitions of "equipment" and "fixtures" as set forth in the UCC, including, without limitation, computer software, computer hardware, computer systems, furniture, machinery, vehicles and trade fixtures, together with any and all accessories, accessions, parts and appurtenances thereto, substitutions therefor and replacements thereof.
3. All inventory in all of its forms and of every nature, kind and description, wherever located and whether now owned or hereafter acquired including, without limitation, goods held for sale or lease or to be furnished under contracts of service, raw materials, work in progress and materials to be used or consumed in the Debtor's business and all accessions thereto and products thereof and documents therefor.
4. All additions and accessions to any of the foregoing and all replacements thereof, all proceeds and products thereof, all books of account and records, including all computer software relating thereto, and all policies of insurance on any property of the Debtor and all proceeds of such policies.
5. All other assets of Debtor.

REVOLVING LINE OF CREDIT NOTE

\$5,000,000.00

July 15, 2014

FOR VALUE RECEIVED, the undersigned, **COMSTOCK HOLDING COMPANIES, INC.**, a Delaware corporation (the “**Maker**”), promises to pay to the order of **EAGLEBANK**, a Maryland banking corporation (the “**Lender**”), at 7815 Woodmont Avenue, Bethesda, Maryland 20814, or at such other place as the holder hereof may from time to time designate in writing, the principal sum of Five Million and No/100 Dollars (\$5,000,000.00), or such sum as may be advanced and outstanding from time to time, with interest on the unpaid principal balance at the rate and on the terms provided in this Note (including all renewals, extensions or modifications hereof, this “**Note**”).

1. **Interest.** The principal balance of this Note outstanding during any calendar month or portion thereof shall bear interest at a fluctuating rate per annum determined by Lender to be three and one-quarter percent (3.25%) per annum above LIBOR in effect two (2) London Business Days prior to the first day of such calendar month; provided, however, in no event shall the rate of interest hereunder be below the floor rate of five percent (5.0%) per annum. Each change in the rate of interest hereunder shall become effective on the first day of each calendar month during the term hereof. Lender is hereby authorized to note the date and interest rate applicable to this Note and any payments made thereon on Lender’s books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted. Interest and fees, if any, shall be computed on the basis of a 360-day year for the actual number of days in the applicable period (“**Actual/360 Computation**”). The **Actual/360 Computation** determines the annual effective interest yield by taking the stated (nominal) rate for a year’s period and then dividing said rate by 360 to determine the daily periodic rate to be applied for each day in the applicable period. Application of the **Actual/360 Computation** produces an annualized effective rate exceeding the nominal rate.

As used herein:

(a) “**Business Day**” means any day except a Saturday, Sunday or any other day on which commercial banks in the State of Maryland are authorized or required by law to close.

(b) “**LIBOR**” means the rate per annum determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base Libor}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) “**Base LIBOR**” means the rate of interest per annum determined by Lender based on the rate for United States dollar deposits for delivery of funds for one (1) month, as reported in the Wall Street Journal two (2) London Business Days prior to the first day of the calendar month for which such rate is being determined, as the “**London Interbank Offered Rate – 1-Month LIBOR (LIBOR1 (ICE LIBOR))**” (or if not so reported, then as determined by Lender from another recognized source or interbank quotation).

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Lender for expected changes in such reserve percentage during the term of this Note.

(c) "London Business Day" means any day that is a day for trading by and between banks in Dollar deposits in the London interbank market.

2. Payments/Maturity Date. Principal and interest payments shall be due and payable hereunder as follows:

A. This Note shall be due and payable in consecutive monthly payments of accrued interest only, commencing on August 15, 2014, and continuing on the same day of each month thereafter until fully paid. In any event, all principal and accrued interest shall be due and payable on July 14, 2015. If any payment comes due on a day which is not a Business Day, such payment shall be due on the next succeeding Business Day, together with interest accruing during such extension.

