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

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**Form 10-K**

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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 001-32375

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**Comstock Holding Companies, Inc.**

(Exact name of registrant as specified in its charter)

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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  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (703) 883-1700

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$0.01 per share	The Nasdaq Stock Market LLC
Preferred Stock Purchase Rights	Nasdaq Capital Market

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

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (check one)

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 Act). Yes  No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant 10,063,096 shares based on the last reported sale price of the registrant's common equity on the Nasdaq Capital Market ("NASDAQ") on June 30, 2014, which was the last business day of the registrant's most recently completed second fiscal quarter, was \$11,975,084. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

As of April 14, 2015, there were outstanding 18,622,036 shares of the registrant's Class A common stock, par value \$0.01 per share, and 2,733,500 shares of the registrant's Class B common stock, par value \$0.01 per share.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders, to be filed within 120 days after the registrant's fiscal year ended December 31, 2014, are incorporated by reference into Part III of this Form 10-K.

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COMSTOCK HOLDING COMPANIES, INC.

ANNUAL REPORT ON FORM 10-K  
For the Fiscal Year Ended December 31, 2014

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## PART I

### CAUTIONARY NOTES REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K include forward-looking statements. 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 including certain risks described in this Annual Report on Form 10-K. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this Annual Report on Form 10-K. 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: 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; the market conditions in the markets in which we operate; 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; adverse weather conditions and natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis and our continuing relationships with affiliates.

Many of these factors are beyond our control. For a discussion of factors that could cause actual results to differ, please see the discussion in this Annual Report on Form 10-K under the heading “Risk Factors” in Item 1A.

#### Item 1. Business

The following business description should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K.

#### Overview

Comstock Holding Companies, Inc., incorporated in 2004 as a Delaware corporation is a multi-faceted real estate development and services company focused in the Washington, D.C. metropolitan area. We have substantial experience with building a diverse range of products including multi-family, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. References in this Form 10-K 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.

#### Available Information

We make available, as soon as reasonably practicable, on our website, [www.comstockhomes.com](http://www.comstockhomes.com), all of our reports required to be filed with the Securities and Exchange Commission (SEC). These reports can be found on the “Investor Relations” page of our website under “SEC Filings” and include our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in XBRL format), current reports on Form 8-K, beneficial ownership reports on Forms 3, 4, and 5, proxy statements and amendments to such reports. In addition to our SEC filings, our corporate governance documents, including our Code of Ethics for the Chief Executive Officer and Senior Financial Officers, and Code of Conduct applicable to all employees and directors are available on the “Investor Relations” page of our website under “Corporate Governance.”

Our principal executive offices are located at 1886 Metro Center Drive, 4th Floor, Reston, Virginia 20190 and our telephone number is (703) 883-1700. Information on or linked to our website is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

#### Our Operating Market

We are primarily focused on the Washington, D.C. market (Washington D.C. and the Northern Virginia and Maryland suburbs of Washington D.C.), which is the seventh largest metropolitan statistical area in the United States. Our expertise in developing traditional and non-traditional housing products enables us to focus on a wide range of opportunities within our core market. We build homes and multi-family buildings in suburban communities, where we focus on low density products such as single-family detached homes, townhomes and mid-rise multi-family buildings, and in urban areas, where we focus on high density multi-family and mixed use products. For our homebuilding operations, we develop properties with the intent to sell either as fee-simple properties or condominiums to individual unit buyers or as investment properties to investors. Our homebuilding products are designed to attract first-time, early move-up and secondary move-up buyers. We focus on products that we are able to offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products. We believe our middle market strategy positions our products such that they are affordable to a significant segment of potential home buyers in our market.

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Our multi-family buildings are developed as rental properties to be held and operated for our own purposes, converted at some point to for-sale condominium units or sold on a merchant build basis. When developing rental communities, we design our products to be readily convertible to condominiums. Our multi-family communities primarily target two groups: (i) young first time tenants and (ii) renters by choice.

We believe that our significant experience over the past 29 years within the Washington, D.C. market provides us with the experience necessary to identify attractive opportunities in our core market. We believe that our focus in the Washington, D.C. market, which has historically been characterized by economic conditions less volatile than many other major homebuilding markets, should provide us with an opportunity to generate attractive returns on investment and for growth.

Financial information for each of our reportable business segments is included in Note 2 to our consolidated financial statements.

### **Our Business Strategy**

Our business strategy is designed to leverage our extensive capabilities and market knowledge to maximize returns on invested capital on our various real estate related activities. We execute our strategy through three related business segments:

- *Homebuilding* – We target new home building opportunities where our building experience and ability to manage highly complex entitlement, development and related issues provides us with a competitive advantage.
- *Multi-family* – 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 to institutional buyers 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.
- *Real Estate Services* – Our management team has significant experience in all aspects of real estate management, including strategic planning, land development, entitlement, property management, sales and marketing, workout and turnaround strategies, financing and general construction. We are able to provide a wide range of construction management, general contracting and real estate related services to other property owners. This business line not only allows us to generate positive fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.

These business units work in concert to leverage the collective skill sets of our organization. The talent and experience of our personnel allows workflow flexibility and a multitasking approach to managing various projects. In a capital constrained environment, we use creative problem solving and financing approaches by working closely with land owners, banks, borrowers and other parties in an effort to generate value for all constituents. We believe that our business network in the Washington, D.C. real estate market provides us with a competitive advantage in sourcing and executing investment opportunities.

Our land acquisition strategy is designed to maximize potential overall returns generated by homebuilding operations. We pursue land acquisition opportunities that generally fit into three categories:

- *Finished building lots* – Whenever practical, we purchase fully developed building lots from sellers that have secured necessary entitlements and permits and have completed the land development process. This enables us to minimize the amount of land we hold in inventory and to time our acquisition of such lots with the sales of homes to be built on such lots, thereby reducing the hold time and carrying costs associated with holding the lots.
- *Entitled building lots* – We purchase certain development sites after the land seller has secured substantially all entitlements, allowing for prompt development of the land into building lots. This affords us the opportunity to secure building lots in locations where finished building lots are not readily available, or where the price of obtaining finished lots is determined to be unaffordable.
- *Land options* – We contract to purchase certain development sites in advance of entitlements being secured. This affords us the opportunity to design the layout of the building lots to fit our home products, while the land continues to be held by the land seller and minimizes our costs associated with carrying such land in our inventory while development permits are secured.

With respect to our homebuilding operations, we seek to minimize risk associated with fluctuating market conditions by primarily building pre-sold units and limiting the number of “spec units” (units that are not pre-sold) held in inventory. In each new community that we develop, we build model homes to demonstrate our products and to house our on-site sales operations. When practical, we execute sale-leaseback transactions on model homes. We limit building spec units in locations where there is a demand for immediate delivery of homes or where a significant number of the units in a multi-family building (such as townhouses or condominiums) have been pre-sold. We believe that by limiting the number of model homes and spec units held in inventory, we reduce our exposure to cyclical fluctuations in market values and minimize costs associated with holding inventory, such as debt service.

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**Our Operations**

We believe that we are properly staffed for current market conditions and that we have the ability to manage growth as market conditions warrant. Our operations are focused mainly in the Washington, D.C. market, where we believe our 29 years of market experience provides us the best opportunity to enhance stockholder value.

**Our Communities**

We are currently operating, or developing in multiple counties throughout the Washington, D.C. market. The following table summarizes certain information for our owned or controlled communities as of December 31, 2014:

**Pipeline Report as of December 31, 2014**

Project	State	Product Type (1)	Estimated Units at Completion	Units Settled	Backlog (7)	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	32	2	4	—	6	744
Townes at the Hampshires (3)	DC	TH	73	38	2	33	—	35	550
Estates at Falls Grove	VA	SF	19	—	5	14	—	19	553
Townes at Falls Grove	VA	TH	110	35	5	70	—	75	303
Townes at Shady Grove Metro	MD	TH	36	9	5	22	—	27	620
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	8	4	33	—	37	421
Townes at Hallcrest	VA	TH	42	—	1	41	—	42	486
Estates at Leeland	VA	SF	24	—	—	24	—	24	—
Villas   Preserve at Two Rivers 28'	MD	TH	66	—	—	2	64	66	—
Villas   Preserve at Two Rivers 32'	MD	TH	54	—	—	2	52	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 Totten Mews	DC	TH	37	—	—	—	37	37	—
The Estates at Stone Ridge (6)	VA	SF	35	—	—	—	35	35	—
River Creek Village	VA	SF	100	—	—	—	100	100	—
<b>Total</b>			<b>1,146</b>	<b>200</b>	<b>24</b>	<b>371</b>	<b>551</b>	<b>946</b>	

- (1) "SF" means single family home, "TH" means townhouse, "Condo" means condominium and "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) 18 of these units are subject to statutory moderately priced dwelling unit program.
- (6) 1 of these units is subject to statutory affordable dwelling unit program.
- (7) "Backlog" means we have an executed order with a buyer but the settlement did not occur prior to report date.

**Northern Virginia Market**

The *Estates at Falls Grove* and *The Townes at Falls Grove* projects are located in northern Prince William County near Centreville, Virginia. The properties will be developed as 19 single family homes and 110 townhouses with prices starting from the high \$200's for the townhomes and the mid \$400's for the single-family homes. We are actively selling both the townhomes and the single-family homes in this community. At December 31, 2014, there were 5 single family homes and 5 townhomes in backlog.

The *Townes at Hallcrest* is a community located in Sterling, Virginia. The property will be developed as 42 townhomes with prices starting from the mid \$400's. Sales began in August 2014. At December 31, 2014, there was 1 unit in backlog.

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The *Estates at Leeland* is a community located in Fredericksburg, Virginia. The property was acquired as finished lots and we will construct 24 single-family homes on the site with prices starting from the mid \$300's. Construction and sales activities are anticipated to begin in spring of 2015.

The *Estates at Popkins Lane* is a community located in Alexandria, Virginia. The property is under a land option contract and we plan to construct 12 single-family homes on the site starting from the mid \$800's. Construction and sales activities are anticipated to begin in fall of 2016.

The *Townes at Richmond Station and Richmond Station Multi-family* are projects located in Prince William County, Virginia. The properties are under land option contracts and a rezoning is underway. Rezoning approval is expected in summer of 2015 and development is expected to commence in fall of 2016. We plan to construct 70 townhomes and 103 multi-family units on this site.

The *Estates at Stone Ridge* is a new residential project in Loudoun County, Virginia. The property was under a land option contract as of December 31, 2014 and we closed on the land purchase agreement in February 2015. We will construct 35 single-family homes on the site starting from the low \$600's. Construction and sales activities are anticipated to begin in fall of 2015.

*River Creek Village* is a new residential project located in Leesburg, Virginia. The property is under a land option contract for a rezoning of approximately 100 active adult units. The rezoning is anticipated to be approved in the fall of 2016. Construction and sales are anticipated to begin in the fall of 2017.

### **Maryland**

The *Estates at Emerald Farms* consists of 6 finished single-family lots that we own in a large development of single-family homes in Frederick, Maryland conveniently located near major transportation routes. We anticipate to begin marketing and sales activities on this property in mid-2015.

The *Townes at Shady Grove Metro and Momentum | Shady Grove* projects are residential projects in Rockville, Maryland, adjacent to the Shady Grove metro rail station, the terminus of the red line of the Washington metro. The projects will be developed as 3 single-family homes, 36 upscale townhomes and 117 luxury condominium units. We are actively selling the townhomes in this community and are developing the land for the condos. At December 31, 2014, there were 5 townhomes in backlog.

The *Townes at Maxwell Square project* is located in downtown Frederick, Maryland. The property was acquired as finished lots and we will construct 45 townhomes with selling prices starting from the high-\$300's. We are actively selling in this community. At December 31, 2014, 4 units were in backlog.

The *Villas | Preserve at Two Rivers 28' and Villas | Preserve at Two Rivers 32'* projects are active adult communities in Anne Arundel County, Maryland, near Baltimore. We will construct 120 villas with selling prices starting from the mid \$400's. Development and construction began in December 2014, and sales are anticipated to begin in the spring of 2015.

The *Villas at New Design Road* project is located in Frederick, Maryland. The property is under a land option and we will construct 78 townhomes. Development and construction is expected to commence in fall of 2016.

### **District of Columbia**

The *City Homes at the Hampshires and The Townes at the Hampshires* projects are located in the Northeast quadrant of Washington, D.C. The property has been developed as 111 building lots where we are currently constructing residential units, consisting of 38 single-family homes and 73 townhomes. The Hampshires is located proximate to two metro rail stations just inside the Washington, D.C. – Maryland border. We are actively selling in this community. At December 31, 2014, there were 2 single-family homes and 2 townhomes in backlog.

The *Townes at Totten Mews* are located in the Northeast quadrant of Washington, D.C. This property is under a land contract option and will be developed upon completion as 37 townhomes, located within proximity to a metro rail station just inside the Washington, D.C.-Maryland border. The townhomes will be priced from the high \$400's. Development and construction is expected to commence in 2017.

### **Land/Lot Acquisition and Inventory Management**

As discussed in 'Our Business Strategy' above, we acquire land after we have completed due diligence and generally after we have obtained the rights (known as entitlements) to begin development or construction work resulting in an acceptable number of residential lots. Before we acquire lots or tracts of land, we complete a feasibility study, which includes soil tests, independent environmental studies, other engineering work and financial analysis. We also evaluate the status of necessary zoning and other governmental entitlements required to develop and use the property for home construction.

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We also enter into land/lot option contracts, in which we obtain the right, but generally not the obligation, to buy land or lots at predetermined prices on a defined schedule commensurate with anticipated home closings or planned development. Our option contracts generally are non-recourse, which limits our financial exposure to our earnest money deposited with land and lot sellers and any pre-acquisition due diligence costs we incur. This enables us to control land and lot positions with limited capital investment in order to substantially reduce the risks associated with land ownership and development.

We directly acquire almost all of our land and lot positions. We are a party to a number of joint ventures, all of which are consolidated in our financial statements.

We attempt to mitigate our exposure to real estate inventory risks by:

- Managing our supply of land/lots controlled (owned and optioned) based on anticipated future home closing levels;
- Monitoring market and demographic trends, housing preferences and related economic developments, based on the quality of schools, new job opportunities and local growth initiatives;
- Utilizing land/lot option contracts, where possible;
- Seeking to acquire developed lots which are substantially ready for home construction, where possible;
- Limiting the size of acquired land parcels to smaller tracts, where possible, and controlling our investments in land acquisition, land development and housing inventory to match the expected housing demand;
- Generally commencing construction of custom features or optional upgrades on homes under contract only after the buyer's receipt of mortgage approval and receipt of satisfactory deposits from the buyer; and
- Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each community.

### **Land Development and Home Construction**

Substantially all of our land development and home construction work is performed by subcontractors. Subcontractors typically are selected after a competitive bidding process and retained for a specific community pursuant to a contract that obligates the subcontractor to complete the scope of work at an agreed-upon price. Agreements with the subcontractors and suppliers generally are negotiated for each community. We compete with other homebuilders for qualified subcontractors, raw materials and lots in the markets where we operate. We employ land development supervisors and construction superintendents to monitor land development and home construction activities, participate in major design and building decisions, coordinate the activities of subcontractors and suppliers, review the work of subcontractors for quality and cost control and monitor compliance with zoning and building codes. In addition, our construction superintendents play a significant role in working with our homebuyers by assisting with option selection and home modification decisions, educating buyers on the construction process and instructing buyers on post-closing home maintenance.

Our home designs are selected or prepared in each of our communities to appeal to the tastes and preferences of local homebuyers. We also offer optional interior and exterior features to allow homebuyers to enhance the basic home design and to allow us to generate additional revenues from each home sold. Construction time for our homes depends on the weather, availability of labor, materials and supplies, size of the home, and other factors. We typically complete construction of a home within three to six months.

We typically do not maintain significant inventories of land development or home construction materials, except for work in progress materials for homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources.

### **Marketing and Sales**

We market and sell our homes primarily through commissioned employees. A significant number of our home closings also involve an independent real estate broker representing the buyer. We typically conduct home sales from sales offices and/or furnished model homes in each community. Our sales personnel assist prospective homebuyers by providing floor plans and price information, demonstrating the features and layouts of model homes and assisting with the selection of options and other custom features. We train and inform our sales personnel as to the availability of financing, construction schedules, and marketing and advertising plans. As market conditions warrant, to be competitive, we may provide potential homebuyers with one or more of a variety of incentives, including closing cost assistance, discounts and free upgrades.

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We market our homes and communities to prospective homebuyers and real estate brokers through electronic media, including email, social networking sites and our company website, as well as brochures, flyers, newsletters and promotional events. We also use billboards, radio, magazine and newspaper advertising as necessary. We attempt to position our communities in locations that are desirable to potential homebuyers and convenient to or visible from local traffic patterns, which helps to reduce advertising costs. Model homes play a substantial role in our marketing efforts, and we expend significant effort and resources to create an attractive atmosphere in our model homes.

We manage inventory to build a limited number of speculative homes in our communities. Speculative homes enhance our marketing and sales efforts to prospective homebuyers who are relocating to these markets, as well as to independent brokers, who often represent homebuyers requiring a home within a short time frame. We determine our speculative homes strategy based on local market factors, such as new job growth, the number of job relocations, housing demand and supply (including new homes), seasonality, current sales contract cancellation trends and our past experience in the local markets. We maintain a low level of speculative home inventory in each community based on our current and planned sales pace, and we monitor and adjust speculative home inventory on an ongoing basis as conditions warrant. Speculative homes help to provide us with opportunities to compete effectively with existing homes available in the market and improve our profits and returns on our inventory of owned lots.

### **Quality Control**

We provide our single-family and townhouse home buyers with a one-year limited warranty covering workmanship and materials. The limited warranty is transferable to subsequent buyers not under direct contract with us and requires that all home buyers agree to the definitions and procedures set forth in the warranty. Typically, we provide our condominium home buyers with a two-year limited warranty, or as required by statute. In addition, we periodically provide structural warranty of longer durations pursuant to applicable statutory requirements. From time to time, we assess the appropriateness of our warranty reserves and adjust accruals as necessary. Based on historical experience and when deemed appropriate by us, we will accrue additional warranty reserves. We require our general contractors and sub-contractors to warrant the work they perform and they are contractually obligated to correct defects in their work that arise during the applicable warranty period. We seek to minimize our risk associated with warranty repairs through our quality assurance program and by selecting contractors with good reputations, sufficient resources and adequate insurance. It is typical that there is a gap in the warranty coverage provided by contractors and by home builders, which we have self-insured in the past. It is our experience that the warranty claims which we have self-insured have not been significant in nature but we periodically obtain additional insurance to protect against this unquantifiable risk.

### **Competition**

The real estate development industry is highly competitive. We compete primarily on the basis of price, location, design, quality, service and reputation. We compete with small private builders and large regional or national builders. In addition to competing for home buyers and renters, builders compete for construction financing, raw materials and skilled labor. Additionally, under normal market conditions competition exists within the industry for prime development sites, especially those where developed building lots are available under option lot contracts. We compete with other local, regional and national builders in all of these areas. Many of our competitors have significantly greater financial, sales and marketing and other resources than we have. Some of the national builders that we compete against include Pulte Homes, DR Horton, Toll Brothers, Ryland Homes, NVR, K. Hovnanian and Lennar.

Competition among home builders and multi-family developers is often specific to product types being offered in a particular area. Often we do not find ourselves competing with the large national developers in the urban communities where we develop high-rise and mixed use products. This is primarily because most national builders tend to focus on a narrower range of products than what we offer. We believe this provides us with a distinct advantage in terms of attracting potential home buyers and renters in certain areas. We believe the factors that home buyers consider in deciding whether to purchase or rent from us include the product type, location, value quality, and reputation of the developer. We believe that our projects and product offerings compare favorably on these factors and we continually strive to maintain our reputation of building quality products.

### **Governmental Regulation and Environmental Matters**

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction, density requirements and similar matters. We and our competitors may also be subject to periodic delays or may be precluded entirely from developing in certain communities due to building moratoriums or "slow-growth" or "no-growth" initiatives that could be implemented in the future in the states where we operate. Local and state governments also have broad discretion regarding the imposition of development fees for projects in their jurisdiction.

We and our competitors are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of the environment. Some of the laws to which we and our properties are subject to may impose requirements concerning development in waters of the United States, including wetlands, the closure of water supply wells, management of asbestos-containing materials, exposure to radon and similar issues. The particular environmental laws that apply to any given community vary based on several factors including but not limited to the environmental conditions related to a particular property and the present and former uses of the property. These environmental laws may result in delays, may cause us and our competitors to incur substantial compliance related costs, and may prohibit or severely restrict development in certain environmentally sensitive areas. To date, environmental laws have not had a material adverse impact on our operations.