B. The Maker may borrow, repay and reborrow, and, upon the request of the Maker, Lender shall advance and re-advance under this Note from time to time until the maturity hereof (each an "Advance" and together the "Advances"), so long as the total principal balance outstanding under this Note at any one time does not exceed the principal amount stated on the face of this Note. No advance shall be requested in an amount less than \$100,000.00. Lender's obligation to make Advances under this Note shall terminate if an Event of Default has occurred and is continuing.

C. All payments of principal and/or interest hereon shall be payable in lawful money of the United States and in immediately available funds. All payments received hereon shall be applied, at the Lender's option, first to accrued interest, if any, then to principal, then to escrow items, if any, then to late charges, if any, then to attorney fees and then to principal. All payments hereunder shall be made without offset, demand, counterclaim, deduction, abatement, defense, or recoupment, each of which Maker hereby waives. If any payment received by Lender under this Note is rescinded, avoided or for any reason returned by Lender because of any adverse claim or threatened action, the returned payment shall remain payable as an obligation of all persons liable under this Note as though such payment had not been made.

D. Except for payment of this Note to effect the annual clean-up period requirement set forth above, the Maker shall provide Lender with 30-days' advance written notice if the maker intends to pay this Note in full.

3. Late Charges. In the event that any payment of interest is not actually received by the holder hereof within ten (10) days of the date such payment is due and payable hereunder, the Maker agrees to pay a late charge equal to five percent (5%) of the total amount of the delinquent payment.

4. Events of Default. The occurrence of an “**Event of Default**” as defined in the Loan Agreement shall constitute an Event of Default hereunder. Upon any such Event of Default, the entire principal balance hereof, all accrued and unpaid interest thereon, and all other applicable fees, costs and charges, if any, shall at once become due and payable at the option of the holder of this Note. Failure to exercise this option shall not constitute a waiver of the right to the later exercise thereof or to exercise the same in the event of any subsequent Event of Default.

5. Default Interest. Notwithstanding the entry of any decree, order, judgment or other judicial action under, pursuant to, in connection with, or otherwise concerning this Note, upon the occurrence of an Event of Default hereunder, and/or after the maturity of this Note (whether by acceleration, declaration, extension or otherwise), the Maker promises to pay to the Lender whenever demanded by the Lender interest on this Note and all other amounts then and thereafter due and payable hereunder at a fluctuating per annum rate of interest (the “**Default Rate**”) equal at all times to the lesser of (i) two percent (2%) per annum in excess of the fluctuating interest rate set forth in Section 1 above, or (ii) the highest rate allowable by law from the date of such Event of Default for so long as such Event of Default continues, or from the maturity of this Note until payment in full of the unpaid principal balance of this Note, all accrued and unpaid interest thereon and any and all other amounts due or payable hereunder.

6. Operating Accounts. Borrower and its affiliates shall maintain with the Bank all of its primary operating accounts. Bank, however, acknowledges that Borrower maintains operating accounts with other financial institutions in the ordinary course of business, and such practice is acceptable to Bank.

7. Loan Agreement and Security. This Note is subject to the provisions of that certain Guidance Line of Credit and Security Agreement between Bank and Borrower of even date herewith, as modified from time to time (the “Loan Agreement”). To secure the repayment of this Note, the Borrower has granted Bank a security interest in the Collateral described in the Loan Agreement.

8. Waiver of Notice. Each party liable hereon in any capacity, whether as maker, endorser, surety, guarantor or otherwise, (i) waives presentment, demand, protest and notice of presentment, notice of protest and notice of dishonor of this debt and each and every other notice of any kind respecting this Note (except as otherwise expressly provided for herein), (ii) agrees that the holder hereof, at any time or times, without notice to it or its consent, may grant extensions of time, without limit as to the number or the aggregate period of such extensions, for the payment of any principal and/or interest due hereon, and (iii) to the extent not prohibited by law, waives the benefit of any law or rule of law intended for its advantage or protection as an obligor hereunder or providing for its release or discharge from liability hereon, in whole or in part, on account of any facts or circumstances other than full and complete payment of all amounts due hereunder.