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**Technology and Intellectual Property**

We utilize our technology infrastructure to facilitate marketing of our projects as well. Through our web site, *www.comstockhomes.com*, our customers and prospective customers receive automatic electronic communications from us on a regular basis. Our corporate marketing directors work with in-house marketing and technology specialists to develop advertising and public relations programs for each project that leverage our technology capabilities. During 2014, we continued to increase our utilization of media and internet based marketing platforms in lieu of print advertisements. We believe that the home buying population will continue to increase its reliance on information available on the internet to help guide its home buying decision. Accordingly, through our marketing efforts, we will continue to seek to leverage this trend in an effort to lower per sale marketing costs while maximizing potential sales.

Our Chief Executive Officer and Chairman of the Board, Christopher Clemente, has licensed his ownership interest in the “Comstock” brand and trademark to us in perpetuity and free of charge. We routinely take steps, and occasionally take legal action, to protect it against infringement from third parties. Mr. Clemente has retained the right to continue to use the “Comstock” brand and trademark including for real estate development projects in our current or future markets that are unrelated to the Company but excluding products developed as for sale homes.

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally have more homes under construction, close more homes and have greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal activity increases our working capital requirements for our homebuilding operations during the third and fourth quarters of our fiscal year. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

**Employees**

At December 31, 2014, we had 58 full-time and 2 part time employees. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe we have good relations with our employees.

**Executive Officers of the Registrant**

Our executive officers and other management employees and their respective ages and positions as of December 31, 2014 are as follows:

<b>Name</b>	<b>Age</b>	<b>Current Position</b>
Christopher Clemente	55	Chairman and Chief Executive Officer
Joseph M. Squeri	49	Chief Financial Officer
Jubal R. Thompson	45	General Counsel and Secretary

*Christopher Clemente* founded Comstock in 1985 and has been a director since May 2004. Since 1992, Mr. Clemente has served as our Chairman and Chief Executive Officer. Mr. Clemente has over 29 years of experience in all aspects of real estate development and home building, and more than 30 years of experience as an entrepreneur.

*Joseph M. Squeri* has served as our Chief Financial Officer since August 2010. Mr. Squeri has more than a decade of public company leadership experience in corporate finance, strategic planning, accounting and operations. From October 2008 to August 2010, Mr. Squeri served as an independent financial and business consultant to privately held companies. From January 2008 to September 2008, Mr. Squeri served as the Executive Vice President-Chief Financial Officer and Treasurer of the Federal Realty Investment Trust (NYSE: FRT) with responsibility for capital markets, financial reporting and investor relations functions. From 1997 through 2007, Mr. Squeri served in a variety of positions at Choice Hotels International (NYSE: CHH), including Chief Financial Officer starting in 1999, and then more significant operating roles culminating with his position as President and Chief Operating Officer. Mr. Squeri is a certified public accountant.

*Jubal R. Thompson* has served as our General Counsel since October 1998 and our Secretary since December 2004. Mr. Thompson has significant experience in the areas of real estate acquisitions and dispositions, real estate and corporate finance, corporate governance, mergers and acquisition and risk management.

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**Item 1A. Risk Factors**

**Risks Relating to Our Business**

We engage in construction and real estate activities, which involve a high degree of risk. Our business, financial condition, operating results and cash flows may be impacted by a number of factors. A discussion of the risks associated with these factors is included below.

***Our operations require significant capital and our continuing operations and future growth depends on the availability of construction, acquisition, and development loans and project level capital raises which may not be available at the time it is needed or at favorable terms.***

The real estate development industry is capital intensive and requires significant expenditures for operations, land purchases, land development and construction as well as potential acquisitions of other homebuilders or developers. In order to maintain our operations, we will need to obtain additional financing. These funds can be generated through public or private debt or equity financings, operating cash flow, additional bank borrowings or from strategic alliances or joint ventures. In light of the current economic climate, we may not be successful in obtaining additional funds in a timely manner, on favorable terms or at all. Moreover, certain of our bank financing agreements contain provisions that limit the type and amount of debt we may incur in the future without our lenders' consent. We have historically utilized construction, acquisition and development loans with respect to our projects. These credit facilities tend to be project-oriented and generally have variable rates and require significant management time to administer. Further, these types of financing are typically characterized by short-term loans, which are subject to call. The availability of borrowed funds, especially for land acquisition and construction financing, has been greatly reduced, and lenders may require us to invest increased amounts of equity in a project in connection with both new loans and the extension of existing loans. In addition, we may need to further refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all. Furthermore, if financial institutions discontinue providing these facilities to us, we would lose our primary source of financing for our operations or the cost of retaining or replacing these credit facilities could increase dramatically. If we do not have access to additional capital or funds to continue our operations or grow our business, we may be required to delay, scale back or abandon some or all of our operating strategies or reduce capital expenditures and the size of our operations. As a result, such an inability to access additional capital would likely cause us to experience a material adverse effect on our business, results of operations and financial condition.

***Our ability to sell homes and, accordingly, our results of operations, will be affected by the availability of mortgage financing to potential home buyers.***

Most home buyers finance their purchase of a new home through third-party mortgage financing. As a result, residential real estate demand is adversely affected by increases in interest rates and decreases in the availability of consumer mortgage financing. Increased monthly mortgage costs and the continued constraints on obtaining financing for potential home buyers have depressed the market for new homes. For instance, recent regulations which tighten underwriting standards have made mortgage financing more difficult to obtain for some of our entry-level home buyers, which has led to decreased demand from these buyers. Even if potential home buyers do not experience difficulty securing mortgage financing for their purchases of new homes, increases in interest rates and decreased mortgage availability or significant alterations to mortgage product types could make it harder for them to sell their existing homes. This could continue to adversely affect our operating results and financial condition.

***Fluctuations in market conditions may affect our ability to sell our land and home inventories at expected prices, or at all, which could adversely affect our revenues, earnings and cash flows.***

We are subject to the potential for significant fluctuations in the market value of our land and home inventories. We must continually locate and acquire new tracts of land if we are to support growth in our home building operations. There is a lag between the time we acquire the land and the time that we can bring communities built on that land to market. This lag time varies from site to site as it is impossible to predict with any certainty the length of time it will take to obtain governmental approvals and building permits. The risk of owning undeveloped land, developed land and homes can be substantial. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions. Inventory carrying costs can be significant and can result in losses in a poorly performing development or market. Material write-downs of the estimated value of our land and home inventories could occur if market conditions deteriorate or if we purchase land or build home inventories at higher prices during stronger economic periods and the value of those land or home inventories subsequently declines during weaker economic periods. We could also be forced to sell homes, land or lots for prices that generate lower profit than we anticipated, or at a loss, and may not be able to dispose of an investment in a timely manner when we find dispositions advantageous or necessary. Furthermore, a continued decline in the market value of our land or home inventories may give rise to additional impairments of our inventory and write-offs of contract deposits and feasibility cost, which may result in a breach of financial covenants contained in one or more of our credit facilities, and possibly cause a default under those credit facilities. Defaults in these credit facilities are often times the responsibility of Comstock, as Comstock is the guarantor of most of its subsidiaries debts.

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During 2014 and 2013, we evaluated all of our projects, to the extent of the existence of any impairment indicators requiring evaluation to determine if carrying amounts were recoverable by evaluating discount rates, sales prices, absorption and our analysis of the best approach to marketing our projects for sale. During 2014, we wrote-off \$2.7 million in land and land development costs related to the Momentum | Shady Grove project. The write-off occurred in December 2014 due to a revision in our previous disposition strategy. During 2013, we wrote-off \$1.1 million in due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred in December 2013 due to the Company's unsuccessful attempt to obtain entitlement approvals. Additionally, during 2013, due to a revision in our previous disposition strategy, we reversed a previously recorded impairment charge of \$0.7 million. See real estate inventories in Note 4 in the accompanying consolidated financial statements.

***Our ability to use our Net Operating Losses ("NOLs") and, in certain circumstances, future built-in losses and depreciation deductions can be negatively affected if there is an "ownership change" as defined under Section 382 of the Internal Revenue Code.***

We currently have approximately \$123 million in federal and state NOLs with a potential value of up to approximately \$48 million in tax savings. These deferred tax assets are currently fully reserved. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 rules, if a change of ownership is triggered, our NOL asset and possibly certain other deferred tax assets may be impaired. We estimate that as of December 31, 2014, the cumulative shift in the Company's stock would not cause an inability to utilize any of our NOLs.

The Company's ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an "ownership change" as defined under Internal Revenue Code Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders over a specified time period (generally three years). Given Internal Revenue Code Section 382's broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company's stock that is outside of the Company's control. In an effort to preserve the availability of these NOLs, in 2011, Comstock adopted an Internal Revenue Code Section 382 stockholder rights plan. This plan expired in May 2014. On March 27, 2015, Comstock adopted a new Internal Revenue Code Section 382 stockholder rights plan (the "Rights Plan") that will be submitted to a vote of the Company's stockholders at the 2015 Annual Meeting of Stockholders. The Rights Plan was adopted to reduce the likelihood of such an unintended "ownership change" and thus assist in preserving the value of these tax benefits. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years.

***Home prices and sales activities in the Washington, D.C. market have a large impact on our results of operations because we conduct mainly all of our business in this market.***

We currently develop and sell homes primarily in the Washington, D.C. market; consequently home prices and sales activities in the Washington, D.C. geographic market have a large impact on our results of operations. Although demand in this area historically has been strong, the historical slowdowns in residential real estate demand and continued constraints on obtaining consumer mortgage financing continue to reduce the likelihood of consumers seeking to purchase new homes. As a result of the specific market and general economic conditions, potential customers may be less willing or able to buy our homes, or we may take longer or incur more costs to build them. We may not be able to recapture increased costs by raising prices in many cases because of market conditions or because we fix our prices in advance of delivery by signing home sales contracts. We may be unable to change the mix of our homes or our offerings or the affordability of our homes to maintain our margins or satisfactorily address changing market conditions in other ways. Our limited geographic diversity means that adverse general economic, weather or other conditions in this market could adversely affect our results of operations and cash flows or our ability to grow our business.

***Because our business depends on the acquisition of new land, the potential limitations on the supply of land could reduce our revenues or negatively impact our results of operations and financial condition.***

We experience competition for available land and developed home sites in the Washington, D.C. market. We have experienced competition for home sites from other, better capitalized, home builders. Our ability to continue our home building activities over the long term depends upon our ability to locate and acquire suitable parcels of land or developed home sites to support our home building operations. If competition for land increases, the cost of acquiring it may rise, and the availability of suitable parcels at acceptable prices may decline. Any need for increased pricing could increase the rate at which consumer demand for our homes declines and, consequently, reduce the number of homes we sell and lead to a decrease in our revenues, earnings and cash flows.

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### ***Our business is subject to governmental regulations that may delay, increase the cost of, prohibit or severely restrict our development and home building projects and reduce our revenues and cash flows.***

We are subject to extensive and complex laws and regulations that affect the land development and home building processes, including laws and regulations related to zoning, permitted land uses, levels of density (number of dwelling units per acre), building design, access to water and other utilities, water and waste disposal and use of open spaces. In addition, we and our subcontractors are subject to laws and regulations relating to worker health and safety. We are also subject to a variety of local, state and federal laws and regulations concerning the protection of health and the environment. In some of our markets, we are required to pay environmental impact fees, use energy saving construction materials and give commitments to provide certain infrastructure such as roads and sewage systems. We are also subject to real estate taxes and other local government fees on real estate purchases. We must also obtain permits and approvals from local authorities to complete residential development or home construction. The laws and regulations under which we and our subcontractors operate, and our and their obligations to comply with them, may result in delays in construction and development, cause us to incur substantial compliance and other increased costs, and prohibit or severely restrict development and home building activity in certain areas in which we operate. If we are unable to continue to develop communities and build and deliver homes as a result of these restrictions or if our compliance costs increase substantially, our revenues, earnings and cash flows may be reduced.

### ***Cities and counties in which we operate have adopted, or may adopt, slow or no-growth initiatives that would reduce our ability to build and sell homes in these areas and could adversely affect our revenues, earnings and cash flows.***

From time to time, certain cities and counties in which we operate have approved, and others in which we operate may approve, various “slow-growth” or “no-growth” initiatives and other similar ballot measures. Such initiatives restrict development within localities by, for example, limiting the number of building permits available in a given year. Approval of slow- or no-growth measures could reduce our ability to acquire land, obtain building permits and build and sell homes in the affected markets and could create additional costs and administration requirements, which in turn could have an adverse effect on our revenues, earnings and cash flows.

Increased regulation in the housing industry increases the time required to obtain the necessary approvals to begin construction and has prolonged the time between the initial acquisition of land or land options and the commencement and completion of construction. These delays increase our costs, decrease our profitability and increase the risks associated with the land inventories we maintain.

Municipalities may restrict or place moratoriums on the availability of utilities, such as water and sewer taps. If municipalities in which we operate take actions like these, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to build in those municipalities. This, in turn, could reduce the number of homes we sell and decrease our revenues, earnings and cash flows.

### ***Limitations on, or reduction or elimination of, tax benefits associated with owning a home could have an adverse effect on the demand for our home products.***

Current tax laws generally permit significant expenses associated with owning a home, to be deducted for the purpose of calculating an individual’s federal, and in many cases, state, taxable income, primarily including mortgage interest expenses and real estate taxes. Proposals have been publicly discussed to limit mortgage interest deductions and to limit the exclusion of gain from the sale of a principal residence. If such proposals were enacted without offsetting provisions, the after-tax cost of owning a home would increase for many of our potential customers and may have an adverse effect on the homebuilding industry in general, as the loss or reduction of homeowner tax deductions could decrease the demand for new homes.

### ***The competitive conditions in the home building industry could increase our costs, reduce our revenues and earnings and otherwise adversely affect our results of operations and cash flows.***

The home building industry is highly competitive and fragmented. We compete with a number of national, regional and local builders for customers, undeveloped land and home sites, raw materials and labor. For example, in the Washington, D.C. market, we compete against multiple publicly-traded national home builders, and many privately-owned regional and local home builders. We do not compete against all of the builders in all of our product types or submarkets, as some builders focus on particular types of projects within those markets, such as large estate homes, that are not in competition with our projects.

We compete primarily on the basis of price, location, design, quality, service and reputation. Some of our competitors have greater financial resources, more established market positions and better opportunities for land and home site acquisitions, greater amounts of unrestricted cash resources on hand, and lower costs of capital, labor and material than us. The competitive conditions in the home building industry could, among other things:

- make it difficult for us to acquire suitable land or home sites in desirable locations at acceptable prices and terms, which could adversely affect our ability to build homes;
- require us to increase selling commissions and other incentives, which could reduce our profit margins;
- result in delays in construction if we experience delays in procuring materials or hiring trades people or laborers;

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- result in lower sales volume and revenues; and
- increase our costs and reduce our earnings.

Our homes also compete with sales of existing homes and condominiums, foreclosure sales of existing homes and condominiums and available rental housing. A continued oversupply of competitively priced resale, foreclosure or rental homes in our markets could adversely affect our ability to sell homes profitably.

***Increases in our cancellation rate could have a negative impact on our home sales revenue and homebuilding margins.***

The cancellation rate of buyers who contracted to buy a home from us but did not close escrow (as a percentage of overall orders) was approximately 16% and 14% during the years ended December 31, 2014 and 2013, respectively. Home order cancellations negatively impact the number of closed homes, net new home orders, home sales revenue and results of operations, as well as the number of homes in backlog. Home order cancellations can result from a number of factors, including declines or slow appreciation in the market value of homes, increases in the supply of homes available to be purchased, increased competition, higher mortgage interest rates, homebuyers' inability to sell their existing homes, homebuyers' inability to obtain suitable financing, including providing sufficient down payments, and adverse changes in economic conditions including unemployment. Upon a home order cancellation, the homebuyer's escrow deposit is returned to the homebuyer (other than certain miscellaneous deposits, which we retain). An increase in the level of our home order cancellations could have a negative impact on our business, prospects, liquidity, financial condition and results of operations.

***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; Joseph Squeri, our Chief Financial Officer; and Jubal Thompson, our General Counsel and Secretary. Our continued success also depends on our ability to attract and retain qualified personnel. We believe that Messrs. Clemente, Squeri and Thompson 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.

***Our sources of liquidity are limited and may not be sufficient to meet our needs.***

We are largely dependent on private placements of debt and equity (which rely heavily on insider participation) to cover our operating expenses and/or fund our liquidity needs. If we are unable to secure this capital from these private placements, we may be forced to reduce our capital expenditures, delay investments, seek other forms of financing and restructure our indebtedness. These alternative measures may not be successful or if successful, may not be on desirable terms and could have an adverse impact on our operations.

***A portion of our business plan involves and may continue to involve mixed-use developments and high-rise projects with which we have less experience.***

We have been involved in and continue to pursue the construction and development of mixed-use and high-rise residential projects. Our experience is largely based on smaller wood-framed structures that are less complex than high-rise construction or the development of mixed-use projects. A mixed-use project is one that integrates residential and non-residential uses in the same structure or in close proximity to each other, on the same land. As we continue to expand into these new product types, we expect to encounter operating, marketing, customer service, warranty and management challenges with which we have less familiarity. If we are unable to successfully manage the challenges of this portion of our business, we may incur additional costs and our results of operations and cash flows could be adversely affected.

***If we experience shortages of labor or supplies or other circumstances beyond our control, there could be delays or increased costs associated with developing our projects, which would adversely affect our operating results and cash flows.***

We, from time to time, may be affected by circumstances beyond our control, including:

- work stoppages, labor disputes and shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers;
- lack of availability of adequate utility infrastructure and services;
- increases in transportation costs for delivery of materials;
- our need to rely on local subcontractors who may not be adequately capitalized or insured; and
- shortages or fluctuations in prices of building materials.

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These difficulties have caused and likely will cause unexpected construction delays and short-term increases in construction costs. In an attempt to protect the margins on our projects, we often purchase certain building materials with commitments that lock in the prices of these materials for 90 to 120 days or more. However, once the supply of building materials subject to these commitments is exhausted, we are again subject to market fluctuations and shortages. We may not be able to recover unexpected increases in construction or materials costs by raising our home prices because, typically, the price of each home is established at the time a customer executes a home sale contract. Furthermore, sustained increases in construction and material costs may, over time, erode our profit margins and may adversely affect our results of operations and cash flows.

***We depend on the availability and skill of subcontractors and their willingness to work with us.***

Substantially all of our land development and construction work is done by subcontractors with us acting as the general contractor or by subcontractors working for a general contractor we select for a particular project. Accordingly, the timing and quality of our land development and construction depends on the availability and skill of those subcontractors. We do not have long-term contractual commitments with subcontractors or suppliers. Although we believe that our relationships with our suppliers and subcontractors are good, we cannot assure that skilled subcontractors will continue to be available at reasonable rates and in the areas in which we conduct our operations. The inability to contract with skilled subcontractors or general contractors at reasonable costs on a timely basis could limit our ability to build and deliver homes and could erode our profit margins and adversely affect our results of operations and cash flows.

***Construction defect and product liability litigation and claims that arise in the ordinary course of business may be costly or negatively impact sales, which could adversely affect our results of operations and cash flows.***

Our home building business is subject to construction defect and product liability claims arising in the ordinary course of business. These claims are common in the home building industry and can be costly. Among the claims for which developers and builders have financial exposure are property damage, environmental claims and bodily injury claims and latent defects that may not materialize for an extended period of time. Damages awarded under these suits may include the costs of remediation, loss of property and health-related bodily injury. In response to increased litigation, insurance underwriters have attempted to limit their risk by excluding coverage for certain claims associated with environmental conditions, pollution and product and workmanship defects. As a developer and a home builder, we may be at risk of loss for mold-related property, bodily injury and other claims in amounts that exceed available limits on our comprehensive general liability policies and those of our subcontractors. In addition, the costs of insuring against construction defect and product liability claims are high and the amount of coverage offered by insurance companies is limited. Uninsured construction defect, product liability and similar claims, claims in excess of the limits under our insurance policies, defense costs and the costs of obtaining insurance to cover such claims could have a material adverse effect on our revenues, earnings and cash flows.

***Increased insurance risk could negatively affect our business, results of operations and cash flows.***

Insurance and surety companies have reassessed many aspects of their business and, as a result, may take actions that could negatively affect our business. These actions could include increasing insurance premiums, requiring higher self-insured retentions and deductibles, requiring additional collateral on surety bonds, reducing limits, restricting coverage's, imposing exclusions, and refusing to underwrite certain risks and classes of business. Any of these actions may adversely affect our ability to obtain appropriate insurance coverage at reasonable costs, which could have a material adverse effect on our business. Additionally, coverage for certain types of claims, such as claims relating to mold, is generally unavailable. Further, we rely on surety bonds, typically provided by insurance companies, as a means of limiting the amount of capital utilized in connection with the public improvement sureties that we are required to post with governmental authorities in connection with land development and construction activities. The cost of obtaining these surety bonds is, from time to time, unpredictable and these surety bonds may be unavailable to us for new projects. These factors can delay or prohibit commencement of development projects and adversely affect revenue, earnings and cash flows.

***We are subject to warranty claims arising in the ordinary course of business that could be costly.***

We provide service warranties on our homes for a period of one year or more post closing and provide warranties on occasion as required by applicable statutes for extended periods. We self-insure our warranties from time to time and reserve an amount we believe will be sufficient to satisfy any warranty claims on homes we sell and periodically purchase insurance related coverage to cover the costs associated with potential claims. Additionally, we attempt to pass much of the risk associated with potential defects in materials and workmanship on to the subcontractors performing the work and the suppliers and manufacturers of the materials and their insurance carriers. In such cases, we still may incur unanticipated costs if a subcontractor, supplier, manufacturer or its insurance carrier fails to honor its obligations regarding the work or materials it supplies to our projects. If the amount of actual claims materially exceeds our aggregate warranty reserves, any available insurance coverage and/or the amounts we can recover from our subcontractors and suppliers, our operating results and cash flows would be adversely affected.

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***Our business, results of operations and financial condition may be affected by adverse weather conditions or natural disasters.***

Adverse weather conditions, such as extended periods of rain, snow or cold temperatures, and natural disasters, such as hurricanes, tornadoes, floods and fires, can delay completion and sale of homes, damage partially complete or other unsold homes in our inventory and/or decrease the demand for homes or increase the cost of building homes. To the extent that natural disasters or adverse weather events occur, our business and results may be adversely affected. To the extent our insurance is not adequate to cover business interruption losses or repair costs resulting from these events, our results of operations and financial conditions may be adversely affected.

***We are subject to certain environmental laws and the cost of compliance could adversely affect our business, results of operations and cash flows.***

As a current or previous owner or operator of real property, we may be liable under federal, state, and local environmental laws, ordinances and regulations for the costs of removal or remediation of hazardous or toxic substances on, under or in the properties or in the proximity of the properties we develop. These laws often impose liability whether or not we knew of, or were responsible for, the presence of such hazardous or toxic substances. The cost of investigating, remediating or removing such hazardous or toxic substances may be substantial. The presence of any such substance, or the failure to promptly remediate any such substance, may adversely affect our ability to sell the property, to use the property for our intended purpose, or to borrow funds using the property as collateral. In addition, the construction process involves the use of hazardous and toxic materials. We could be held liable under environmental laws for the costs of removal or remediation of such materials. In addition, our existing credit facilities also restrict our access to the loan proceeds if the properties that are used to collateralize the loans are contaminated by hazardous substances and require us to indemnify the bank against losses resulting from such occurrence for significant periods of time, even after the loan is fully repaid.

Our Eclipse project was part of a larger development located at Potomac Yard in Northern Virginia. Potomac Yard was formerly part of a railroad switching yard contaminated as a result of rail-related activities. Remediation of the property was conducted under supervision of the U.S. Environmental Protection Agency, or EPA, in coordination with state and local authorities. In 1998, federal, state and local government agencies authorized redevelopment of the property. Our development at the project was consistent with those authorizations. Although concentrations of contaminants remain on the property under the EPA-approved remediation work plan, the EPA has determined that they do not present an unacceptable risk to human health or the environment. However, the EPA's determination does not preclude private lawsuits and it is possible that we could incur costs to defend against any claims that may be brought in the future relating to any such contaminants.

***If we are not able to develop our communities successfully, results of operations and financial condition could be adversely impacted.***

Before a community generates any revenues, material expenditures are required to acquire land, to obtain development approvals and to construct significant portions of project infrastructure, amenities, model homes and sales facilities. It can take a year or more for a community development to achieve cumulative positive cash flow. Our inability to develop and market our communities successfully and to generate positive cash flows from these operations in a timely manner would have a material adverse effect on our ability to service our debt and to meet our working capital requirements.

***Our operating results, including revenue, earnings, and losses, have varied over time due to a number of conditions. If we are unable to successfully manage these conditions or factors, our operating results may continue to vary and may also suffer.***

The homebuilding industry is cyclical and we expect to experience variability in our revenues and net income. The volume of sales contracts and closings typically varies from month to month and from quarter to quarter depending on several factors, including the stages of development of our projects, the uncertain timing and cost of real estate closings, weather and other factors beyond our control. In the early stages of a project's development, we incur significant start-up costs associated with, among other things, project design, land acquisition and development, construction and marketing expenses. Since revenues from sales of properties are generally recognized only upon the transfer of title at the closing of a sale, no revenue is recognized during the early stages of a project unless land parcels or residential home sites are sold to other developers. Periodic sales of properties may be insufficient to fund operating expenses. Further, if sales and other revenues are not adequate to cover operating expenses, we will be required to seek sources of additional operating funds. Accordingly, our financial results will vary from community to community and from time to time.

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### ***Acts of war or terrorism may seriously harm our business.***

Acts of war, any outbreak or escalation of hostilities between the United States and any foreign power or acts of terrorism, may cause disruption to the entire U.S. economy, or the Washington, D.C. metro area, cause shortages of building materials, increase costs associated with obtaining building materials, result in building code changes that could increase costs of construction, affect job growth and consumer confidence, or cause economic changes that we cannot anticipate, all of which could reduce demand for our homes and adversely impact our revenues, earnings and cash flows.

### ***We do not own the Comstock brand or trademark, but use the brand and trademark pursuant to the terms of a perpetual license granted by Christopher Clemente, our Chief Executive Officer and Chairman of the Board.***

Our Chief Executive Officer and Chairman of the Board, Christopher Clemente, has licensed his ownership interest in the “Comstock” brand and trademark to us in perpetuity and free of charge. We routinely take steps, and occasionally take legal action, to protect it against infringement from third parties. Mr. Clemente has retained the right to continue to use the “Comstock” brand and trademark individually and through his affiliates, with respect to real estate development projects in our current or future markets that are unrelated to the Company but excluding products developed as new homes for sale. We will be unable to control the quality of projects undertaken by Mr. Clemente or others using the “Comstock” brand and trademark and therefore will be unable to prevent any damage to its goodwill that may occur. Consequently, we are at risk that our brand could be damaged which could have a material adverse effect on our business, operations and cash flows.

### ***Information technology failures or data security breaches could harm our business.***

We use information technology and other computer resources to perform important operational and marketing activities and to maintain our business records. Certain of these resources are provided to us and/or maintained by data hosting facilities and third party service providers to assist in conducting our day to day operations. Our computer systems and those of our third-party providers are subject to damage or interruption from power outages, computer and telecommunication failures, computer viruses, hackers, unauthorized accesses, IT security breaches, natural disasters, usage errors by our employees or contractors, etc. Although we have implemented administrative and technical controls to address, mitigate and minimize these IT security issues, a significant and extended disruption of or breach of security related to our computer systems and third party service providers may damage our reputation and cause us to lose customers, sales and revenue, result in the unintended misappropriation of proprietary, personal and confidential information and require us to incur significant expense to remediate or otherwise resolve these issues.

### **Risks Related to our Common Stock and Level of Indebtedness**

#### ***Our level of indebtedness may harm our financial condition and results of operations.***

Our consolidated indebtedness as of December 31, 2014 is approximately \$45.9 million. Of this amount, approximately \$28.7 million represents debt under our credit facilities and project related loans that mature prior to December 31, 2015. We are in active discussions with our lenders with respect to these maturities and are seeking extensions and modifications to the loans as necessary. If, for any reason, we are unable to refinance, extend or modify the existing indebtedness, these projects may be in default of their existing obligations, which may result in a foreclosure on the project collateral and loss of the project. Any such events could have a material adverse effect on our business, financial condition and results of operations.

Our level of indebtedness could impact our future operations in many important ways, including, without limitation, by:

- Requiring a portion of our cash flows from operations to be dedicated to the payment of any interest or amortization required with respect to outstanding indebtedness;
- Increasing our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure; and
- Limiting our ability to obtain additional financing for working capital, acquisitions, capital expenditures, general corporate and other purposes.

At the scheduled maturity of our credit facilities or in the event of an acceleration of a debt facility following an event of default, the entire outstanding principal amount of the indebtedness under the facility, together with all other amounts payable thereunder from time to time, will become due and payable. It is possible that we may not have sufficient funds to pay such obligations in full at maturity or upon such acceleration. If we default and are not able to pay any such obligations due, our lenders have liens on substantially all of our assets and could foreclose on our assets in order to satisfy our obligations.

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### ***Our stock price has been volatile and we expect that it will continue to be volatile.***

Our stock price has been volatile, and we expect it will continue to be volatile. For example during the year ended December 31, 2014, the closing price of our common stock ranged from a high of \$2.03 to a low of \$0.85. The volatility of our stock price may be due to many factors including:

- quarterly variations in our operating results;
- general conditions in the home building industry;
- interest rate changes;
- changes in the market's expectations about our operating results;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning our Company or of the home building industry in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends in our markets;
- changes in laws and regulations affecting our business;
- material announcements by us or our competitors;
- material announcements by our construction lenders or the manufacturers and suppliers we use;
- sales of substantial amounts of Class A common stock by our directors, executive officers or significant stockholders or the perception that such sales could occur; and
- general economic and political conditions such as recessions and acts of war or terrorism.

Investors in our Class A common stock may not be able to resell their shares of Class A common stock following periods of volatility because of the market's adverse reaction to the volatility of the stock price. Our Class A common stock may not trade at the same levels as the stock of other homebuilders, and the market in general may not sustain its current prices.

### ***We may not be able to maintain compliance with The NASDAQ Capital Market's continued listing requirements.***

Our common stock is listed on The NASDAQ Capital Market. In order to maintain the listing of our Class A common stock on The NASDAQ Capital Market, we must meet minimum financial, operating and other requirements, including requirements for a minimum amount of capital, a minimum price per share and active operations. We may fail to satisfy certain of these listing requirements. In particular, our Class A common stock has occasionally traded at less than one dollar per share, which is the minimum price required for continued listing on The NASDAQ Capital Market. If our shares of Class A common stock trade at a price below the NASDAQ minimum for an extended period, we would be required to take steps to increase the price, or suffer delisting from The NASDAQ Capital Market. The most likely step to increase the trading price would be a reverse split of outstanding shares, which would result in each existing shareholder receiving one new share in exchange for some larger number of shares. If we fail to satisfy the continued listing requirements, NASDAQ may take steps to delist our stock. A delisting of our common stock could adversely affect the market liquidity of our common stock, our ability to obtain financing and our ability to fund our operations.

### ***Investors in our Class A common stock may experience dilution with the future issuance of stock, exercise of stock options and warrants, the grant of restricted stock and issuance of stock in connection with our capital raising transactions and acquisitions of other companies.***

From time to time, we have issued and we will continue to issue stock options or restricted stock grants to employees and non-employee directors pursuant to our equity incentive plan. We expect that these options or restricted stock grants will generally vest commencing one year from the date of grant and continue vesting over a four-year period. Investors may experience dilution as the options vest and are exercised by their holders and the restrictions lapse on the restricted stock grants. In addition, we may issue stock to raise capital to fund our growth initiatives, in connection with acquisitions of other companies, or warrants in connection with the settlement of obligations and or indebtedness with vendors and suppliers, which may result in investors experiencing dilution.

### ***Substantial sales of our Class A common stock, or the perception that such sales might occur, could depress the market price of our Class A common stock.***

A substantial amount of the shares of our Class A common stock are eligible for immediate resale in the public market. Any sales of substantial amounts of our Class A common stock in the public market, or the perception that such sales might occur, could depress the market price of our Class A common stock.

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### ***The holders of our Class B common stock exert control over us and thus limit the ability of other stockholders to influence corporate matters.***

Mr. Christopher Clemente and Mr. Greg Benson, a member of our board of directors, own 100% of our outstanding Class B common stock, which, together with their shares of Class A common stock, represent approximately 76% of the combined voting power of all classes of our voting stock as of December 31, 2014. As a result, Messrs. Clemente and Benson, acting together, have control over us, the election of our board of directors and our management and policies. Messrs. Clemente and Benson, acting together, also have control over all matters requiring stockholder approval, including the amendment of certain provisions of our amended and restated certificate of incorporation and bylaws, the approval of any equity-based employee compensation plans and the approval of fundamental corporate transactions, including mergers. In light of this control, other companies could be discouraged from initiating a potential merger, takeover or any other transaction resulting in a change of control. Such a transaction potentially could be beneficial to our business or to our stockholders. This may in turn reduce the price that investors are willing to pay in the future for shares of our Class A common stock.

### ***The limited voting rights of our Class A common stock could limit its attractiveness to investors and its liquidity and, as a result, its market value.***

The holders of our Class A common stock and Class B common stock generally have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to 15 votes per share on all matters to be voted on by stockholders. The difference in the voting rights of the Class A common stock and Class B common stock could diminish the value of the Class A common stock to the extent that investors or any potential future purchasers of our Class A common stock ascribe value to the superior voting rights of the Class B common stock.

### ***It may be difficult for a third party to acquire us, which could inhibit stockholders from realizing a premium on their stock price.***

We are subject to the Delaware anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Delaware corporations from engaging in business combinations with any stockholder, including all affiliates and employees of a stockholder, who owns 15% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 15% or more of the corporation's voting stock unless specified conditions are met.

Our amended and restated certificate of incorporation and bylaws contain provisions that have the effect of delaying, deferring or preventing a change in control that stockholders could consider favorable or beneficial. These provisions could discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- a staggered board of directors, so that it would take three successive annual meetings to replace all directors;
- a prohibition of stockholders taking action by written consent; and
- advance notice requirements for the submission by stockholders of nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

### ***Our issuance of shares of preferred stock could delay or prevent a change of control of us.***

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 20,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders, even where stockholders are offered a premium for their shares. The issuance of shares of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of Class A common stock, including the loss of voting control. We have no preferred stock currently outstanding and we do not have any present plans to issue any shares of preferred stock.

### **Item 1B. Unresolved Staff Comments**

Not applicable.

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**Item 2. Properties**

On December 31, 2009, the Company, through its affiliate, Comstock Property Management, L.C., entered into a three-year lease for approximately 7,620 square feet of office space for its corporate headquarters at 1886 Metro Center Drive, Reston, Virginia from Comstock Asset Management, L.C., an affiliate wholly-owned by our Chief Executive Officer. On September 19, 2012, the Company amended the lease to add an additional 2,436 square feet of office space, or a total of 10,056 square feet, for its corporate headquarters, with an effective date of July 1, 2012. Concurrent with the amendment, the Company agreed to extend the term of the lease for five-years from the effective date of the amendment. This property is suitable and adequate to meet our current needs. See related party transactions in Note 10 in the accompanying consolidated financial statements.

For information regarding the properties at our communities, see Item 1 ‘Business – Our Communities.’

**Item 3. Legal Proceedings**

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 or 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.

**Item 4. Mine Safety Disclosures**

Not applicable.

PART II

**Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Market for Common Stock**

Our Class A common stock is traded on NASDAQ under the symbol “CHCI”. The following table sets forth the high and low sale prices of our Class A common stock, as reported on NASDAQ, for the periods indicated:

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended 2014</b>		
First quarter	\$2.03	\$1.61
Second quarter	\$1.59	\$1.15
Third quarter	\$1.40	\$1.10
Fourth quarter	\$1.21	\$0.85
	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended 2013</b>		
First quarter	\$1.96	\$0.48
Second quarter	\$3.65	\$1.65
Third quarter	\$2.92	\$1.74
Fourth quarter	\$2.24	\$1.62

**Holders**

As of December 31, 2014, there were approximately 36 record holders of our Class A common stock. As of December 31, 2014, there were two holders of our Class B common stock.

**Dividends**

We have never paid any cash dividends on our common stock and do not anticipate doing so in the foreseeable future.

**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 3 and the description of the CGF Private Placement in Notes 8 and 9 in 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 of 1933 (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.

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[Table of Contents](#)**Issuer Purchases of Equity Securities**

In November 2014, our 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 in one or more open market or privately negotiated transactions. In connection with its approval of the share repurchase program, the board of directors terminated the Company's former share repurchase program that was adopted in February 2006.

During the quarter ended December 31, 2014, we repurchased 95,400 shares of our Class A common stock under the repurchase program. There were no Class A common stock repurchases during the nine months ended September 30, 2014. As of December 31, 2014, 2.9 million shares of our Class A common stock authorized for repurchase remain available for repurchase.

The following table provides information regarding Class A common stock repurchased during the three months ended December 31, 2014:

<u>Period</u>	<u>Total Number of Class A Common Stocks Purchased Under the Program</u>	<u>Average Price Paid per Class A Common Stock (1)</u>	<u>Total Number of Class A Common Stock Purchased as Part of Publicly Announced Programs</u>	<u>Maximum Number of Class A Common Stock that May Yet be Purchased Under the Program</u>
October 1-31, 2014	—	\$ —	—	
November 1-30, 2014	85,200	\$ 1.08	85,200	
December 1-31, 2014	10,200	\$ 1.06	10,200	2,904,600
	<u>95,400</u>		<u>95,400</u>	

(1) Average price paid per share includes total commissions of approximately \$2.

**Item 6. Selected Financial Data**

Not Applicable.

**Item 7. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K, particularly under the headings "Risk Factors" and "Cautionary Notes Regarding Forward-looking Statements."

**Overview**

We are a multi-faceted real estate development and services company. We have substantial experience with building a diverse range of products including multi-family, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. We operate our business through three segments: Homebuilding, Apartment Buildings and Real Estate Services as further discussed in Note 2 of our consolidated financial statements. We are currently focused on the Washington, D.C. market, which is the eighth largest metropolitan statistical area in the United States.

*Homebuilding*

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

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### *Multi-family*

For Comstock's multi-family sector, we develop 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 assets within our own portfolio. Operating the assets for our own account affords us the flexibility of converting the units to condominiums in the future. When developing rental communities, we design our products to be affordable for tenants that fit one of two groups: (i) young first-time renters or (ii) renters by choice.

### *Real Estate Services*

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

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

## **Recent Developments**

### ***Comstock Growth Fund, L.C.***

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 by CGF up to \$20 million. Purchasers other than CDS who purchase an amount of interests 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 "Original Promissory Note"). The loan bears 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 December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, management and members of the Company's board of directors who participated in the CGF Private Placement (the "Amended Private Placement"). Under the Amended Private Placement, in addition to the warrants as described above, purchasers of the interests will receive a certain amount of shares of our Class A common stock that CGF acquired, depending upon the investment amount.

Simultaneously, on December 18, 2014, the Company entered into an amended and restated Original Promissory Note pursuant to which the maximum amount for borrowing was increased from \$20 million to \$25 million. All of the other terms of the Original Promissory Note remained the same. See notes 8, 9 and 10 in the accompanying consolidated financial statements for further discussions on CGF.

### ***Comstock Two Rivers, L.C.***

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 \$0.6 million.

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### ***Comstock Investors VII, L.C.***

On October 15, 2014, the Company redeemed the remaining non-controlling interests from the Class B members of Comstock Investors VII, L.C. by paying \$5.4 million representing final priority returns and capital return.

### ***Impairment Related to the Momentum | Shady Grove***

We evaluate all of our projects to the extent of the existence of any impairment indicators requiring evaluation to determine if recorded carrying amounts are recoverable by evaluating discount rates, sales prices, absorption and our analysis of the best approach to marketing our projects for sale.

During 2014, we wrote-off \$2.7 million in land and land development costs related to the Momentum | Shady Grove project based on current economic and financial data. The write-off occurred in December 2014 due to a revision in our previous disposition strategy. Impairment charges are recorded as a reduction in our capitalized land and/or house costs. The impairment charge was calculated using a discounted cash flow analysis model, which is dependent upon several subjective factors, including the selection of an appropriate discount rate, estimated average sales prices and estimated sales rates. In performing our impairment modeling, we must select what we believe is an appropriate discount rate based on current market cost of capital and returns expectations.