9. Waiver of Jury Trial. **THE LENDER, THE MAKER AND ANY OTHER PARTY LIABLE HEREON IN ANY CAPACITY, WHETHER AS SURETY, GUARANTOR, OR OTHERWISE, EACH WAIVES TRIAL BY JURY WITH RESPECT TO ANY ACTION, CLAIM, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THE LOAN EVIDENCED HEREBY AND/OR THE CONDUCT OF THE RELATIONSHIP BETWEEN THE LENDER, THE MAKER AND/OR ANY OTHER PARTY LIABLE HEREON IN ANY CAPACITY, WHETHER AS SURETY, GUARANTOR, OR OTHERWISE. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY MAKER, AND MAKER HEREBY REPRESENTS THAT NO ORAL OR WRITTEN STATEMENTS HAVE BEEN MADE BY ANY PARTY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS STATED EFFECT. MAKER FURTHER REPRESENTS THAT IT HAS BEEN REPRESENTED BY INDEPENDENT COUNSEL OF ITS CHOICE IN THE SIGNING OF THIS NOTE AND IN THE MAKING OF THIS WAIVER AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH SUCH COUNSEL.**

10. Costs of Collection. The Maker promises to pay all third-party costs and expenses incurred in connection with collection hereof or in the protection or realization of any collateral now or hereafter given as security for the repayment hereof, including reasonable attorneys' fees, upon the occurrence of an Event of Default in the payment of the principal of this Note or interest hereon when due, whether at maturity, as herein provided, or by reason of acceleration of maturity under the terms hereof, whether suit be brought or not.

11. Lender's Rights and Remedies. The failure of the Lender to exercise the option for acceleration of maturity, foreclosing, or either, following any Event of Default as aforesaid or to exercise any other option granted to it hereunder, in any one or more instances, or the acceptance by the Lender of partial payments or partial performance, shall not constitute a waiver of any such Event of Default, but such options shall remain continuously in force. Acceleration of maturity, once claimed hereunder by the Lender, may at its option be rescinded by written acknowledgment to that effect but the tender and acceptance of partial payment or partial performance alone shall not in any way affect or rescind such acceleration of maturity. The rights, remedies and powers of the Lender, as provided in this Note, are cumulative and concurrent, and may be pursued singly, successively, or together against the Maker, and/or any security given at any time to secure the payment hereof, all at the sole discretion of the Lender.

12. Lawful Interest. Notwithstanding anything to the contrary contained herein, the effective rate of interest on the obligation evidenced by this Note shall not exceed the lawful maximum rate of interest permitted to be paid. Without limiting the generality of the foregoing, in the event the interest charged hereunder results in an effective rate of interest higher than that lawfully permitted to be paid, then such charges shall be reduced by the sum sufficient to result in an effective rate of interest permitted by law and any amount which would exceed the highest lawful rate already received and held by the Lender shall be applied to a reduction of principal and not to the payment of interest.

13. Setoff. In addition to all liens upon, and rights of set-off against the money, credit, stocks, bonds and/or securities or other property of any nature whatsoever of the Maker given to the Lender by law, if any, the Lender shall have a lien upon and a right of set-off against all money, credit, stocks, bonds and/or securities and other property of any nature whatsoever of

the Maker now or hereafter on deposit with, or held by, or in the possession of or on account with the Lender, whether held in a general deposit, or for safekeeping or otherwise; and every such lien and right of set-off may be exercised without demand upon or notice to the Maker, upon and during the continuation of an Event of Default under this Note. No lien or right of set-off shall be deemed to have been waived by any act or conduct on the part of the Lender, or by any neglect to exercise such right of set-off or to enforce such lien, or by any delay in so doing, and every right of set-off and lien shall continue in full force and effect until such right of set-off or lien is specifically waived or released by an instrument in writing executed by the Lender.