### **Liquidity and Capital Resources**

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and should continue to include, private equity and debt placements (which has included significant participation from Company insiders), funds derived from various secured and unsecured borrowings to finance acquisition, development and construction on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, finished and raw building lots and the potential sale of public debt and equity securities. The Company is involved in ongoing discussions with lenders and equity sources in an effort to provide additional growth capital to fund various new business opportunities. See Note 8 for more details on our credit facilities and Note 3 for details on private placement offerings in 2014.

As of December 31, 2014, the Company has \$28.7 million of its credit facilities and project related loans that mature during 2015. We are in active discussions with our lenders with respect to these maturities and are seeking extensions and modifications to the loans as necessary. The current performance of the projects and our early discussions with our lenders indicates that we will likely be successful in extending or modifying these loans, though no assurances can be made that we will be successful in these efforts. We are anticipating that with successful resolution of those discussions with our lenders, the recently completed capital raises from the aforementioned private placements, current available cash on hand and additional cash from settlement proceeds at existing and under development communities, the Company should have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that the Company will be successful in its efforts.

### ***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 projects. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. As of December 31, 2014, the Company has \$28.7 million of its credit facilities and project related loans that mature during 2015. We are in active discussions with our lenders with respect to these maturities and are seeking extensions and modifications to the loans as necessary. The current performance of the projects and our early discussions with our lenders indicates that we will likely be successful in extending or modifying these loans, though no assurances can be made that we will be successful in these efforts. See Note 8 in the accompanying consolidated financial statements for additional information on our credit facilities.

### ***Cash Flow***

Net cash used in operating activities was \$5.2 million for the year ended December 31, 2014. The \$5.2 million usage in 2014 was primarily due to \$3.7 million usage of cash for acquisition of inventories, \$2.1 million in additional deposits made to secure land purchase contracts as the Company continues its growth, partially offset by \$0.6 million higher accrued interest and \$0.2 million in cash collected from trade receivables. The \$4.3 million cash used in operating activities in 2013 was primarily due to the \$12.4 million usage to acquire inventories as the Company positions itself for growth, partially offset by \$2.8 million in lower accounts payable and accrued liabilities, \$1.3 million in cash collected from trade receivables and \$2.7 million in net operating income.

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Net cash provided by investing activities was \$0.3 million for the year ended December 31, 2014. This was primarily attributable to the release of insurance deposit of \$1.0 million offset by \$0.3 million of deposits to escrow accounts held as collateral for certain letters of credit, \$0.3 million in purchase of capital assets and \$0.2 million in net note receivable originated to a third party in the third quarter of 2014. Net cash provided by investing activities was \$1.2 million for the year ended December 31, 2013, primarily attributable to the release of restricted cash related to an insurance deposit.

The year over year decrease in net cash provided by financing activities of \$10.9 million was as follows:

- Cash payments for distributions to non-controlling interests increased by \$12.2 million primarily due to the Comstock VII Class B Members priority interest payments and principal pay-off of \$8.6 million and \$0.9 million in priority interest payments and partial principal returns to Comstock VIII Class B Members.
- Net cash borrowed from notes payable increased by \$13.3 million primarily due to the \$11.7 million net proceeds received from Comstock Growth Fund L.C.
- Cash received from non-controlling interests decreased by \$11.9 million. This decrease was due primarily to contributions received from Comstock VII Class B Members of \$7.1 million and Comstock VIII Class B Members of \$3.9 million in 2013 compared to none in 2014.

### ***Stock Repurchase Program***

In November 2014, our 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 in one or more open market or privately negotiated transactions. For the year ended December 31, 2014, we purchased 95,400 shares of our Class A common stock under the repurchase program. At December 31, 2014, 2.9 million shares of our Class A common stock authorized for repurchase remain available for repurchase. See Item 5 for further discussion on our common stock repurchase program.

### **Recent Accounting Pronouncements**

Information regarding recent accounting pronouncements is contained in Note 2 in the accompanying consolidated financial statements.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), which require us to make certain estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates including those related to the consolidation of variable interest entities, revenue recognition, impairment of real estate inventories, warranty reserve and our environmental liability exposure. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates.

A summary of significant accounting policies is provided in Note 2 in the accompanying consolidated financial statements. The following section is a summary of certain aspects of those accounting policies that require the most difficult, subjective or complex judgments and estimates.

#### ***Real estate inventories***

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

For assets held for development and use, a write-down to estimated fair value is recorded when the net carrying value of the property exceeds its estimated undiscounted future cash flows. Estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. These evaluations are made on a property-by-property basis whenever events or changes in circumstances indicate that the net book value may not be recoverable.

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If the project is considered held for sale, it is valued at the lower of cost or fair value less estimated selling costs. The evaluation takes into consideration the current status of the property, carrying costs, costs of disposition, various restrictions, and any other circumstances that may affect fair value including management's plans for the property. As of December 31, 2014 and 2013, the Company did not have any development projects considered to be held for sale.

### ***Revenue recognition***

We recognize revenues and related profits or losses from the sale of residential properties and units, finished lots and land sales when closing has occurred, full payment has been received, title and possession of the property has transferred to the buyer and we have no significant continuing involvement in the property. Other revenues include revenue from land sales, rental revenue from leased multi-family units, which is recognized ratably over the terms of the respective leases, and revenue earned from management and administrative support services provided, which is recognized as the services are provided.

We consider revenue to be from homebuilding when there is a structure built or being built on the lot when delivered. Sales of lots occur, and are included in other revenues, when we sell raw land or finished home sites in advance of any home construction.

### ***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. Because the Company typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. 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. This reserve is an estimate and actual warranty costs could vary from these estimates.

### ***Equity-based compensation***

Compensation costs related to our equity-based compensation plans are recognized within our income statement, or capitalized to real estate inventories for awards issued to employees that are involved in production. The costs recognized are based on the grant-date fair value. Compensation costs for share-based grants are recognized on a straight-line basis over the requisite service period for the entire award (from the date of grant through the period of the last separately vesting portion of the grant).

The fair value of each option award is calculated on the date of grant using the Black-Scholes option pricing model and certain subjective assumptions. Expected volatilities are calculated based on our historical trading activities. We estimate forfeitures using a weighted average historical forfeiture rate. Our estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The risk-free rate for the periods is based on the U.S. Treasury rates in effect at the time of grant. The expected term of options is based on the simplified method which assumes that the option will be exercised midway between the vesting date and the contractual term of the option. The Company is able to use the simplified method as the options qualify as "plain vanilla" options as defined by ASC 718 – *Stock Compensation*.

### ***Income taxes***

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

### ***Use of estimates***

The preparation of the financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates are utilized in the valuation of real estate inventories, valuation of deferred tax assets, valuation of equity-based compensation, capitalization of costs, consolidation of variable interest entities and warranty reserves.

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[Table of Contents](#)**Results of Operations*****Year ended December 31, 2014 compared to year ended December 31, 2013****Orders, backlog and cancellations*

The following table summarizes certain information related to new orders, settlements and backlog for the twelve months ended December 31, 2014 and 2013.

	Twelve Months Ended December 31,	
	2014	2013
Gross new orders	116	147
Cancellations	18	21
Net new orders	98	126
Gross new order revenue	\$ 54,989	\$ 70,282
Cancellation revenue	\$ 7,518	\$ 9,554
Net new order revenue	\$ 47,471	\$ 60,728
Average gross new order price	\$ 474	\$ 478
Settlements	102	107
Settlement revenue - homebuilding	\$ 47,378	\$ 53,806
Average settlement price	\$ 464	\$ 503
Backlog units	24	28
Backlog revenue	\$ 12,430	\$ 12,343
Average backlog price	\$ 518	\$ 441

*Revenue – homebuilding*

The number of units delivered for the year ended December 31, 2014 decreased by 5 to 102 as compared to 107 units for the year ended December 31, 2013. Average revenue per unit delivered decreased by approximately \$39 to \$464 for the year ended December 31, 2014 as compared to \$503 for the year ended December 31, 2013. Revenue from homebuilding decreased by \$6.4 million to \$47.4 million for the year ended December 31, 2014 as compared to \$53.8 million for the year ended December 31, 2013. For the year ended December 31, 2014, the Company settled 102 units (37 units at The Hampshires, 13 units at Eastgate, 35 units at Falls Grove, 8 units at Maxwell Square, and 9 units at Shady Grove), as compared to 107 units (33 units at The Hampshires, 53 units at Eastgate, 2 units at Penderbrook and 19 units at Eclipse) for the year ended December 31, 2013. In addition, our homebuilding gross margin percentage for the year ended December 31, 2014 decreased by 3.2% to 19.5%, as compared to 22.7% for the year ended December 31, 2013. The decrease noted in revenue, average sales price and margins was a result of the decrease in the number of homes settled, mix of units settled and the Company exiting impaired legacy projects. Excluding the impact of the release of a portion of the warranty reserve discussed in Note 2 in the accompanying consolidated financial statements, gross margin percentage was 19.1% for the year ended December 31, 2014.

*Revenue – other*

Revenue – other decreased approximately \$0.2 million to \$0.6 million during the year ended December 31, 2014, as compared to \$0.8 million for the year ended December 31, 2013. The decrease primarily relates to revenue from real estate services as the number of rental units at Penderbrook and Eclipse continued to decline until all units were sold in the second quarter of 2013.

*Cost of sales – homebuilding*

Cost of sales – homebuilding for the year ended December 31, 2014 decreased by \$3.5 million to \$38.1 million as compared to \$41.6 million for the year ended December 31, 2013. The number of units settled and mix of homes settled during the year ended December 31, 2014 accounted for the decrease in cost of sales.

*Cost of sales – other*

Cost of sales – other decreased approximately \$0.4 million to \$0.4 million during the year ended December 31, 2014 as compared to \$0.8 million for the year ended December 31, 2013. This 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 of 2013 leading to a decline in the number of units used in rental operations.

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### *Impairment charges and write-offs*

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, absorption and our analysis of the best approach to marketing our projects for sale.

During 2014, we wrote-off \$2.7 million in land and land development costs related to the Momentum | Shady Grove project based on current economic and financial data. The write-off occurred in December 2014 due to a revision in our previous disposition strategy. During 2013, we wrote-off \$1.1 million in due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred in December 2013 due to the Company's unsuccessful attempt to obtain entitlement approvals.

Due to a change to an individual unit retail sale strategy from our previous bulk sale disposition strategy, we reversed a previously recorded impairment charge of \$0.7 million during the year ended December 31, 2013. See real estate inventories in Note 4 in the accompanying consolidated financial statements for further discussion and the basis for determining the impairment charges, reversals and write-offs.

### *Sales and marketing expenses*

Sales and marketing expenses for the year ended December 31, 2014 increased by \$0.1 million to \$2.1 million, as compared to \$2.0 million for the year ended December 31, 2013. The increase in sales and marketing expenses over the prior year period is directly attributable to increases in active developments and marketing efforts.

### *General and administrative expenses*

General and administrative expenses for the year ended December 31, 2014 increased by \$0.9 million to \$7.6 million, as compared to \$6.7 million for the year ended December 31, 2013. The primary increase in general and administrative expenses over the prior year is attributable to the one-time charge of \$0.6 million, offset by \$0.1 million in forfeited stock compensation, 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 14 to the consolidated financial statements. In addition, payroll and related expenses increased by approximately \$0.4 million primarily due to the increase in head count as the Company continued its growth and actively pursuing new developments to expand on its business.

### *Interest, real estate taxes and indirect costs related to inactive projects*

Interest, real estate taxes and indirect costs related to inactive projects for the year ended December 31, 2014 decreased to \$26 from \$408 for the year ended December 31, 2013. The primary reason for the decline is due to having fewer legacy projects in inactive communities in 2014 compared to the same period in the prior year as the Company grows and introduces new home inventory and development activities.

### *Income taxes*

The effective tax rate for the years ended December 31, 2014 and 2013 was 4.5% and 17.1%, respectively. This resulted in \$0.4 million and \$0.3 million in tax expense for the twelve month periods ended December 31, 2014 and 2013, respectively. This tax arises from taxable income generated in the District of Columbia against which the Company has no tax net operating losses to offset.

## **Seasonality and Weather**

Our business is affected by seasonality with respect to orders and deliveries. In the market in which we operate, the primary selling season is from January through May as well as September and October. Orders in other months typically are lower. In addition, the markets in which we operate are four-season markets that experience significant periods of rain and snow. Construction cycles and efforts are often adversely affected by severe weather.

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**Inflation**

Inflation can have a significant impact on our business performance and the home building industry in general. Rising costs of land, transportation costs, utility costs, materials, labor, overhead, administrative costs and interest rates on floating credit facilities can adversely affect our business performance. In addition, rising costs of certain items, such as lumber, can adversely affect the expected profitability of our backlog. Generally, we have been able to recover any increases in costs through increased selling prices. However, there is no assurance we will be able to increase selling prices in the future to cover the effects of inflation and other cost increases.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 8. Financial Statements and Supplementary Data**

Reference is made to the consolidated financial statements, the notes thereto, and the report thereon, commencing on page F-1 of this Annual Report on Form 10-K.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 of 1934, as amended (the "Exchange Act")) as of December 31, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2014, that our disclosure controls and procedures were effective, and designed to ensure that (a) information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and instructions, and (b) information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

**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 assurance, at the reasonable assurance level, 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.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014, based on criteria set forth in the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Our management determined that, as of December 31, 2014, our internal control over financial reporting is effective.

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**Changes in Internal Control**

No change has occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our last fiscal quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2015 Annual Meeting of Stockholders, except that the information relating to our executive officers is included in Item 1, “Business – Executive Officers” of this Annual Report on Form 10-K.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2015 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2015 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2015 Annual Meeting of Stockholders.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2015 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements are listed in the Index to Financial Statements on page F-1 of this Annual Report on Form 10-K.

(2) Schedules have been omitted because they are not applicable or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

(3) Exhibits

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<u>Exhibit Number</u>	<u>Exhibit</u>
3.1*	Amended and Restated Certificate of Incorporation.
3.2	Amended and Restated Bylaws (incorporated by reference to an exhibit 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 an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.1	Lease Agreement, dated as of January 31, 2004, with Comstock Partners, L.C. (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.2	Agreement of Sublease, dated as of October 1, 2004, with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.3	Form of Indemnification Agreement (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.4	Form of Promissory Note to be issued to each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub by each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc. (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.5	Form of Tax Indemnification Agreement to be entered into by each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub with each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc. (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.6	2004 Long-Term Incentive Compensation Plan (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.7	Form Of Stock Option Agreement under the 2004 Long-Term Incentive Compensation Plan (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.8	Form Of Restricted Stock Grant Agreement under the 2004 Long-Term Incentive Compensation Plan (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005). +
10.9	Employee Stock Purchase Plan (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.10	Purchase and Sale Agreement, dated as of November 9, 2004, as amended, with Fair Oaks Penderbrook Apartments L.L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.11	Services Agreement, dated March 4, 2005, with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.12	Employment Agreement with Christopher Clemente (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.13	Employment Agreement with Gregory Benson (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.14	Confidentiality and Non-Competition Agreement with Christopher Clemente (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +
10.15	Confidentiality and Non-Competition Agreement with Gregory Benson (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)). +

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<b>Exhibit Number</b>	<b>Exhibit</b>
10.16	Trademark License Agreement (incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193)).
10.17	Purchase Agreement, dated as of November 12, 2004 with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.18	Description of Reimbursement and Indemnification Arrangement with Christopher Clemente and Gregory Benson (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2005).
10.19	Stock Purchase Agreement with Parker-Chandler Homes, Inc. and the Selling Stockholders identified therein, dated as of January 19, 2006 (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2006).
10.20	Form of purchase agreement, dated as of May 5, 2006, as amended as of May 9, 2006, by and between the Company and the purchasers identified therein (incorporated by reference to an exhibit to the Current Report on Form 8-K of the Registrant filed with the Commission on May 10, 2006).
10.21	Form of warrant (incorporated by reference to an exhibit to the Current Report on Form 8-K of the Registrant filed with the Commission on May 10, 2006).
10.22	Note Purchase Agreement with Kodiak Warehouse LLC, dated as of May 4, 2006 (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.23	Junior Subordinated Indenture with Wells Fargo Bank, N.A., dated as of May 4, 2006 (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.24	Credit Agreement with Wachovia Bank, N.A., dated as of May 26, 2006 (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.25	Stock Purchase Agreement with Capitol Homes, Inc. and the Selling Shareholders identified therein, dated as of May 1, 2006 (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.26	Loan and Security Agreement, dated as of February 2008, by and between the Registrant and Stonehenge Funding, LC. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.27	Guaranty Agreement, dated as of February 2008, by Comstock Potomac Yard, L.C. in favor of Stonehenge Funding, LC (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.28	Supplement to Indenture, dated as of January 7, 2008, by and between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.29	Amended and Restated Indenture, dated as of March 14, 2008, by and between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.30	Forbearance and Conditional Release Agreement, dated as of November 25, 2008, by and among Highland Avenue Properties, LLC, Comstock Homes of Atlanta, LLC, the Registrant and Bank of American, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.31	Sixth Loan Modification Agreement, dated as of November 26, 2008, by and among the Registrant and Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).

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<b>Exhibit Number</b>	<b>Exhibit</b>
10.32	Amended and Restated Promissory Note (Tribble Road Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.33	Loan Modification and Forbearance Agreement, dated as of December 10, 2008, by and among the Registrant, various wholly owned subsidiaries as guarantors and Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.34	Amended and Restated Promissory Note (Revolving Line of Credit), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.35	Amended and Restated Promissory Note (Term Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.36	Consensual Foreclosure and Settlement Agreement, dated August 17, 2009, by and among the Registrant, et.al. and Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.37	Third Amendment of Loan Agreement, dated September 16, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.38	Settlement Agreement and Mutual Release, dated September 21, 2009, by and among Registrant, Mathis Partners, LLC and Comerstone Bank (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.39	Forbearance Agreement, dated September 28, 2009, by and among Comstock Cascades, L.C., the Registrant and Manufacturers and Traders Trust Company (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.40	Forbearance and Conditional Release Agreement, dated September 28, 2009, by and among Comstock Belmont Bay 89, L.C., the Registrant and Manufacturers and Traders Trust Company (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.41	First Amendment to Loan Agreement, dated October 30, 2009, by and among Comstock Station View, L.C., Comstock Potomac Yard, L.C., the Registrant and Key Bank National Association (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.42	Forbearance and Conditional Release Agreement, dated November 10, 2009, by and among Comstock Homes of Raleigh, L.L.C., the Registrant and Fifth Third Bank, N.A. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.43	Forbearance Agreement and Second Amendment to Loan Agreement, dated January 27, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.44	Fourth Amendment to Sublease Agreement and Services Agreement, dated February 26, 2009, with Comstock Asset Management (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.45	Subordinated Deficiency Note, dated as of September 21, 2009, by the Registrant in favor of Comerstone Bank., successor-in-interest to Haventrust Bank (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.46	Amended and Restated Subordinated Deficiency Note, dated as of November 5, 2009, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.47	Bankruptcy filing for Buckhead Overlook, LLC, filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).

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<u>Exhibit Number</u>	<u>Exhibit</u>
10.48	Bankruptcy filing for Post Preserve, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.49	Bankruptcy filing for Parker Chandler Homes, LLC f/k/a Comstock Homes of Atlanta, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.50	Lease Agreement, dated on or about December 31, 2009, with Comstock Asset Management, L.C. by Comstock Property Management, L.C., a subsidiary of Registrant (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.51	License Agreement, effective January 1, 2010, with I-Connect (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.52	Letter of Intent, effective February 12, 2010, by and between Registrant and Stonehenge Funding, L.C. and Subordination and Standstill Agreements between Registrant and Guggenheim Corporate Funding, LLC and between Registrant and Key Bank, National Association (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.53	Seventh Loan Modification Agreement dated as of February 25, 2010, by and among the Registrant and Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.54	Memorandum Opinion, filed February 23, 2010, by the US District Court in favor of Comstock Potomac Yard, L.C., a subsidiary of Registrant, against Balfour Beatty Construction, LLC (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.55	Purchase Agreement, dated October 30, 2009, by and between Comstock Station View, L.C. and M/I Homes of DC, LLC (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.56	Second Amended and Restated Indenture, dated as of February 12, 2010, by and among the Registrant and Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010).
10.57	Amended and Restated Senior Note, effective February 12, 2010, by and among, Stonehenge Funding, LC, the Registrant and Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010).
10.58	Employment Agreement with Joseph M. Squeri (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010). +
10.59	Confidentiality and Non-Competition Agreement with Joseph M. Squeri (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010). +
10.60	Loan Agreement, dated as of January 27, 2011, by and among Comstock Potomac Yard, L.C. and Eagle Bank (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2011).
10.61	Loan Agreement, dated as of February 11, 2011, by and among Comstock Cascades II, L.C. and Cardinal Bank (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2011).
10.62	Credit Enhancement and Indemnification Agreement, dated February 17, 2011, by and between Registrant and Christopher D. Clemente and Gregory V. Benson (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 13, 2011).
10.63	Loan Agreement, dated as of July 12, 2011, by and among Comstock Potomac Eclipse, L.C. and BCL Eclipse, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Commission on July 15, 2011).