14. Partial Invalidity. In the event any one or more of the provisions contained in this Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

15. Amendment. This Note may not be changed orally, but only by an agreement in writing signed by the parties against whom enforcement of any waiver, change, modification or discharge is sought.

16. Patriot Act Notice. To help fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. For purposes of this section, account shall be understood to include loan accounts.

17. Business Purpose. The Maker warrants and represents that the loan evidenced hereby is being made for business or commercial purposes.

18. Governing Law. This Note shall be governed in all respects by the laws of the State of Maryland and shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, personal representatives, successors and assigns. The Maker hereby consents to be sued in an appropriate court in the State of Maryland in any action to enforce the provisions of this Note. The Maker waives any objection to the venue of any action filed by the holder of this Note against the Maker in any court in the State of Maryland and waives any claim of forum non conveniens or for transfer of any such action to any other court.

19. Notice. Any notice, demand or request under this Note shall be provided in writing and shall be delivered as required by Section 10.03 of the Loan Agreement.

IN WITNESS WHEREOF, the undersigned has executed, sealed and delivered this Note effective as of the day and year first written above.

MAKER:
COMSTOCK HOLDING COMPANIES, INC., a Delaware
corporation

By: _____ (Seal)
Name:
Title:

LOAN AGREEMENT

(Development Loan and Revolving Construction Line of Credit)

THIS LOAN AGREEMENT made effective as of the 23rd day of July, 2014 by and between **COMSTOCK YORKSHIRE, L.C.**, a Virginia limited liability company (the “**Borrower**”) and **CARDINAL BANK**, a Virginia state chartered bank (“**Lender**”).

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

WHEREAS, Lender has agreed to make (i) a development line of credit to Borrower in the maximum aggregate principal amount that may be advanced of **Two Million and no/100 Dollars (\$2,000,000.00)** on a non-revolving basis (the “**Development Loan**”) to finance a portion of the Borrower’s cost to subdivide the Land into nineteen (19) single family detached lots (the “**Lots**”) and develop the infrastructure for the Lots, and (ii) a construction line of credit in the maximum principal amount of **Two Million Three Hundred Seventy Thousand and no/100 Dollars (\$2,370,000)** that may be outstanding at any one time advanced and re-advanced on a revolving basis for and on account of materials to be furnished and labor and services to be performed in connection with the construction of nineteen (19) single family detached residences (individually, a “**Unit**”, and collectively, the “**Units**”) (the “**Construction Line**”), as amended, modified, supplemented and increased from time to time; and

WHEREAS, simultaneously with the execution and delivery hereof, Borrower has executed that certain Credit Line Deed of Trust Note dated of even date herewith in the principal amount of \$4,370,000.00 and that certain Credit Line Deed of Trust and Security Agreement of even date herewith to secure the same.

WITNESSETH:

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

ARTICLE I
DEFINITIONS

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

Development Loan – The non-revolving line of credit from the Lender to the Borrower evidenced by the Note, to be advanced and repaid pursuant to this Loan Agreement and secured by the Security Documents to be used to finance a portion of the Borrower’s cost to subdivide the Land into the Lots and develop the infrastructure for the Lots as more particularly set forth in the recitals to this Loan Agreement.

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

Commitment – The commitment letter dated April 28, 2014 from Lender to Borrower in connection with the Development Loan, the Letters of Credit and the Construction Line, as the same may be from time to time amended.