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<b>Exhibit Number</b>	<b>Exhibit</b>
10.64	Guaranty, Pledge and Security Agreement, dated as of July 12, 2011, by Comstock Homebuilding Companies, Inc. and Comstock Emerald Farm, L.C. to and for the benefit of BCL Eclipse, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Commission on July 15, 2011).
10.65	Warrant, dated as of July 12, 2011, in the name of BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Commission on July 15, 2011).
10.66	Registration Rights Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Commission on July 15, 2011).
10.67	Right of First Refusal and First Offer Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Commission on July 15, 2011).
10.68	Loan Agreement, dated as of October 5, 2011, by and among Comstock Penderbrook, L.C. and BCL Penderbrook, LLC (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.69	Contract of Sale Agreement, dated as of October 31, 2011, by and among Comstock Cascades II, L.C. and CAPREIT Acquisition Corporation (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.70	Loan Agreement, dated as of May 29, 2012, by and among Eagle Bank and Comstock Potomac Yard, L.C. and Comstock Penderbrook, L.C. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.71	Loan agreement, dated as of August 23, 2012, by and between Eagle Bank and New Hampshire Ave. Ventures, LLC (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.72	Loan agreement, dated as of September 27, 2012, by and between Cardinal Bank and Comstock Eastgate, L.C. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.73	Loan agreement, dated as of March 25, 2013, by and between Eagle Commercial Ventures, LLC and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 27, 2013).
10.74	Loan agreement, dated as of March 25, 2013, by and between Eagle Commercial Ventures, LLC and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 27, 2013).
10.75	Loan agreement, dated as of March 25, 2013, by and between Eagle Bank and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 27, 2013).
10.76	Loan agreement, dated as of March 25, 2013, by and between Eagle Bank and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 27, 2013).
10.77	Form of Subscription Agreement, dated March 14, 2013, between Comstock Investors VII, L.C. and Subscriber, with accompanying Schedule A identifying the other Subscription Agreements (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2013).
10.78	Loan agreement, dated as of May 8, 2013, by and between Cardinal Bank and Comstock Yorkshire, L.C. (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 13, 2013).
10.79	Loan agreement, dated as of September 30, 2013, by and between Eagle Bank and Comstock Maxwell Square, L.C. (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2013).

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<u>Exhibit Number</u>	<u>Exhibit</u>
10.80	Deferred Purchase Money Promissory Note and a Secured First Deed of Trust dated September 13, 2013 between Comstock Hall Road L.C. and certain of the sellers named therein (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2013).
10.84	Form of Subscription Agreement, dated December 12, 2013, between Comstock Investors VIII L.C., and [-], with accompanying Schedule A identifying other Subscription (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2014).
10.85	Loan agreement, dated December 30, 2013, between Comstock Hall Road, L.C. and Cardinal Bank (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2014).
10.86	Separation Agreement, dated June 24, 2014, between Comstock Holding Companies, Inc. and Gregory V. Benson (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 13, 2014).
10.87	Guidance Line of Credit and Security Agreement, dated July 15, 2014 between the Registrant and Eagle Bank (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2014).
10.88	Revolving Line of Credit Note, dated July 15, 2014, between the Registrant and Eagle Bank (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2014).
10.89	Revolving Line of Credit Note, dated July 23, 2014, between Comstock Yorkshire, L.C. and Cardinal Bank (incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 13, 2014).
10.90*	Amended and Restated Promissory Note, dated December 18, 2014, between Comstock Holding Companies, Inc. and Comstock Growth Fund, L.C.
10.91*	Form of warrant issued in connection with private placement by Comstock Growth Fund, L.C.
10.92*	Loan agreement, dated December 19, 2014, between Comstock Two Rivers II, L.C. and Cardinal Bank.
10.93	Section 382 Rights Agreement between Comstock Holding Companies, Inc. and American Stock Transfer & Trust Company, LLC dated March 27, 2015 (incorporated by reference to an Exhibit to the current report on Form 8-K filed with the Commission on March 27, 2015).
14.1(2)	Code of Ethics (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2005).
21.1*	List of subsidiaries
23.1*	Consent of PricewaterhouseCoopers LLP
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 Annual Report on Form 10-K for the year ended December 31, 2014, formatted in eXtensible Business Language (XBRL): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholder's Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

\* Filed herewith.

+ Management contracts or compensatory plans, contracts or arrangements

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: April 14, 2015

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
/s/ CHRISTOPHER CLEMENTE Christopher Clemente	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	April 14, 2015
/s/ JOSEPH M. SQUERI Joseph M. Squeri	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	April 14, 2015
/s/ A. CLAYTON PERFALL A. Clayton Perfall	Director	April 14, 2015
/s/ DAVID M. GUERNSEY David M. Guernsey	Director	April 14, 2015
/s/ JAMES A. MACCUTCHEON James A. MacCutcheon	Director	April 14, 2015
/s/ NORMAN D. CHIRITE Norman D. Chirite	Director	April 14, 2015
/s/ ROBERT P. PINCUS Robert P. Pincus	Director	April 14, 2015
/s/ SOCRATES VERSES Socrates Verses	Director	April 14, 2015
/s/ GREGORY V. BENSON Gregory V. Benson	Director	April 14, 2015

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Comstock Holding Companies, Inc.:

In our opinion, the accompanying consolidated financial statements listed on page F-1 present fairly, in all material respects, the financial position of Comstock Holding Companies, Inc. and subsidiaries (the "Company") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
McLean, Virginia  
April 14, 2015

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

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,498	\$ 11,895
Restricted cash	1,779	2,458
Trade receivables	110	346
Real estate inventories	40,889	39,843
Property, plant and equipment, net	395	243
Other assets	5,696	2,094
TOTAL ASSETS	<u>\$ 56,367</u>	<u>\$ 56,879</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 8,538	\$ 7,506
Notes payable - secured by real estate inventories	28,379	22,701
Notes payable - due to affiliates, unsecured, net of discount	15,488	4,687
Notes payable - unsecured	2,064	2,580
Income taxes payable	43	346
TOTAL LIABILITIES	<u>54,512</u>	<u>37,820</u>
Commitments and contingencies (Note 15)	—	—
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 19,099,722 and 18,629,638 issued and outstanding, respectively	191	186
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	171,452	170,811
Treasury stock, at cost (522,033 and 426,633 shares Class A common stock, respectively)	(2,583)	(2,480)
Accumulated deficit	(171,218)	(164,379)
TOTAL COMSTOCK HOLDING COMPANIES, INC. (DEFICIT) EQUITY	<u>(2,131)</u>	<u>4,165</u>
Non-controlling interests	3,986	14,894
TOTAL EQUITY	<u>1,855</u>	<u>19,059</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 56,367</u>	<u>\$ 56,879</u>

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

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

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Revenue—homebuilding	\$ 47,378	\$ 53,806
Revenue—other	587	808
Total revenue	47,965	54,614
<b>Expenses</b>		
Cost of sales—homebuilding	38,133	41,596
Cost of sales—other	372	808
Impairment charges and write-offs, net	2,695	348
Sales and marketing	2,130	1,975
General and administrative	7,585	6,739
Interest, real estate taxes and indirect costs related to inactive projects	26	408
Operating (loss) income	(2,976)	2,740
Other income, net	230	267
(Loss) income before income tax expense	(2,746)	3,007
Income tax expense	(368)	(346)
Net (loss) income	(3,114)	2,661
Less: Net income attributable to non-controlling interests	3,725	4,691
Net loss attributable to Comstock Holding Companies, Inc.	<u>\$ (6,839)</u>	<u>\$ (2,030)</u>
Basic loss per share	\$ (0.32)	\$ (0.10)
Diluted loss per share	\$ (0.32)	\$ (0.10)
Basic weighted average shares outstanding	21,084	20,681
Diluted weighted average shares outstanding	21,084	20,681

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

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

	Class A		Class B		Additional paid-in capital	Treasury stock	Retained earnings (deficit)	Non- controlling interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2012	17,628	\$ 176	2,733	\$ 27	\$170,070	\$ (2,480)	\$ (162,349)	\$ 935	\$ 6,379
Stock compensation and issuances	1,005	10			608				618
Warrants	92	1	—	—	(1)	—	—	—	—
Shares withheld related to net share settlement of restricted stock awards	(96)	(1)	—	—	(143)	—	—	—	(144)
Non-controlling interest contributions	—	—	—	—	277	—	—	11,632	11,909
Non-controlling interest distributions	—	—	—	—	—	—	—	(2,364)	(2,364)
Net (loss) income	—	—	—	—	—	—	(2,030)	4,691	2,661
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	488	5	—	—	567	—	—	—	572
Warrants	164	2	—	—	160	—	—	—	162
Shares withheld for net exercise of stock compensation and warrants	(181)	(2)	—	—	(86)	—	—	—	(88)
Stock repurchases	—	—	—	—	—	(103)	—	—	(103)
Non-controlling interest contributions	—	—	—	—	—	—	—	—	—
Non-controlling interest distributions	—	—	—	—	—	—	—	(14,633)	(14,633)
Net (loss) income	—	—	—	—	—	—	(6,839)	3,725	(3,114)
Balance at December 31, 2014	<u>19,100</u>	<u>\$ 191</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$171,452</u>	<u>\$ (2,583)</u>	<u>\$ (171,218)</u>	<u>\$ 3,986</u>	<u>\$ 1,855</u>

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

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

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (3,114)	\$ 2,661
Adjustment to reconcile net (loss) income to net cash used in operating activities		
Amortization of loan discount and deferred financing fees	304	482
Depreciation expense	100	70
Provision for bad debt	10	(22)
Gain on extinguishment of notes payable	—	(27)
Earnings from unconsolidated joint venture, net of distributions	32	(59)
Impairment charges and write-offs, net	2,695	348
Amortization of stock compensation	295	483
Changes in operating assets and liabilities:		
Restricted cash	(6)	(255)
Trade receivables	226	1,287
Real estate inventories	(3,717)	(12,413)
Other assets	(2,727)	(303)
Accrued interest	815	248
Accounts payable and accrued liabilities	166	2,815
Income taxes payable	(303)	346
Net cash used in operating activities	<u>(5,224)</u>	<u>(4,339)</u>
<b>Cash flows from investing activities:</b>		
Investment in unconsolidated joint venture	—	(7)
Purchase of property, plant and equipment	(252)	(91)
Note receivable	(173)	—
Restricted cash	685	1,000
Proceeds from sale of Cascades multi-family units - operating real estate, net	—	279
Net cash provided by investing activities	<u>260</u>	<u>1,181</u>
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	43,463	38,042
Payments on notes payable	(27,857)	(35,688)
Loan financing costs	(243)	(243)
Distributions to non-controlling interests	(14,633)	(2,364)
Contributions from non-controlling interests	—	11,909
Proceeds from exercise of stock options	26	1
Taxes paid related to net share settlement of equity awards	(86)	(143)
Repurchase of stock	(103)	—
Net cash provided by financing activities	<u>567</u>	<u>11,514</u>
Net (decrease) increase in cash and cash equivalents	(4,397)	8,356
Cash and cash equivalents, beginning of period	11,895	3,539
Cash and cash equivalents, end of period	<u>\$ 7,498</u>	<u>\$ 11,895</u>
<b>Supplemental cash flow information:</b>		
Interest paid, net of interest capitalized	\$ (806)	\$ 212
Income taxes paid	\$ (669)	\$ —
<b>Supplemental disclosure for non-cash activity:</b>		
Increase in class A common stock par value in connection with issuance of stock compensation	\$ 5	\$ 10
Accrued liability settled through issuance of stock	\$ 225	\$ —
Receivables arising from notes payable due - proceeds due to the Company from CGF	\$ 823	\$ —
Discount on notes payable	\$ (1,279)	\$ —

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

**COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except per share data, number of units, or as otherwise noted)**

**1. ORGANIZATION**

Comstock Holding Companies, Inc. 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 Annual Report on Form 10-K 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. Our business was founded in 1985 as a residential land developer and home builder focused on the Northern Virginia suburbs of the Washington, D.C. metro market.

Comstock Companies, Inc. was incorporated on May 24, 2004 as a Delaware corporation. On June 30, 2004, the Company changed its name to Comstock Homebuilding Companies, Inc. On December 17, 2004, the Company completed an initial public offering of its Class A common stock. On June 22, 2012, the Company changed its name to Comstock Holding Companies, Inc. which better reflects the Company’s multi-faceted strategy and capabilities.

The Company’s Class A common stock is traded on the Nasdaq Capital Market (“NASDAQ”) under the symbol “CHCT” and has no public trading history prior to December 17, 2004.

***Liquidity Developments***

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and should continue to include, private equity and debt placements (which has included significant participation from Company insiders), funds derived from various secured and unsecured borrowings to finance acquisition, development and construction on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, finished and raw building lots and the potential sale of public debt and equity securities. The Company is involved in ongoing discussions with lenders and equity sources in an effort to provide additional growth capital to fund various new business opportunities. See Note 8 for more details on our credit facilities and Note 3 for details on private placement offerings in 2014.

As of December 31, 2014, the Company has \$28.7 million of its credit facilities and project related loans that mature during 2015. We are in active discussions with our lenders with respect to these maturities and are seeking extensions and modifications to the loans as necessary. The current performance of the projects and our early discussions with our lenders indicates that we will likely be successful in extending or modifying these loans, though no assurances can be made that we will be successful in these efforts. We are anticipating that successful resolution of those discussions with our lenders, the recently completed capital raises from the aforementioned private placements, current available cash on hand and additional cash from settlement proceeds at existing and under development communities, the Company should have sufficient financial resources to sustain its operations through the next 12 months, though no assurances can be made that the Company will be successful in its efforts.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies and practices used in the preparation of the consolidated financial statements is as follows:

***Basis of presentation***

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and include the accounts of the Company and all of its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned

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partnerships and affiliates are accounted for using the equity method unless it is determined that the Company has control of the entity, in which case the entity would be consolidated. The Company had one joint venture investment accounted for using the equity method as of December 31, 2014 and 2013.

### ***Cash and cash equivalents and restricted cash***

Cash and cash equivalents are comprised of cash and short-term investments with maturities of three months or less when purchased. At times, the Company may have deposits with institutions in excess of federally insured limits. We monitor the cash balances in our bank accounts and adjust the balance as appropriate. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial market. At December 31, 2014 and 2013, the Company had restricted cash of \$1.8 million and \$2.5 million, respectively, which includes \$1.0 million and \$2.0 million in deposits, respectively, with an insurance provider as security for future claims.

### ***Real estate inventories***

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

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

### ***Capitalized interest and real estate taxes***

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

	Twelve Months Ended December 31	
	2014	2013
Total interest incurred and capitalized	\$ 2,557	\$ 1,884
Total real estate taxes incurred and capitalized	234	181
Total interest and real estate taxes incurred and capitalized	<u>\$ 2,791</u>	<u>\$ 2,065</u>
Interest expensed as a component of cost of sales	\$ 557	\$ 2,146
Real estate taxes expensed as a component of cost of sales	<u>175</u>	<u>311</u>
Interest and real estate taxes expensed as a component of cost of sales	<u>\$ 732</u>	<u>\$ 2,457</u>

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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 expensed related to inactive projects reported in real estate inventories:

	Twelve Months Ended December 31,	
	2014	2013
Total interest incurred and expensed for inactive projects	\$ —	\$ 73
Total real estate taxes incurred and expensed for inactive projects	26	49
Total production overhead incurred and expensed for inactive projects	—	286
	<u>\$ 26</u>	<u>\$ 408</u>

### Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and are depreciated on the straight-line method over their estimated useful lives as follows:

Furniture and fixtures	7 years
Office equipment	5 years
Computer equipment and capitalized software	3 years
Leasehold improvements	Life of related lease

When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from their separate accounts and any gain or loss on sale is reflected in operations. Expenditures for maintenance and repairs are charged to expense as incurred.

### 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. Because the Company typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. This reserve is an estimate and actual warranty costs could vary from these estimates. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to the reserve as they arise.

During 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 accordingly reduced the warranty reserve by \$182. The warranty release was recorded as a reduction to homebuilding cost of sales in the third quarter of 2014.

In the third quarter of 2013, the Company settled a legal claim related to one of its projects in Virginia for \$0.2 million, releasing the Company from future warranty claims related to this project and accordingly reduced the warranty reserve by \$0.4 million. The warranty release was recorded as a reduction to homebuilding cost of sales in the third quarter of 2013.

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

	Years ended December 31,	
	2014	2013
Balance at beginning of period	\$ 510	\$ 963
Additions	454	262
Releases and/or charges incurred	(472)	(715)
Balance at end of period	<u>\$ 492</u>	<u>\$ 510</u>

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### **Revenue recognition**

The Company recognizes revenues and related profits or losses from the sale of residential properties and units, finished lots and land sales when closing has occurred, full payment has been received, title and possession of the property has transferred to the buyer and the Company has no significant continuing involvement in the property. Other revenues include revenue from land sales, rental revenue from leased multi-family units – which is recognized ratably over the terms of the respective leases, revenue from construction services – which is recognized under the percentage-of-completion method, and revenue earned from management and administrative support services provided to related parties – which is recognized as the services are provided.

### **Advertising costs**

The total amount of advertising costs charged for the year ended December 31, 2014 was \$743, of which \$730 was charged to sales and marketing and \$13 was charged to general and administrative expenses. The total amount of advertising costs charged for the year ended December 31, 2013 was \$614, of which \$577 was charged to sales and marketing, \$32 was charged to cost of sales and \$5 was charged to general and administrative expenses.

### **Stock compensation**

As discussed in Note 12, the Company sponsors stock option plans and restricted stock award plans. The Company accounts for its share-based awards pursuant to Accounting Standards Codification (“ASC”) 718, *Share Based Payments*. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements over the vesting period based on their fair values at the date of grant. For the year ended December 31, 2014 and 2013, total stock-based compensation cost was \$319 and \$616, respectively. Of this amount, \$271 and \$477 was charged to ‘general and administrative’ expenses for the years ended December 31, 2014 and 2013, respectively, and \$24 and \$6 was charged to ‘cost of sales-other’ for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, \$24 and \$133 was capitalized to ‘Real estate inventories’, respectively.

### **Income taxes**

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

### **Loss per share**

The weighted average shares and share equivalents used to calculate basic and diluted loss per share for the years ended December 31, 2014 and 2013 are presented on the consolidated statement of operations. Restricted stock awards, stock options and warrants for the years ended December 31, 2014 and 2013 are included in the diluted loss per share calculation using the treasury stock method and average market prices during the periods, unless the restricted stock award, stock options and warrants would be anti-dilutive.

As a result of net losses for the years ended December 31, 2014 and 2013, the following shares have been excluded from the diluted share computation as their inclusion would be anti-dilutive:

	Twelve Months Ended December 31,	
	2014	2013
Restricted stock awards	158	466
Stock options	198	466
Warrants	379	759
	<u>735</u>	<u>1,691</u>

### **Comprehensive income**

For the years ended December 31, 2014 and 2013, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the consolidated financial statements.

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### **Segment reporting**

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

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.

	<u>Homebuilding</u>	<u>Multi-Family</u>	<u>Real Estate Services</u>	<u>Total</u>
<b>Twelve Months Ended December 31, 2014</b>				
Gross revenue	\$ 47,378	\$ —	\$ 587	\$47,965
Gross profit	9,245	—	215	9,460
Net (loss) income	(3,320)	—	206	(3,114)
Total assets	56,028	—	339	56,367
Depreciation and amortization	419	—	—	419
Interest expense	—	—	—	—
<b>Twelve Months Ended December 31, 2013</b>				
Gross revenue	\$ 53,806	\$ —	\$ 808	\$54,614
Gross profit	11,846	—	364	12,210
Net income (loss)	2,273	—	388	2,661
Total assets	56,674	—	205	56,879
Depreciation and amortization	686	—	—	686
Interest expense	73	—	—	73

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, based upon its estimate of time allocable to the segment or based upon overall pro rata revenue generation.