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

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

Construction Line Funding Termination Date – The Construction Line Funding Termination Date shall independently apply to each Construction Loan that the Lender has formally approved and committed to fund prior to the Initial Funding Termination Date (if the Construction Line Funding Termination Date is not automatically extended as set forth in the next sentence) and January 23, 2017 (if the Construction Line Funding Termination Date is automatically extended as set forth in the next sentence). The Construction Line Funding Termination Date shall be automatically extended beyond the Initial Funding Termination Date to the date(s) more particularly set forth below, but only if (i) there are no defaults or events which with the passage of time would constitute a default under the Loan Documents, (ii) Borrower has satisfied all other terms and conditions required to be satisfied in the Loan Documents as of the Initial Funding Termination Date, and (iii) Borrower shall have sold and closed on at least fifteen (15) Units as of the Initial Funding Termination Date. The Lender shall not be obligated to make advances out of the Construction Line for a Construction Loan for any Unit for which the Lender has not issued its formal Construction Loan commitment prior to the Initial Funding Termination Date, if the Initial Funding Termination Date is not extended hereunder or prior to January 23, 2017, if the Initial Funding Termination Date is extended hereunder. Construction Line advances for each Construction Loan that the Lender commits to hereunder shall terminate on the Construction Loan Maturity Date.

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

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

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

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

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

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

Costs - Those costs incurred by the Borrower and approved by the Lender to develop the Land into the finished Lots and to complete the construction of the Improvements.

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

Development Loan Funding Termination Date - The Development Loan Funding Termination Date shall be the Initial Funding Termination Date. The Development Loan Funding Termination Date shall be automatically extended to January 23, 2017, but only if (i) there are no defaults or events which with the passage of time would constitute a default under the Loan Documents, (ii) Borrower has satisfied all other terms and conditions required to be satisfied in the Loan Documents as of the Initial Funding Termination Date, and (iii) Borrower shall have sold and closed on at least fifteen (15) Units as of the Initial Funding Termination Date. If the Initial Funding Termination Date is automatically extended as set forth above, the Lender's obligation to make any advances out of the Development Loan shall terminate on January 23, 2017.

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

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

Guarantors - Christopher D. Clemente and Comstock Holding Companies, Inc., a Delaware corporation and their successors, personal representatives, devisees and heirs.

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

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

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

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

Initial Funding Termination Date – July 23, 2016.

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

Land Loan – The \$785,000 that the Lender advanced to the Borrower to finance the Borrower's acquisition of certain real estate (including the Land) out of the \$5,200,000.00 acquisition and development loan budget attached to the Loan Agreement by and between the Lender and the Borrower dated as of May 8, 2013.

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

Letters of Credit - The up to \$1,700,000 in Letters of Credit which the Lender has committed to issue for the Borrower's account for the purpose of providing surety to the Public Authorities for the completion of certain Improvements to the Land.

Loan(s) - Individually, the Development Loan or the Construction Line, as the case may be, and collectively, the Development Loan and the Construction Line.

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

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

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

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

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

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

Project – The Land as subdivided into the Lots, the site development of the Lots, and the construction of the Improvements and the Units are collectively hereinafter referred to as the Project.

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

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

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

Unit – A Lot together with the single family detached residence being constructed thereon.

ARTICLE II
THE LOANS - ADVANCES AND REPAYMENTS;
LETTER OF CREDIT FACILITY

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

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

2.2 Funding Limitations. Except as specifically limited in this Loan Agreement, prior to the Development Loan Funding Termination Date, Borrower shall have the right to borrow and repay, but not to re-borrow, from time to time, up to a maximum principal amount of **Two Million and no/100 Dollars (\$2,000,000.00)** for budgeted and approved Costs as more particularly set forth and limited in the Development Loan Budget. Except as specifically limited in this Loan Agreement, prior to the Construction Line Funding Termination Date, Borrower shall have the right to borrow, repay and re-borrow on a revolving basis an amount not to exceed **Two Million Three Hundred Seventy Thousand and no/100 Dollars (\$2,370,000.00)** that may be outstanding at any one time for the construction of the Units pursuant to the Per Unit Construction Line Budget. Lender shall not be obligated to advance Development Loan proceeds or Construction Line proceeds if (i) an Event of Default exists hereunder; (ii) Lender has made demand for any payment under the Note which remains unpaid; or (iii) any conditions precedent to such advance set forth in this Loan Agreement has not been satisfied in Lender’s judgment. Subject to the preceding conditions, Lender agrees to make advances in amounts not to exceed the following amounts:

(a) Development Loan Advances: The Development Loan advances when added to the amount allocated out of the Land Loan to the acquisition of the Land (the “Acquisition Loan Allocation”) shall not exceed the lesser of: (i) sixty percent (60%) of the “as-developed” appraised value of the finished Lots on a gross value basis, or (ii) sixty-seven percent

(67%) of the "as-developed" appraised value of the finished Lots on a discounted cash flow basis pursuant to the third-party appraisal in Lender's possession as of the date of this Loan Agreement. In no event shall the Lender advance more than \$2,000,000 in the aggregate, on a non-revolving basis, out of the Development Loan. The Lender shall automatically advance funds out of the \$110,000 Interest Reserve to cover the interest expense on the Development Loan on a monthly basis when interest is due under the Note as to the Development Loan. The funds set aside in the Interest Reserve shall not be advanced for any other purpose than to cover the actual interest expense on the Development Loan. The Lender shall advance up to \$50,000 of the Closing Costs line item of the Development Loan Budget at the closing of the Loans but in no event to exceed the Borrower's actual Costs to close the Loans. The Lender shall advance up to \$30,000 out of the Real Estate Taxes line item of the Development Loan Budget for the payment of real estate taxes for the Project when and as such real estate taxes become due and payable. The Lender shall not be obligated to advance funds out of the Development Loan that would cause any of the line items in the Development Loan Budget to be exceeded.

(b) Construction Loan Advances: Construction Loan advances shall not exceed the lesser of: (i) seventy-three percent (73%) of the "as-if completed" appraised value of a Unit on a gross sale price basis when added to the committed amount under the Development Loan and the Acquisition Loan Allocation allocated to the Unit, (ii) eighty percent (80%) of the "as-if completed" appraised value of a Unit on a discounted cash flow basis when added to the committed amount under the Development Loan and the Acquisition Loan Allocation allocated to the Unit, (iii) one hundred percent (100%) of the actual construction Costs of the finished Unit, and (iv) \$228,235 per Unit. The maximum amount of construction advances that may be outstanding at any one time during the term of the Construction Line shall not exceed \$2,370,000.

(c) Funding Termination: Lender shall not be obligated to advance any Development Loan proceeds after the Development Loan Funding Termination Date. Lender shall not be obligated to advance any Construction Loan proceeds after the Construction Loan Maturity Date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 Conditions Precedent to future Development Advances. Lender shall not be obligated to make any advances of Development Loan proceeds hereunder with respect to the development of the Land and the creation of the Lots after the first advance of the Development Loan proceeds for Closing Costs, unless the conditions described in Section 2.3 remain satisfied, and the following conditions have been satisfied with respect:

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

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

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

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

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

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

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

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

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

(j) Lender shall have received copies of the recorded subdivision plat of the Mortgaged Property creating the Lots.

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

(l) Borrower shall provide Lender with a final draw schedule for the Site Development Costs advances in form and substance approved by Lender.

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

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

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

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

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

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

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

(f) Lender shall be satisfied, based upon the advice of the Consulting Engineer or Progress Inspector, that each Unit can be completed by a date no later than the Completion Date for that Unit with the balance of the Construction Loan proceeds committed to that Unit then held by Lender and available for advance for those purposes pursuant to the terms of this Loan Agreement and with other funds which Lender is reasonably satisfied are available to Borrower for those purposes.