### **Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates are utilized in the valuation of real estate inventories, valuation of deferred tax assets, capitalization of costs, consolidation of variable interest entities and warranty reserves.

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***Out of Period Adjustment***

During the fourth quarter of 2014 the Company recorded an out-of-period adjustment resulting in a \$177 decrease to 'General and administrative' expense within the consolidated statements of operations. Because this error was not material to any previously filed consolidated financial statements and the impact of correcting this error in the current period is not material to our 2014 consolidated financial statements, the Company recorded the correction of this error in the fourth quarter of 2014, the period in which the error was identified.

***Reclassifications***

Certain amounts in the prior year financial statements have been reclassified to conform to the current-year presentation. The impact of the reclassifications made to prior year amounts is not material and did not affect net loss.

***Recent accounting pronouncements***

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.

Other accounting pronouncements issued or effective during the year ended December 31, 2014 are not applicable to us and are not anticipated to have an effect on our consolidated financial statements.

**3. CONSOLIDATION OF VARIABLE INTEREST ENTITIES**

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

***Consolidated Real Estate Inventories***

Included within the Company's real estate inventories at December 31, 2014 and 2013 are several projects that are determined to be VIEs. These entities have been established to own and operate real estate property and were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. The Company determined that it was the primary beneficiary of these VIEs as a result of its majority voting and complete operational control of the entities.

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 2014 and 2013, New Hampshire Ave. Ventures, LLC distributed \$3.2 million and \$0.1 million to its non-controlling interest member, 6000 New Hampshire Avenue, LLC, respectively.

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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 “Eastgate Project”). 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. During 2013, the Company and BridgeCom Development I, LLC, each contributed additional equity of \$0.6 million. The contributions were used to accelerate construction of the remaining units at the Eastgate Project. During 2014 and 2013, Comstock Eastgate, L.C. distributed \$1.9 million and \$1.5 million, respectively, to its non-controlling interest member. No additional contributions were made in 2014 and the Company exited the Eastgate Project in the second quarter of 2014 after closing on all 66 units.

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. In 2014, the Company paid total distributions of \$8.6 million of which \$5.4 million was used to fully redeem the remaining equity interest of the Comstock VII Class B Members. During 2013, the Company paid distributions in the amount of \$0.7 million to the Comstock VII Class B Members.

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

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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 2014, the Company paid distributions in the amount of \$0.9 million to the Comstock VIII Class B Members. No distribution was made in 2013.

At December 31, 2014 and December 31, 2013, the distributions and contributions for the VIE's discussed above are included within the 'non-controlling interest' classification in the consolidated statement of changes in stockholder's equity.

At December 31, 2014 and December 31, 2013, total assets of these VIEs were approximately \$19.5 million and \$46.3 million, respectively, and total liabilities were approximately \$13.5 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 'notes payable – secured by real estate inventories' and 'accounts payable and accrued liabilities' in the consolidated balance sheets.

### **Land purchase options**

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

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

## **4. REAL ESTATE INVENTORIES**

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

For assets held for development and use, a write-down to estimated fair value is recorded when the net carrying value of the property exceeds its estimated undiscounted future cash flows. Estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. These evaluations are made on a property-by-property basis whenever events or changes in circumstances indicate that the net book value may not be recoverable.

If the project is considered held for sale, it is valued at the lower of cost or fair value less estimated selling costs. The evaluation takes into consideration the current status of the property, carrying costs, costs of disposition, various restrictions and any other circumstances that may affect fair value including management's plans for the property. At December 31, 2013 and 2014, the Company had no projects classified as held for sale.

In 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 Potomac Yard project in a bulk sale transaction, rather than by selling directly to prospective home buyers, significantly accelerating

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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 properly reflect the for sale project at fair market value less costs to sell, consistent with the provisions of the ASC 360. During the first half of 2013, the Company sold all remaining units at the Eclipse and Penderbrook projects.

During 2014, we wrote-off \$2.7 million in land and land development costs related to the Momentum | Shady Grove project. The write-off occurred in December 2014 due to a revision in our previous disposition strategy. The impairment charge was calculated using a discounted cash flow analysis model, which is dependent upon several subjective factors, including the selection of an appropriate discount rate, estimated average sales price and estimated sales rates. In performing our impairment modeling, we must select what we believe is an appropriate discount rate based on current market cost of capital and return expectations. During 2013, we wrote-off \$1.1 million of due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred due to the Company's unsuccessful attempt to obtain entitlement approvals and as a result, such accumulated costs were determined to be unrecoverable.

After impairments and write-offs, real estate held for development and sale consists of the following:

	December 31, 2014	December 31, 2013
Land and land development costs	\$ 22,487	\$ 26,805
Cost of construction (including capitalized interest and real estate taxes)	18,402	13,038
	<u>\$ 40,889</u>	<u>\$ 39,843</u>

## 5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	December 31, 2014	December 31, 2013
Computer equipment and capitalized software	\$ 519	\$ 275
Furniture and fixtures	119	111
Office equipment	68	68
	706	454
Less : accumulated depreciation	(311)	(211)
	<u>\$ 395</u>	<u>\$ 243</u>

Depreciation and amortization expense, included in 'general and administrative' in the accompanying consolidated statements of operations, amounted to \$100 and \$70 for the years ended December 31, 2014 and 2013, respectively.

## 6. OTHER ASSETS

Other assets consist of the following:

	December 31, 2014	December 31, 2013
Restricted Escrow Deposits	\$ 179	\$ 143
Deferred financing cost	1,324	1,081
Deposits on land purchase options	2,796	670
Other	2,250	671
	6,549	2,565
Less : accumulated amortization	(853)	(471)
	<u>\$ 5,696</u>	<u>\$ 2,094</u>

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2014	December 31, 2013
Trade and accrued payables	\$ 7,547	\$ 6,432
Warranty	492	510
Customer deposits	484	553
Other	15	11
	<u>\$ 8,538</u>	<u>\$ 7,506</u>

**8. CREDIT FACILITIES**

Notes payable consisted of the following:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Construction revolvers	\$ 6,505	\$ 4,053
Development and acquisition notes	13,748	12,304
Mezzanine notes	5,770	6,344
Line of credit	2,356	—
Total secured notes	<u>28,379</u>	<u>22,701</u>
Unsecured financing	2,064	2,580
Notes payable to affiliates, unsecured, net of \$1.4 million discount	15,488	4,687
Total notes payable	<u>\$ 45,931</u>	<u>\$ 29,968</u>

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As of December 31, 2014, maturities and/or curtailment obligations of all of our borrowings are as follows:

2015	\$28,718
2016	6,320
2017	8,829
2018	2,064
Total	<u>\$45,931</u>

We are in active discussions with our lenders with respect to the 2015 maturities and are seeking extensions and modifications to the loans as necessary. The current performance of the projects and our early discussions with our lenders indicates that we will likely be successful in extending or modifying these loans, though no assurances can be made that we will be successful in these efforts.

### ***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 December 31, 2014 and 2013, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$33.4 million and \$21.9 million, respectively. The Company may borrow under these 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 closings of homes sold, subject to a minimum release price. As of December 31, 2014 and 2013, the Company had approximately \$26.9 million and \$14.7 million, respectively, of unused loan commitments. The Company had \$6.5 million and \$4.1 million of outstanding construction borrowings as of December 31, 2014 and 2013, respectively. On March 22, 2015, \$2.6 million of the outstanding construction revolving credit facilities related to the Townes at Shady Grove Metro project with Eagle Bank matured, and was extended on April 8, 2015. The extensions provide for a new maturity date of June 22, 2015. All other credit facilities have maturity dates ranging from May 2015 to July 2016, including extensions subject to certain conditions. Interest rates charged under these facilities include the London Interbank Offered Rate ("LIBOR") and prime rate pricing options, subject to minimum interest rate floors. At December 31, 2014 and 2013, the weighted average interest rate on the Company's outstanding construction revolving facility was 5.1% and 5.3%, respectively.

As of December 31, 2014 and 2013, the Company had approximately \$28.0 million and \$26.1 million, respectively, of aggregate acquisition and development maximum loan commitments of which \$13.7 million and \$12.3 million, respectively, was outstanding. On March 22, 2015, \$4.5 million of the outstanding acquisition and development loans related to the Townes at Shady Grove Metro and Momentum | Shady Grove projects with Eagle Bank matured, and was extended on April 8, 2015. The extensions provide for a new maturity date of June 22, 2015. All other loans have maturity dates ranging from May 2015 to July 2016, including auto extension subject to certain conditions and bears interest at a rate based on LIBOR and Prime Rate pricing options, with interest rate floors ranging from 4.5% to 5.75%. As of December 31, 2014 and 2013, the weighted average interest rates were 4.8% per annum and 4.9% per annum, respectively.

As of December 31, 2014, the Company had three secured mezzanine loans. The first mezzanine loan has a maximum loan commitment and outstanding balance of \$3.0 million at December 31, 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 and is secured by the second deed of trust. This 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 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 \$2.8 million of principal and accrued interest was outstanding as of December 31, 2014. These financings carry an interest rate of 12% of which 6% is paid on a monthly basis with the remaining 6% being accrued and paid at maturity. These financings matured in March 2015, and were extended on April 8, 2015. The extensions provide for a new maturity date of June 22, 2015. All other terms of the original agreements remain in full force and effect. These financings are guaranteed by the Company and our CEO.

### ***Line of credit – secured***

At December 31, 2014, the Company had a secured revolving line of credit amounting to \$5.0 million of which \$2.4 million was outstanding. This line of credit is secured by the first priority security interest in the Company's wholly owned subsidiaries' in the Washington D.C, metropolitan area and is used to finance the predevelopment related expenses and deposits for current and future projects. This line of credit bears a variable interest rate tied to a one-month LIBOR plus 3.25% per annum, with an interest rate floor of 5.0% and matures on July 15, 2015 with an extension option for an additional twelve months provided that the Company meets certain conditions. This line of credit also calls for the Company to adhere to financial covenants such as, minimum EBITDA,

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minimum net worth and minimum liquidity, all measured quarterly on a trailing twelve month basis. As of December 31, 2014, the Company was in compliance with all financial covenants dictated by the line of credit agreement. This line of credit is guaranteed by our CEO.

### *Unsecured note*

At December 31, 2014 and December 31, 2013, the Company had \$2.1 million and \$2.6 million, respectively, outstanding to a major bank under a 10-year unsecured note. Interest is charged on this financing at LIBOR plus 2.2%. At December 31, 2014 and 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*

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. Interest is charged to the loan based on LIBOR plus 3% per annum. As of December 31, 2014 and 2013, the interest rate was 3.6% per annum. The Company had approximately \$4.2 million and \$4.7 million of outstanding borrowings as of December 31, 2014 and December 31, 2013, respectively.

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 by CGF up to \$20 million. Purchasers other than CDS who purchase an amount of interests 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. As of December 31, 2014, we issued 241 warrants representing the right to purchase shares of the Company’s Class A common stock to CGF having an aggregate fair value of \$162 that was considered as a debt discount. In calculating the fair value of the warrants the Company used the Black-Scholes pricing model based upon the date the funds were contributed to CGF. The Company amortizes the debt discount over the three year term of the loan to interest expense.

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 “Original Promissory Note”). The loan bears 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. The Company had approximately \$11.3 million of outstanding borrowings, net of discounts, as of December 31, 2014. As of December 31, 2014, the interest rate was 10.0% per annum.

On December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, management and members of the Company’s board of directors who participated in the CGF Private Placement (the “Amended Private Placement”). Under the Amended Private Placement, in addition to the warrants as described above, purchasers of the interests will receive a certain amount shares of our Class A common stock that CGF acquired, depending upon the investment amount. As of December 31, 2014, the Company entered into a commitment to grant 1,028 shares of the Company’s Class A common stock in connection with the CGF Private Placement. The commitment was treated and recognized as a derivative liability that is marked to market at the end of each quarter. The Company determined the fair value of the stock based on the closing price of our stock on the dates the funds were received by CGF. As of December 31, 2014, the fair value of the stocks, \$1,091, was included within ‘Accounts payable and accrued liabilities’ with a corresponding offset to ‘Notes payable - due to affiliates’ in the form of debt discount on the consolidated balance sheets. The mark to market gain on the derivative liability, \$32, was included within ‘Other income’ on the consolidated statement of operations with a corresponding offset to the derivative liability within ‘Accounts payable and accrued liabilities’ on the consolidated balance sheets as of December 31, 2014. The Company amortizes the debt discount over the three year term of the loan to interest expense.

Simultaneously, on December 18, 2014, the Company entered into an amended and restated Original Promissory Note pursuant to which the maximum amount for borrowing was increased from \$20 million to \$25 million. All of the other terms of the Original Promissory Note remained the same.

## **9. WARRANTS**

As part of the Comstock VII Private Placement discussed in Note 3, the Company issued warrants to purchase shares of the Company's Class A common stock to the Comstock VII Class B Members who are not officers, directors or affiliates of the Company and who purchased membership interests in the offering that equaled or exceeded an initial investment amount of \$250. The warrants represent the right to purchase an aggregate amount of up to 112 shares of Class A common stock. The warrants have an initial exercise price which is equal to the average of the closing price of the Class A common stock of the 20 trading days preceding the issuance of the warrant. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time prior to March 14, 2023.

In addition, as part of the Comstock VIII Private Placement discussed in Note 3, the Company also issued warrants to purchase shares of the Company's Class A common stock to the Comstock VIII Class B Members who are not officers, directors or affiliates of the Company and who purchased membership interests that equaled or exceeded an initial investment amount of \$250. The warrants

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represent the right to purchase an aggregate amount of up to 102 shares of Class A common stock. The warrants have an initial exercise price which is equal to the average of the closing price of the Class A common stock of the 20 trading days preceding the issuance of the warrant. The warrants contain a cashless exercise provision. In the event the purchasers exercise the warrants on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time prior to December 12, 2023.

As discussed in Note 8, as part of the CGF Private Placement, depending upon the investment amount, purchasers of interests in CGF other than CDS received and will receive warrants that represent the right to purchase a certain number of shares of the Company's Class A common stock. For purchasers who are not affiliates or insiders, the warrants have an initial exercise price (subject to certain restrictions as indicated on each warrant) equal to the average of the closing price of the Class A common stock over the 20 trading days preceding the issuance of the warrant. The exercise price of the warrants to affiliates and insiders was determined based on the previous day closing price of the Class A common stock from the date of the issuance of the warrants. The warrants contain a cashless exercise provision. In the event a purchaser exercises the warrant on a cashless basis, the Company will not receive any proceeds. The warrants may be exercised at any time within ten years from the date of issuance. As of December 31, 2014, the warrants represent the right to purchase an aggregate amount of up to 241 shares of the Company's Class A common stock.

## 10. RELATED PARTY TRANSACTIONS

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

2015	\$320
2016	329
2017	<u>167</u>
Total	<u>\$816</u>

For the year ended December 31, 2014 and 2013, total payments made under this lease agreement were \$0.3 million and \$0.3 million, respectively. As of December 31, 2014, the Company recorded a straight-line rent payable of \$28, which is included in 'Accounts payable and accrued liabilities'.

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by the Chief Executive Officer, to provide services related to real estate development and improvements, legal, accounting, marketing, information technology and additional support services. For the years ended December 31, 2014 and 2013, the Company billed Comstock Asset Management, L.C. \$0.5 and \$0.4 million, respectively, for services and out-of-pocket expenses incurred. Revenues from this arrangement are included within 'Revenue – other' within the accompanying consolidated statement of operations. As of December 31, 2014 and 2013, the Company was owed \$38 and \$61, respectively, under this contract, which is included in 'Trade receivables' in the accompanying consolidated balance sheets.

On March 14, 2013, the Company and Stonehenge entered into an agreement extending the maturity date of the loan from July 20, 2013 to January 1, 2016. Under the terms of the Extension Agreement, the Company is required to pay \$50 monthly to Stonehenge, to be allocated first to accrued and unpaid interest and then to unpaid principal outstanding, beginning on April 1, 2013. For the years ended December 31, 2014 and 2013, the Company made payments under the loan of \$0.6 million and \$0.5 million, respectively.

On October 17, 2014, the Company and CGF entered into an unsecured loan agreement in an initial amount of \$10 million and a maximum capacity of up to \$20 million. On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. This loan has a three year term carrying a floating interest rate of LIBOR plus 9.75% with a 10% floor. The loan requires an annual principal repayment in the amount of 10% of the average outstanding balance and a monthly interest payment that will be made in arrears. As of December 31, 2014, \$11.3 million was outstanding in principal and accrued interest, net of discounts. For the year ended December 31, 2014, the Company made interest payments of \$0.2 million. See Note 8 for further discussion of transactions entered with CGF.

In connection with the departure of Gregory V. Benson, the Company's former Chief Operating Officer and current member of our board of directors, in the second quarter of 2014, the Company entered into a Separation Agreement. See Note 14 for a summary of the Separation Agreement.

See Note 3 for a summary of the Comstock VII Private Placement and the Comstock VIII Private Placement, which involved certain of our officers and directors.

## 11. EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code (the “Code”). Eligible participants may contribute a portion of their compensation to their respective retirement accounts in an amount not to exceed the maximum allowed under the Code. The Company matches 100% of the employee’s contribution, up to 3% of each participant’s gross salary and 50% of the employee’s contribution above 3% not exceeding 5% of the participant’s gross salary, per pay period. Contributions made by the Company become fully vested after six years of service. The total amount matched for the 12 months ended December 31, 2014 and 2013 was \$48 and \$49, respectively.

## 12. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

On December 14, 2004, the Company adopted the 2004 Long-Term Compensation Plan (the “Plan”). The Plan provides for the issuance of stock options, stock appreciation rights, or SARs, restricted stock, deferred stock, dividend equivalents, bonus stock and awards in lieu of cash compensation, other stock-based awards and performance awards. Any shares issued under the Plan typically vest over service periods that range from one to five years. Stock options issued under the plan expire 10 years from the date they are granted.

The Plan provided an initial authorization of 2.5 million shares of Class A common stock for issuance and allows an automatic annual increase equal to the lesser of (i) 3% of the Class A common stock outstanding (ii) 750 shares or (iii) such lesser amount as may be determined by the Company’s board of directors. On April 27, 2012, the Company authorized an increase in the number of shares of our Class A common stock reserve to 7.1 million. On June 22, 2012, the Company’s stockholders approved the Amended and Restated 2004 Long-Term Incentive Compensation Plan, including an increase in the reserve, with an automatic annual increase on January 1 of each successive year of the lesser of (i) 3% of the Class A common stock outstanding or (ii) 750 shares. As of December 31, 2014, there were 2.2 million shares available for issuance under the Plan (as amended).

The fair value of each option award is calculated on the date of grant using the Black-Scholes option pricing model and certain subjective assumptions. Expected volatilities are calculated based on our historical trading activities. We estimate forfeitures using a weighted average historical forfeiture rate. Our estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The risk-free rate for the periods is based on the U.S. Treasury rates in effect at the time of grant. The expected term of options is based on the simplified method which assumes that the option will be exercised midway between the vesting date and the contractual term of the option. The Company is able to use the simplified method as the options qualify as “plain vanilla” options as defined by ASC 718 – *Stock Compensation*.

The following table summarizes the assumptions used to calculate the fair value of options during 2014 and 2013:

	2014	2013
Weighted average fair value of options granted	\$ 0.88	\$ 1.46
Dividend yields	—	—
Expected volatility	79.4%-142.60%	101.4%-136.8%
Weighted average expected volatility	107.19%	101.99%
Risk free interest rates	1.79%	1.84%
Weighted average expected term (in years)	6.25	6.25

The following table summarizes information about stock option activity:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2013	903	\$ 1.09
Granted	280	1.81
Exercised	(2)	1.00
Forfeited or Expired	—	—
Outstanding at December 31, 2013	1,181	\$ 1.26
Granted	207	1.09
Exercised	(35)	0.75
Forfeited or Expired	(21)	1.77
Outstanding at December 31, 2014	1,332	\$ 1.24
Exercisable at December 31, 2014	830	\$ 1.10

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As of December 31, 2014 and 2013, the weighted-average remaining contractual term of unexercised stock options was 6.7 years and 7.2 years, respectively.