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

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

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

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

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

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

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

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

2.6 Additional Conditions Precedent to Final Advance. Lender shall not be obligated to make the final advance of Loan proceeds with respect to the Land, the Improvements or any Unit included within the Project unless the conditions described in Section 2.3 and Section 2.4 and the following additional conditions have been satisfied with respect to the Land, the Improvements or the Unit:

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

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

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

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

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

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

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

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

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

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

2.12 Speculative Units and Construction Limitations. The Borrower may have not more than three (3) Speculative Units under construction within the Project. Model Units shall be considered Speculative Units for the purpose of these limitations and Borrower shall have no more than one (1) Model Unit at any time during the term of the Loans. The Borrower shall have no more than seven (7) Units under construction at any one time during the term of the Loans. The Lender may, but shall not be obligated to, advance Loan proceeds to fund the development or construction Costs for any Units during any period when the maximum limit of Speculative Units is exceeded. Borrower shall provide Lender with the information Lender requests with respect to Lender's review of each proposed Unit and Borrower shall not commence construction of a Unit until it has obtained Lender's prior approval.

2.13 Loan Fees. Lender's obligation to make advances of the Development Loan shall be contingent upon Borrower's payment to Lender of a fully earned non-refundable **\$20,000** loan fee for the Development Loan which shall be paid to Lender at the closing of the Loans and shall be fully earned when paid. If the Initial Funding Termination Date is extended pursuant to the terms of the Note, on the Initial Funding Termination Date, Borrower shall pay Lender a fully earned non-refundable Development Loan extension fee equal to one-quarter of one percent (0.25%) of the aggregate of the outstanding principal balance of the Development Loan plus the remaining committed and unfunded amount of the Development Loan as of the Initial Funding Termination Date. Lender's obligation to make advances and re-advances out of the Construction Line for any

Unit shall be contingent upon Borrower's payment to Lender of a fully earned non-refundable Construction Line loan fee per Unit equal to one half of one percent (0.5%) of the total amount of the Construction Line committed to be advanced for the Unit that the Borrower shall pay Lender at the time of the first advance of Construction Line proceeds for each Unit.

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

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

(a) The Lender agrees, subject to the terms and conditions of this Loan Agreement, to issue the Letters of Credit for the account of the Borrower from time to time, pursuant to the Schedule. The total aggregate amount of the Letters of Credit that the Lender will issue shall not exceed **One Million Seven Hundred Thousand Dollars (\$1,700,000)**. The obligation of the Lender to issue any Letters of Credit under this Letter of Credit Facility shall expire on that date that is twenty-four (24) months from the date of this Loan Agreement, unless extended in writing by Lender in its sole discretion. The initial term of a Letter of Credit shall not exceed twenty-four (24) months and will be renewable automatically (but only if no Event of Default has occurred and remains uncured as of the date of the renewal) for additional twelve (12) month periods to the extent that the Public Authorities require the extension of the applicable Letter of Credit. In no event shall the Lender be obligated to issue or extend a Letter of Credit that would expire after January 23, 2017. Each Letter of Credit will be issued for the benefit of the Public Authority to secure the Borrower's obligations to construct the Improvements required by the Public Authorities in connection with their approval of the Project.

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

(c) Borrower shall pay Lender a fully earned non-refundable commission payable in advance on the date the Letter of Credit is issued or renewed and on each anniversary date of the Letter of Credit after such issuance or renewal equal to two percent (2%) of the face amount of the Letter of Credit on each date. Borrower shall immediately reimburse Lender on demand for any drawings paid by Lender under a Letter of Credit. Borrower's reimbursement obligations with respect to a Letter of Credit shall bear interest at a *per annum* rate equal to the non-default rate of interest then being charged Borrower under the Note plus three percent (3%) *per annum* (computed for the actual number of days during which any Letter of Credit is drawn upon and Lender remains unreimbursed), which interest shall be payable on demand. Borrower's reimbursement obligations shall, until paid, be treated as outstanding advances under the Loan, and shall be secured by the Deed of Trust.