A summary of the Company's restricted share activity is presented below:

	Shares	Weighted Average Exercise Price
Restricted outstanding at January 1, 2013	1,050	\$ 1.56
Granted	—	—
Vested	(388)	1.48
Forfeited or Expired	(15)	1.81
Outstanding at December 31, 2013	647	\$ 1.60
Granted	—	—
Vested	(307)	1.52
Forfeited or Expired	(125)	1.51
Outstanding at December 31, 2014	215	\$ 1.78

As of December 31, 2014 and 2013, there was \$0.5 million and \$0.8 million, respectively, of unrecognized compensation cost related to stock options and restricted stock issuances granted under the Plan. The Company intends to issue new shares of its common stock upon vesting of restricted stock grants or the exercise of stock options.

In November 2014, our 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 in one or more open market or privately negotiated transactions depending on market price and other factors. We expect to use available cash on hand and cash generated from operating activities to fund the common share repurchase program.

For the year ended December 31, 2014, we purchased 95,400 shares of our Class A common stock under the repurchase program for approximately \$103 (including commissions of \$2). At December 31, 2014, 2.9 million shares of our Class A common stock authorized for repurchase remain available for repurchase. See Item 5 for further discussion on our common stock repurchase program.

### 13. NOTE RECEIVABLE

The Company originated a note receivable to a third party in the amount of \$180 during 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest. The note bears a fixed interest rate of 6% per annum. As of December 31, 2014, the outstanding balance of the note was \$173 and was included within 'Other assets' in the accompanying consolidated balance sheets, the interest income of \$4 for the year ended December 31, 2014 is included in 'Other income, net' in the consolidated statements of operations. No notes receivable were issued, or outstanding, as of December 31, 2013.

### 14. SEVERANCE AND RESTRUCTURING

In connection with the departure of Gregory V. Benson, the Company's former President and Chief Operating Officer, in May 2014, the Company entered into a Separation Agreement with Mr. Benson. 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 effective May 1, 2014. The total healthcare cost was \$14 for 12 months beginning May 1, 2014. Additionally, the Company recorded \$131 against stock based compensation during the year to account for the forfeiture of the stock options and restricted stock awards previously granted to Mr. Benson. The severance and restructuring charge was included in 'General and administrative' expenses in the accompanying consolidated statements of operations. The remainder of the accrual of the severance cost, \$336, as of December 31, 2014 is included in the 'Accounts payable and accrued liabilities' in the accompanying consolidated balance sheets. There were no severance and restructuring charges in 2013.

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

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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 December 31, 2014, the Company has not exercised any portion of its option under the agreement

## 15. 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 or 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 December 31, 2014 and 2013, the Company had issued \$4.3 million in letters of credit. At December 31, 2014, the Company had \$4.4 million and \$2.1 million in performance and payment bonds, respectively, outstanding to third parties. No amounts have been drawn against these 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.

## 16. FAIR VALUE DISCLOSURES

ASC 820 establishes a framework for measuring fair value, expands disclosures regarding fair value measurements and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. The three measurement input levels for determining fair value are as follows

- Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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.

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The fair value of fixed and floating rate debt is based on unobservable inputs (Level 3 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:

	December 31, 2014	December 31, 2013
Carrying amount	\$ 45,931	\$ 29,968
Fair value	\$ 44,854	\$ 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.

The Company may also value its non-financial assets and liabilities, including items such as real estate inventories and long lived assets, at fair value on a non recurring basis if it is determined that impairment has occurred. Such fair value measurements use significant unobservable inputs and are classified as Level 3. See Notes 2 and 4 for further discussion of the valuation techniques and inputs used.

In 2014, we wrote-off \$2.7 million in land and land development costs related to the Momentum | Shady Grove project. The write-off occurred in December 2014 due to a revision in our previous disposition strategy. The impairment charge was calculated using a discounted cash flow analysis model, which is dependent upon several subjective factors, including the selection of an appropriate discount rate, estimated average sales price and estimated sales rates. In performing our impairment modeling, we must select what we believe is an appropriate discount rate based on current market cost of capital and return expectations. During 2013, we wrote-off \$1.1 million in due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred in December 2013 due to the Company's unsuccessful attempt to obtain entitlement approvals.

Due to a change to an individual unit retail sale strategy from our previous bulk sale disposition strategy, we reversed a previously recorded impairment charge of \$0.7 million during the year ended December 31, 2013. See real estate inventories in Note 4 in the accompanying consolidated financial statements for further discussion and the basis for determining the impairment charges and reversals.

## 17. 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 for the years ended December 31, 2014 and 2013, from this unconsolidated joint venture of \$142 and \$114, respectively, is included in 'Other income, net' in the accompanying consolidated statement of operations. During the years ended December 31, 2014 and 2013, the Company collected and recorded a distribution of \$174 and \$55, respectively, from this joint venture as a return on investment.

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

	Twelve Months Ended December 31,	
	2014	2013
<b>Statement of Operations:</b>		
Total net revenue	\$ 399	\$ 326
Total expenses	116	98
Net income	<u>\$ 283</u>	<u>\$ 228</u>
Comstock Holding Companies, Inc. pro rata share of net income	<u>\$ 142</u>	<u>\$ 114</u>

## 18. INCOME TAXES

The effective tax rate for the years ended December 31, 2014 and 2013 was 4.5% and 17.1%, respectively after adjustment for non-includable partnership income arising from non-controlling interests. This resulted in \$0.4 million and \$0.3 million in tax expense for the twelve month periods ended December 31, 2014 and 2013, respectively. This tax arises from taxable income generated in the District of Columbia against which the Company has no tax net operating losses to offset.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance.

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The Company currently has approximately \$123 million in federal and state NOLs, which based on current statutory tax rates, have potential fair value of approximately \$48 million in tax savings. If unused, these NOLs will begin expiring in 2028. Under Code Section 382 (“Section 382”) rules, if a change of ownership is triggered, the Company’s NOL assets and possibly certain other deferred tax assets may be impaired. We estimate that as of December 31, 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 December 31, 2014, because of the Company’s full valuation allowance on its net deferred tax assets.

The Company’s ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an “ownership change” as defined under Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders over a specified time period (generally three years). Given Section 382’s broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company’s stock that is outside of the Company’s control. In an effort to preserve the availability of these NOLs, Comstock adopted a Section 382 stockholder rights plan. This plan expired in May 2014. On March 27, 2015, Comstock adopted a new Internal Revenue Code Section 382 stockholder rights plan (the “Rights Plan”) that will be submitted to a vote of the Company’s stockholders at the 2015 Annual Meeting of Stockholders. The Rights Plan was adopted to reduce the likelihood of such an unintended “ownership change” and thus assist in preserving the value of these tax benefits. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years.

The Company has not recorded any accruals related to uncertain tax positions as of December 31, 2014 and 2013, respectively. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2011 through 2013 tax years remain subject to examination by federal and most state tax authorities.

Income tax provision consists of the following as of December 31:

	<u>2014</u>	<u>2013</u>
<b>Current:</b>		
Federal	\$ —	\$ —
State	<u>(368)</u>	<u>(346)</u>
	(368)	(346)
<b>Deferred:</b>		
Federal	4,063	269
State	<u>741</u>	<u>49</u>
	4,804	318
Valuation allowance	<u>(4,804)</u>	<u>(318)</u>
Total income tax expense	<u>\$ (368)</u>	<u>\$(346)</u>

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

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Inventory	\$ 1,092	\$ 44
Investments in affiliates	2,233	242
Warranty	323	199
Net operating loss and tax credit carryforwards	47,967	46,191
Accrued expenses	92	159
Stock based compensation	457	494
	<u>52,164</u>	<u>47,329</u>
Less - valuation allowance	<u>(52,135)</u>	<u>(47,330)</u>
Net deferred tax assets	29	(1)
Deferred tax liabilities:		
Depreciation and amortization	<u>(29)</u>	<u>1</u>
Net deferred tax liabilities	<u>(29)</u>	<u>1</u>
Net deferred tax assets (liabilities)	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the statutory rate and the effective tax rate after adjustments for non-includable partnership income arising from non-controlling interest follows:

	<u>2014</u>	<u>2013</u>
Federal statutory rate	(35.00)%	(35.00)%
State income taxes - net of federal benefit	(3.90)%	(3.90)%
Permanent differences	0.07%	0.19%
Tax reserve and other	(18.35)%	(0.37)%
Change in valuation allowance	58.04%	15.66%
Current state income tax	4.45%	17.06%
Other, net	<u>(0.86)%</u>	<u>23.42%</u>
Effective tax rate	<u>4.45%</u>	<u>17.06%</u>

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## 19. QUARTERLY RESULTS (unaudited)

Quarterly results for the years ended December 31, 2014 and 2013 are as follows (in thousands, except per share amounts):

	Three months ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	\$ 7,954	\$11,800	\$ 18,367	\$ 9,844
Operating (loss) income	(824)	(624)	1,022	(2,550)
Pretax (loss) income	(769)	(612)	1,128	(2,493)
Net (loss) income	(843)	(669)	991	(2,593)
Net (loss) attributable to Comstock Holding Companies, Inc.	(1,579)	(1,664)	(159)	(3,437)
Basic (loss) per share	(0.08)	(0.08)	(0.01)	(0.15)
Diluted (loss) per share	(0.08)	(0.08)	(0.01)	(0.15)

	Three months ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	\$ 11,557	\$12,213	\$ 9,572	\$ 21,272
Operating income (loss)	1,035	(17)	406	1,316
Pretax income	1,062	114	447	1,384
Net income	1,062	114	250	1,235
Net income (loss) attributable to Comstock Holding Companies, Inc.	723	(838)	(739)	(1,176)
Basic earnings (loss) per share	0.04	(0.04)	(0.03)	(0.07)
Diluted earnings (loss) per share	0.03	(0.04)	(0.03)	(0.07)

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year due to rounding.

## 20. SUBSEQUENT EVENTS

On February 20, 2015, the Company entered into an acquisition, development and construction loan agreement with a local bank for \$7.3 million in connection with its Stone Ridge single-family home project in Loudoun County, Virginia. The loan provides for a variable interest rate of Prime plus 0.5% per annum with an interest rate floor of 4.5% per annum. This loan matures on February 20, 2017, and has an automatic extension date through February 20, 2018 as long as certain conditions are met. This loan is collateralized by the first deed of trust on the project and guaranteed by the Company's Chief Executive Officer.

On March 17, 2015, the Company entered into a development and construction loan agreement with Cardinal Bank for \$6.7 million in connection with the Two Rivers I project. The loan provides for a variable interest rate of LIBOR plus 3.5% per annum with an interest rate floor of 4.625% per annum. This loan matures on March 17, 2018. This loan is collateralized by the first deed of trust on the project and guaranteed by the Company's Chief Executive Officer.

On March 18, 2015, the board of directors approved the adoption and execution of a Section 382 Rights Agreement and authorized and declared a dividend distribution of one preferred stock purchase right (a "Right") for each share of our Class A common stock or Class B common stock of the Company outstanding to stockholders of record at the close of business on May 16, 2015. The description and terms of the Rights are set forth in the Section 382 Rights Agreement (the "Rights Agreement") dated March 27, 2015 by and between the Company and American Stock Transfer & Trust Company, LLC. Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, at a purchase price of \$12.80 per Unit, subject to adjustment. The Rights Agreement was adopted to preserve the Company's tax assets associated with net operating loss carryforwards under Section 382 of the Internal Revenue Code. The Rights Agreement will be submitted to a vote of the Company's stockholders at the 2015 Annual Meeting of Stockholders.

On April 8, 2015, the Company extended its revolving construction, acquisition, development loans with Eagle Bank. Simultaneously, the Company also extended its mezzanine financing with Eagle Commercial Ventures. The extensions provide for a new maturity date of June 22, 2015. All other terms of the original agreements remain in full force and effect.

As of April 8, 2015, the Company has received \$3.3 million in additional proceeds under the CGF loan agreement. As part of the additional proceeds received, we issued 268 warrants representing the rights to purchase shares of the Company's Class A common stock. In addition, the Company also granted 520 shares of the Company's Class A common stock to the investors participating in the CGF Private Placement.

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION OF  
COMSTOCK HOMEBUILDING COMPANIES, INC.**

Comstock Homebuilding Companies, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. The corporation was incorporated on May 24, 2004, under the name Comstock Companies, Inc., pursuant to the General Corporation Law of the State of Delaware. The Certificate of Incorporation was amended on July 2, 2004.
2. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of the corporation.
3. The text of the Certificate of Incorporation is hereby amended and restated in its entirety as follows:

**“ARTICLE I  
NAME**

The name of the Corporation is Comstock Homebuilding Companies, Inc. (the “Corporation”).

**ARTICLE II  
REGISTERED OFFICE AND AGENT**

The address of the Corporation’s registered office in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

**ARTICLE III  
PURPOSE**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the “DGCL”).

**ARTICLE IV  
CAPITAL STOCK**

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is One Hundred Million (100,000,000) shares, of which:

Seventy Seven Million Two Hundred Sixty Six Thousand and Five Hundred (77,266,500) shares, par value \$0.01 per share, shall be shares of Class A common stock (the “Class A Common Stock”);

Two Million Seven Hundred Thirty Three and Five Hundred (2,733,500) shares, par value \$0.01 per share, shall be shares of Class B common stock (the “Class B Common Stock” and, together with the Class A Common Stock, the “Common Stock”); and

Twenty Million (20,000,000) shares, par value \$0.01 per share, shall be shares of preferred stock (the “Preferred Stock”).

(A) Common Stock. Except as (i) otherwise required by law or (ii) expressly provided in this Amended and Restated Certificate of Incorporation (as amended from time to time), each share of Common Stock shall have the same powers, rights and privileges and shall rank equally, share ratably and be identical in all respects as to all matters.

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(1) Dividends. Subject to the rights of the holders of Preferred Stock, and to the other provisions of this Amended and Restated Certificate of Incorporation (as amended from time to time), holders of Common Stock shall be entitled to receive equally, on a per share basis, such dividends and other distributions in cash, securities or other property of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor; provided, however, that any dividends payable in shares of Common Stock (or payable in rights to subscribe for or purchase shares of Common Stock or securities or indebtedness convertible into or exchangeable for shares of Common Stock) shall be declared and paid at the same rate on each class of Common Stock and only in shares of Class A Common Stock (or rights to subscribe for or to purchase shares of Class A Common Stock or securities or indebtedness convertible into or exchangeable for shares of Class A Common Stock) to holders of Class A Common Stock and in shares of Class B Common Stock (or rights to subscribe for or to purchase shares of Class B Common Stock or securities or indebtedness convertible into or exchangeable for shares of Class B Common Stock) to holders of Class B Common Stock.

(2) Voting Rights. Except as otherwise provided in this Amended and Restated Certificate of Incorporation, the holders of Class A Common Stock and Class B Common Stock shall vote together as a single class with respect to all matters submitted to a vote of holders of shares of Common Stock, subject to any voting rights which may be granted to holders of any Preferred Stock. The holders of shares of Common Stock shall have the following voting rights:

(a) Each share of Class A Common Stock shall entitle the holder thereof to one (1) vote in person or by proxy on all matters submitted to a vote of the stockholders of the Corporation; and

(b) Each share of Class B Common Stock shall entitle the holder thereof to fifteen (15) votes in person or by proxy on all matters submitted to a vote of the stockholders of the Corporation, except with respect to any Going Private Transaction (as hereinafter defined), which shall be governed by Paragraph (A)(10) of this Article IV.

(3) Liquidation Rights. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the Corporation's debts and amounts payable upon shares of Preferred Stock entitled to a preference, if any, over holders of Common Stock upon such dissolution, liquidation or winding up, the remaining net assets of the Corporation shall be distributed among holders of shares of Common Stock equally on a per share basis. A merger or consolidation of the Corporation with or into any other corporation or other entity, or a sale or conveyance of all or any part of the assets of the Corporation (which shall not in fact result in the liquidation of the Corporation and the distribution of assets to its stockholders) shall not be deemed to be a voluntary or involuntary liquidation or dissolution or winding up of the Corporation within the meaning of this Paragraph (A)(3).

(4) Voluntary Conversion of Class B Common Stock.

(a) The holder of each share of Class B Common Stock shall have the right at any time, or from time to time, at such holder's option, to convert such share into one fully paid and nonassessable share of Class A Common Stock on and subject to the terms and conditions hereinafter set forth.

(b) In order to exercise the conversion privilege, the holder of any shares of Class B Common Stock to be converted shall present and surrender the certificate or certificates representing such shares during usual business hours at any office or agency of the Corporation maintained for the transfer of Class B Common Stock and shall deliver a written notice of the election of the holder to convert the shares represented by such certificate or any portion thereof specified in such notice. Such notice shall also state the name or names (with address) in which the certificate or certificates for shares of Class A Common Stock issuable on such conversion shall be registered. If required by the Corporation, any certificate for shares surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder of such shares or his duly authorized representative. Each conversion of shares of Class B Common Stock shall be deemed

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to have been effected on the date (the "Conversion Date") on which the certificate or certificates representing such shares shall have been surrendered and such notice and any required instruments of transfer shall have been received as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Class A Common Stock shall be issuable on such conversion shall be, for the purpose of receiving dividends and for all other corporate purposes whatsoever, deemed to have become the holder or holders of record of the shares of Class A Common Stock represented thereby on the Conversion Date.

(c) As promptly as practicable after the presentation and surrender for conversion, as herein provided, of any certificate for shares of Class B Common Stock, the Corporation shall issue and deliver at such office or agency, to or upon the written order of the holder thereof, certificates for the number of shares of Class A Common Stock issuable upon such conversion. Subject to the provisions of Paragraph (A)(5) of this Article IV, in case any certificate for shares of Class B Common Stock shall be surrendered for conversion of only a part of the shares represented thereby, the Corporation shall deliver at such office or agency, to or upon the written order of the holder thereof, a certificate or certificates for the number of shares of Class B Common Stock represented by such surrendered certificate that are not being converted.

(5) Automatic Conversion of Class B Common Stock Upon Certain Events.

(a) As used in this Paragraph A(5), the following terms have the following meanings:

(i) "Initial Holder" shall mean each of Christopher Clemente and Gregory V. Benson, individually.

(ii) "IPO Date" shall mean the closing date of any initial public offering of the Class A Common Stock in a firm commitment underwritten offering that is registered with the U.S. Securities and Exchange Commission.

(iii) "Permitted Transferee" shall mean:

(AA) In the case of a holder of record of the Class B Common Stock (the "Class B Holder") who is a natural person and the beneficial owner of the shares of Class B Common Stock to be transferred, Permitted Transferees shall include only the following:

(I) the spouse of such Class B Holder, any lineal descendant of a grandparent of such Class B Holder, or any spouse of such lineal descendant (herein collectively referred to as such Class B Holder's "Family Members");

(II) the trustee or trustees of a trust (including a voting trust) for the sole benefit of such Class B Holder and/or one or more of such Class B Holder's Permitted Transferees, except that such trust may also grant a general or special power of appointment to one or more of such Class B Holder's Family Members and may permit trust assets to be used to pay taxes, legacies, and other obligations of the Trust or the estates of one or more of such Class B Holder's Family Members payable by reason of the death of any of such Family Members; provided, however, if at any time such trust ceases to meet the requirements of this subparagraph (II), all shares of Class B Common Stock then held by such trustee or trustees shall immediately and automatically, without further act or deed on the part of the Corporation or any person, be converted into Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like number of shares of Class A Common Stock;

(III) a corporation or similar entity wholly owned by such Class B Holder and/or such Class B Holder's Permitted Transferees or a partnership or similar entity in which all of the general partners are, and all of the general partnership interests are owned by, such Class B Holder and/or such Class B Holder's Permitted Transferees; provided that if by reason of any change in the ownership of such stock or general partners or general partnership interests, such corporation or

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partnership would no longer qualify as a Permitted Transferee of such Class B Holder, all shares of Class B Common Stock then held by such corporation or partnership shall immediately and automatically, without further act or deed on the part of the corporation or any other person, be converted into shares of Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like number of shares of Class A Common Stock;

(IV) an organization established by the Class B Holder and/or such Class B Holder's Permitted Transferees, contributions to which are deductible for federal income, estate, or gift tax purposes (a "Charitable Organization") and a majority of whose governing board at all times consists of the Class B Holder and/or one or more of the Permitted Transferees of such Class B Holder, or any successor to such Charitable Organization meeting such definition; provided that if by reason of any change in the composition of the governing board of such Charitable Organization, such Charitable Organization shall no longer qualify as a Permitted Transferee of such Class B Holder, all shares of Class B Common Stock then held by such Charitable Organization shall immediately and automatically, without further act or deed on the part of the Corporation or any other person, be converted into shares of Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent the like number of shares of Class A Common Stock; and

(V) the executor, administrator, or personal representative of the estate of a deceased Class B Holder or guardian or conservator of a Class B Holder adjudged disabled or incompetent by a court of competent jurisdiction, acting in his capacity as such.