(d) Each request for a Letter of Credit shall identify the portion of the Project to which the Letter of Credit is attributable, be in the form of a requisition, in form and substance satisfactory to and approved by Lender, and shall be accompanied by, and shall itself constitute, a certification by Borrower that all representations and warranties of Borrower and Guarantors in the Loan Documents remain true in all material respects as of the time of such request, and that no material adverse change in Borrower's or any of the Guarantor's respective financial conditions has occurred since the immediately preceding issuance of a Letter of Credit.

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

ARTICLE III REPRESENTATIONS AND WARRANTIES

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

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

3.2 Permits. No work associated with the development of the Lots or the construction of the Improvements will be commenced by Borrower unless and until all grading, building, construction and other permits necessary or required in connection with the commencement of the construction of the Improvements have been validly issued and all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid or posted, as the circumstances may require.

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

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

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

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

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

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

ARTICLE IV AFFIRMATIVE COVENANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.11. Flood Insurance. If required by applicable law or regulation or if required by Lender, Borrower shall provide or cause to be provided to Lender a separate policy of flood insurance in the amount of the Note or the maximum limit of coverage available with respect to the Mortgaged Property, whichever is the lesser, from a company or companies satisfactory to Lender and written in strict conformity with the Flood Disaster Protection Act of 1973, as amended, and all applicable regulations adopted pursuant thereto, or alternatively if flood insurance is not available for the Mortgaged Property or the Mortgaged Property is not within a flood hazard area, Borrower shall supply Lender with written evidence, in form and substance satisfactory to Lender, to that effect. Any such policy shall provide that the policy may not be surrendered, cancelled or substantially modified (including, without limitation, cancellation for non-payment of premiums) without at least thirty (30) days’ prior written notice to any and all insureds named therein, including Lender.

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

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

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

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

4.16 End Loans and Sales Contracts.

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

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

4.18 Master Association. Borrower shall submit all existing or proposed documentation (the “Master Association Documents”) intended or necessary to subject the Land and Improvements to a master association (the “Master Association”) to Lender for Lender’s review and approval concurrently with Borrower’s submission of the Master Association Documents to

any governmental authority required to review and approve the Master Association Documents as a precondition to creation of the Master Association. Once the Lender has approved the Master Association Documents, which approval shall not be unreasonably withheld, delay, or conditioned, the Lender shall consent to and/or execute such Master Association Documents as are required of the Lender, in its capacity as the holder of a security interest in the Mortgaged Property, to facilitate the Borrower's establishment of a Master Association for the Project under the laws of the Commonwealth of Virginia.

4.19 Record Plat. Borrower shall have recorded the final record plat of the Land creating nineteen (19) single family detached building Lots on or before the date that is thirty (30) days after the date hereof.

4.20 Unit Sales. Borrower shall have sold and closed on the sale of at least three (3) Units on or before the date that is nine (9) months after the date hereof.

ARTICLE V NEGATIVE COVENANTS

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

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

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

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

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

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

ARTICLE VI EVENTS OF DEFAULT

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

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

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

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

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

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

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

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

6.8 [Intentionally omitted.]

6.9 [Intentionally omitted.]

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

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

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

ARTICLE VII DEFAULT - REMEDIES

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VIII
MISCELLANEOUS

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

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

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

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

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

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

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

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

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

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

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

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- (a) If to Borrower, then to it at:
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Christopher Clemente, CEO
With a copy to:
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Jubal Thompson

- (b) If to Lender, then to it at:
Cardinal Bank
8270 Greensboro Drive, Suite 500
McLean, Virginia 22102
Attention: Real Estate Department

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

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

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

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

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

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

BORROWER:

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

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

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

[Signatures continue on next page]

LENDER:

CARDINAL BANK, a Virginia state chartered bank

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

“EXHIBIT A”
Legal Description

- 31 -

“EXHIBIT B”

Project Budgets

- 32 -

**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 13, 2014

/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 13, 2014

/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, 2014 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 13, 2014

/s/ Christopher Clemente

Christopher Clemente
Chairman and Chief Executive Officer

Date: November 13, 2014

/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.