(BB) In the case of a Class B Holder who is the executor or administrator of the estate of a deceased Class B Holder or guardian or conservator of the estate of a disabled or incompetent Class B Holder, Permitted Transferees shall include only a Permitted Transferee of such deceased, disabled, or incompetent Class B Holder.

(CC) In the case of a Class B Holder holding the shares of Class B Common Stock as trustee pursuant to a trust, Permitted Transferees shall include only the following:

(I) the person who contributed such shares to such trust and any Permitted Transferee of such person, determined in accordance with Paragraph (A)(5)(a)(iii)(AA) of this Article IV; and

(II) any successor trustee of such trust who is described in the immediately preceding subparagraph (CC)(I).

(DD) In the case of a Class B Holder that is a partnership or similar entity, Permitted Transferees shall include only:

(I) any partner of such partnership who was also a partner of such partnership on the IPO Date;

(II) any person transferring shares of Class B Common Stock to such partnership after the IPO Date (to the extent of the number of shares of Class B Common Stock transferred by the transferor to such partnership); and

(III) any Permitted Transferee of such person referred to in the immediately preceding subparagraphs (DD)(I) or (DD)(II) (not in excess of the number of shares that such person is entitled to receive pursuant to this subparagraph (DD)).

(EE) In the case of a Class B Holder that is a corporation or similar entity, Permitted Transferees shall include only:

(I) any stockholder of such corporation on the IPO Date who receives shares of Class B Common Stock pro rata to his stock ownership in such corporation through a dividend or a distribution on or upon redemption of the shares of such corporation;

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(II) any person transferring shares of Class B Common Stock to such corporation after the IPO Date (to the extent of the number of shares of Class B Common Stock transferred by the transferor to such corporation); and

(III) any Permitted Transferee of such stockholder or person referred to in the immediately preceding subparagraphs (EE)(I) or (EE)(II) (not in excess of the number of shares that such stockholder or person is entitled to receive pursuant to this subparagraph (EE)).

(FF) An employee benefit plan sponsored by the Corporation or any of its affiliates.

(GG) Any Initial Holder.

For purposes of this Paragraph (A)(5)(a)(iii), (1) the relationship of any person that is derived by or through legal adoption shall be considered a natural one; (2) each joint owner of shares of Class B Common Stock shall be considered a Class B Holder of such shares; (3) a minor for whom shares of Class B stock are held pursuant to a Uniform Gifts to Minors Act or similar law shall be considered a Class B Holder of such shares; and (4) unless otherwise specified, the term "person" means both natural person and legal entities.

(iv) "Transfer" shall mean any sale, assignment, transfer, gift, hypothecation or other disposition, whether voluntary or involuntary, of Class B Common Stock.

(b) No record or beneficial owner of shares of Class B Common Stock may Transfer, and the Corporation shall not register the Transfer of such shares of Class B Common Stock, whether by sale, assignment, gift, bequest, appointment, or otherwise, except to a Permitted Transferee.

(c) Any purported Transfer of shares of Class B Common Stock not permitted hereunder shall result in the conversion of the transferee's shares of Class B Common Stock into shares of Class A Common Stock, effective on the date on which certificates representing such shares are presented for transfer on the stock transfer record books of the Corporation; provided, however, that if the Corporation should determine that such shares were not so presented for transfer within 20 days after the date of such sale, transfer, assignment, or other disposition, the transfer date shall be the actual date of such sale, transfer, assignment, or other disposition as determined in good faith by the Board of Directors or its appointed agent. The Corporation may, as a condition to the transfer or the registration of transfer of shares of Class B Common Stock to a purported Permitted Transferee, require the furnishing of such affidavits or other proof as it deems necessary to establish that such transferee is a Permitted Transferee. If no indication to the contrary is supplied at the time shares of Class B Common Stock are presented for transfer, the transfer shall be presumed by the Corporation to be a transfer to a person other than the Permitted Transferee.

(d) Shares of Class B Common Stock shall not be registered in "street" or "nominee" names; provided, however, that certificates representing shares of Class B Common Stock may be registered in the name of a nominee which is a Permitted Transferee. The Corporation shall note on the certificates representing the shares of Class B Common Stock that there are restrictions on transfer and registration of transfer imposed by this Amended and Restated Certificate of Incorporation.

(e) Notwithstanding anything to the contrary set forth herein, (i) upon the death or permanent disability (as determined in good faith by the Board of Directors) of either of the Initial Holders, all shares of Class B Common Stock then held by such Initial Holder shall be converted automatically into shares of Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like number of shares of Class A Common Stock; (ii) if either Initial Holder ceases to beneficially own (as such term is defined under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) at least 5% of the then-outstanding shares of Common Stock, all shares of Class B Common Stock then held by such Initial Holder shall be converted automatically into shares of Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like

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number of shares of Class A Common Stock; and (iii) upon a Permitted Transferee ceasing to qualify as a Permitted Transferee (and subject to the operation of Paragraph (A)(5)(f) of this Article IV) all shares of Class B Common Stock held by it shall be converted automatically into shares of Class A Common Stock on a share-for-share basis, and stock certificates formerly representing such shares of Class B Common Stock shall thereupon and thereafter be deemed to represent a like number of shares of Class A Common Stock.

(f) Notwithstanding the foregoing, in the event that any transferee of Class B Common Stock is not at the time of transfer or thereafter ceases to qualify as a Permitted Transferee, and within ten business days after the Corporation notifies such person that it has concluded that such person is not or has ceased to qualify as a Permitted Transferee and the bases for such conclusion, such person transfers the shares of Class B Common Stock to a Permitted Transferee, demonstrates that it is a Permitted Transferee or takes appropriate action so that it qualifies as a Permitted Transferee, then notwithstanding anything else in this Section 4.2, the shares of Class B Common Stock held by such person that converted automatically into shares of Class A Common Stock as a result of such person not being or ceasing to qualify as a Permitted Transferee shall convert back to Class B Common Stock.

(g) No Class B Holder may pledge its Class B Common Stock to a third party for any reason, including but not limited to a pledge of such Class B Common Stock as collateral security for indebtedness or a similar obligation.

(6) Further Provisions Regarding Conversions.

(a) Any dividends declared and not paid on shares of Common Stock prior to their conversion as provided above shall be paid, on the payment date, to the holder or holders entitled thereto on the record date for such dividend payment, notwithstanding such conversion; provided, however, that such holder or holders shall not be entitled to receive the corresponding dividends declared but not paid on the shares of Common Stock issuable upon such conversion.

(b) In the event of a reclassification or other similar transaction as a result of which the shares of Class A Common Stock are converted into another security, then a holder of Class B Common Stock shall be entitled to receive upon conversion the amount of such security that such holder would have received if such conversion had occurred immediately prior to the record date of such reclassification or other similar transaction.

(c) Shares of the Class B Common Stock converted into Class A Common Stock shall be retired and shall resume the status of authorized but unissued shares of Class B Common Stock.

(d) The issuance of certificates for shares of Class A Common Stock issuable upon the conversion of shares of Class B Common Stock by the registered holder thereof shall be made without charge to the converting holder for any tax imposed on the Corporation in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax that may be payable with respect to any transfer involved in the issue and delivery of any certificate in a name other than that of the registered holder of the shares being converted, and the Corporation shall not be required to issue or deliver any such certificate unless and until the person requesting the issue thereof shall have paid to the Corporation the amount of such tax or has established to the satisfaction of the Corporation that such tax has been paid.

(7) Reservation of Shares. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of effecting the conversions provided for herein, such number of shares of Class A Common Stock as shall from time to time be sufficient to effect the conversions provided for herein and shall take all such corporate action as may be necessary to assure that such shares of Class A Common Stock shall be validly issued, fully paid and non-assessable upon conversion of all of the outstanding shares of Class B Common Stock; moreover, if at any time the number of authorized but unissued shares of Class A Common Stock shall not be sufficient to effect the conversions provided for herein, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Class A Common Stock to such number of shares as shall be sufficient for such purpose.

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(8) Adjustments for Stock Splits and Stock Dividends. The Corporation shall treat the shares of Common Stock identically in respect of any subdivisions or combinations (for example, if the Corporation effects a two-for-one stock split with respect to the Class A Common Stock, it shall at the same time effect a two-for-one stock split with respect to the Class B Common Stock).

(9) Mergers, Consolidation, Etc. In the event that the Corporation shall enter into any consolidation, merger, combination or other transaction in which shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then, and in such event, the shares of each class of Common Stock shall be exchanged for or changed into (i) the same amount of stock, securities, cash and/or any other property, as the case may be, into which or for which each share of any other class of Common Stock is exchanged or changed; provided, however, that if shares of Common Stock are exchanged for or changed into shares of capital stock, such shares so exchanged for or changed into may differ to the extent and only to the extent that the Class A Common Stock and the Class B Common Stock differ as provided herein; or (ii) if holders of each class of Common Stock are to receive different distributions of stock, securities, cash and/or any other property, either (1) holders of Class A Common Stock shall receive an amount of stock, securities, cash and/or property per share having a value, as determined by an independent investment banking firm of national reputation selected by the Board of Directors, greater than or equal to the value per share into which or for which each share of Class B Common Stock is exchanged or changed, or (2) holders of Class A Common Stock and holders of Class B Common Stock shall receive such stock, securities, cash and/or property per share as shall be provided for pursuant to a transaction approved by the holders of a majority of Class A Common Stock and by the holders of a majority Class B Common Stock, each voting separately as a class.

(10) Going Private Transaction. Notwithstanding anything to the contrary contained in this Amended and Restated Certificate of Incorporation, with respect to any Going Private Transaction (as defined below), the holders of shares of Class A Common Stock and Class B Common Stock shall vote together as a single class, with each share of Class A Common Stock and each share of Class B Common Stock entitling the holder thereof to one (1) vote. For purposes of this Paragraph (A)(10), the term "Going Private Transaction" shall mean any transaction between the Corporation and (i) an Initial Holder, (ii) any Affiliate (as defined below) of an Initial Holder, or (iii) any group including an Initial Holder or Affiliates of an Initial Holder where the participation of such person or persons in such group would cause the transaction to be deemed a "Rule 13e-3 Transaction," as such term is defined in Rule 13e-3(a)(3), as amended from time to time, promulgated under the Exchange Act; provided, however, that the term "affiliate" as used in Rule 13e-3(a)(3)(i) shall be deemed to include an Affiliate, as defined herein. For purposes hereof, an "Affiliate" of a person shall mean (i) any individual or entity who or that, directly or indirectly, controls, is controlled by, or is under common control with such person, and (ii) the spouse, a child or grandchild (by blood, adoption or marriage) of such person, or any trust for the benefit of one or more of the foregoing.

(B) Preferred Stock. The Board of Directors is authorized, subject to limitations prescribed by law, to provide by resolution or resolutions for the issuance of shares of Preferred Stock in one or more series, to establish the number of shares to be included in each such series, and to fix the voting powers (if any), designations, powers, preferences, and relative, participating, optional or other rights, if any, of the shares of each such series, and any qualifications, limitations or restrictions thereof. Irrespective of the provisions of Section 242(b)(2) of the DGCL, the number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote, without the separate vote of the holders of the Preferred Stock as a class.

## **ARTICLE V BOARD OF DIRECTORS**

(A) Management. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or this Amended and Restated Certificate of Incorporation directed or required to be exercised or done by the stockholders.

(B) Number of Directors. The number of directors of the Corporation shall be fixed from time to time in the manner provided in the Amended and Restated Bylaws.

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(C) Newly-Created Directorships and Vacancies. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or any other cause may be filled by the Board of Directors, provided that a quorum is then in office and present, or by a majority of the directors then in office, if less than a quorum is then in office, or by the sole remaining director. Directors elected to fill a newly created directorship or other vacancies shall hold office until such director's successor has been duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

(D) Removal of Directors. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director may be removed from office at any time for cause, at a meeting called for that purpose, and only by the affirmative vote of the holders of at least 66-2/3% of the voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

(E) Rights of Holders of Preferred Stock. Notwithstanding the foregoing provisions of this Article V, whenever the holders of one or more series of Preferred Stock issued by the Corporation shall have the right, voting separately or together by series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorship shall be governed by the rights of such Preferred Stock as set forth in the certificate of designations governing such series.

(F) Written Ballot Not Required. Elections of directors need not be by written ballot unless the Amended and Restated Bylaws of the Corporation shall otherwise provide.

(G) Bylaws. The Board of Directors is expressly authorized to adopt, amend or repeal the bylaws of the Corporation. Any bylaws made by the directors under the powers conferred hereby may be amended or repealed by the directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Amended and Restated Certificate of Incorporation to the contrary, the bylaws of the Corporation shall not be amended or repealed by the stockholders, and no provision inconsistent therewith shall be adopted by the stockholders, without the affirmative vote of the holders of 66-2/3% of the voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

(H) Classification of Directors. At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall be not so held, such election shall take place at a stockholders' meeting called and held in accordance with the DGCL. The directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The term of office of the initial Class I directors shall expire at the next succeeding annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the second succeeding annual meeting of stockholders and the term of office of the initial Class III directors shall expire at the third succeeding annual meeting of the stockholders. For the purposes hereof, the initial Class I, Class II and Class III directors shall be those directors elected by the stockholders of the Corporation in connection with the adoption of this Amended and Restated Certificate of Incorporation. At each annual meeting after the first annual meeting of stockholders, directors to replace those of a Class whose terms expire at such annual meeting shall be elected to hold office until the third succeeding annual meeting and until their respective successors shall have been duly elected and qualified. If the number of directors is hereafter changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as practicable.

## **ARTICLE VI LIMITATION OF LIABILITY**

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; *provided, however*, that the foregoing shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an

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improper personal benefit. If the DGCL is hereafter amended to permit further elimination or limitation of the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL as so amended. Any repeal or modification of this Article VI by the stockholders of the Corporation or otherwise shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

## ARTICLE VII INDEMNIFICATION

Each person who was or is made a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, limited liability company, joint venture, trust or other entity, including service with respect to an employee benefit plan (hereinafter an "Indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while so serving, shall be indemnified and held harmless by the Corporation to the full extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), or by other applicable law as then in effect, against all costs, expenses, liabilities and losses (including attorneys' fees and related costs, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"), penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such Indemnitee in connection therewith, and such indemnification shall continue as to a person who has ceased to be a director, officer, partner, member or trustee and shall inure to the benefit of his or her heirs, executors and administrators. Each person who is or was serving as a director or officer of a subsidiary of the Corporation shall be deemed to be serving, or have served, at the request of the Corporation.

(A) Procedure. Any indemnification (but not advancement of expenses) under this Article VII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in the DGCL, as the same exists or hereafter may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment). Such determination shall be made with respect to a person who is a director or officer at the time of such determination (a) by a majority vote of the directors who were not parties to such proceeding (the "Disinterested Directors"), even though less than a quorum, (b) by a committee of Disinterested Directors designated by a majority vote of Disinterested Directors, even though less than a quorum, (c) if there are no such Disinterested Directors, or if such Disinterested Directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders.

(B) Advances for Expenses. Expenses (including attorneys' fees, costs and charges) incurred by a director or officer of the Corporation in defending a proceeding shall be paid by the Corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay all amounts so advanced in the event that it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation as authorized in this Article VII. The majority of the Disinterested Directors may, in the manner set forth above, and upon approval of such director or officer of the Corporation, authorize the Corporation's counsel to represent such person, in any proceeding, whether or not the Corporation is a party to such proceeding.

(C) Procedure for Indemnification. Any indemnification or advance of expenses (including attorney's fees, costs and charges) under this Article VII shall be made promptly, and in any event within 60 days upon the written request of the director or officer (and, in the case of advance of expenses, receipt of a written undertaking by or on behalf of Indemnitee to repay such amount if it shall ultimately be determined that Indemnitee is not entitled to be indemnified therefor pursuant to the terms of this Article VII). The right to indemnification or advances as granted by this Article VII shall be enforceable by the director or officer in any court of competent jurisdiction, if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within 60 days. Such

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person's costs and expenses incurred in connection with successfully establishing his/her right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of expenses (including attorney's fees, costs and charges) under this Article VII where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in the DGCL, as the same exists or hereafter may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he/she has met the applicable standard of conduct set forth in the DGCL, as the same exists or hereafter may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(D) Other Rights: Continuation of Right to Indemnification. The indemnification and advancement of expenses provided by this Article VII shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his/her official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, and shall continue as to a person who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. All rights to indemnification under this Article VII shall be deemed to be a contract between the Corporation and each director or officer of the Corporation who serves or served in such capacity at any time while this Article VII is in effect. Any repeal or modification of this Article VII or any repeal or modification of relevant provisions of the DGCL or any other applicable laws shall not in any way diminish any rights to indemnification of such director or officer or the obligations of the Corporation arising hereunder with respect to any proceeding arising out of, or relating to, any actions, transactions or facts occurring prior to the final adoption of such modification or repeal. For the purposes of this Article VII, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, so that any person who, following such consolidation or merger, is a director or officer of such a constituent corporation or is serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other entity shall stand in the same position under the provisions of this Article VII, with respect to the resulting or surviving corporation during the period following such consolidation or merger, as he would if he/she had served the resulting or surviving corporation in the same capacity.

(E) Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other entity, against any liability asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VII; *provided, however,* that such insurance is available on acceptable terms, which determination shall be made by a vote of a majority of the Board of Directors.

(F) Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each person entitled to indemnification under the first paragraph of this Article VII as to all costs, expenses, liabilities and losses (including attorneys' fees and related costs, judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person and for which indemnification is available to such person pursuant to this Article VII to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the full extent permitted by applicable law.

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**ARTICLE VIII  
ACTION BY WRITTEN CONSENT/SPECIAL MEETINGS OF STOCKHOLDERS**

For so long as either any class of the Corporation's Common Stock is registered under Section 12 of the Exchange Act, or the Corporation is required to file periodic reports with the Securities and Exchange Commission pursuant to Section 15(d) of the Exchange Act with respect to any class of the Corporation's Common Stock: (i) the stockholders of the Corporation may not take any action by written consent in lieu of a meeting, and must take any actions at a duly called annual or special meeting of stockholders and the power of stockholders to consent in writing without a meeting is specifically denied and (ii) special meetings of stockholders of the Corporation may be called only by either the Board of Directors pursuant to a resolution adopted by the affirmative vote of the majority of the total number of directors then in office or by the chief executive officer of the Corporation.

**ARTICLE IX  
AMENDMENT**

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. Notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or the Amended and Restated Bylaws of the Corporation, and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, this Amended and Restated Certificate of Incorporation, the Amended and Restated Bylaws of the Corporation or otherwise, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock required by law, this Amended and Restated Certificate of Incorporation, the Amended and Restated Bylaws of the Corporation or otherwise, (i) the affirmative vote of the holders of at least 66-2/3% of the voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt any provision inconsistent with, to amend or repeal any provision of, or to adopt a bylaw inconsistent with, Articles V, VI, VII, VIII or IX of this Amended and Restated Certificate of Incorporation, and (ii) the rights of the Class B Common Stock may not be amended, altered, changed or repealed without the approval of the holders of a majority of the outstanding shares of Class B Common Stock, voting as a separate class."

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4. The foregoing amendment and restatement of the Certificate of Incorporation has been duly approved by the Board of Directors of the corporation in accordance with the provisions of Sections 144, 242 and 245 of the General Corporation Law of the State of Delaware.

5. The foregoing amendment and restatement of the Certificate of Incorporation has been duly approved by the written consent of the stockholders in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the corporation has caused this Amended and Restated Certificate of Incorporation to be signed by its President on this 17<sup>th</sup> day of December, 2004.

COMSTOCK HOMEBUILDING  
COMPANIES, INC.

By: /s/ Gregory Benson

Name: Gregory Benson

Title: President

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**CERTIFICATE OF AMENDMENT  
OF  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
COMSTOCK HOMEBUILDING COMPANIES, INC.**

Comstock Homebuilding Companies, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

1. The name of the corporation is Comstock Homebuilding Companies, Inc. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on May 24, 2004 and the Amended and Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 17, 2004.

2. The Board of Directors of the Corporation, at a meeting duly convened on May 6, 2011, adopted resolutions proposing and declaring advisable that Article IV(A)(2)(b) of the Amended and Restated Certificate of Incorporation of the Corporation be amended in its entirety to read as follows:

Each share of Class B Common Stock shall entitle the holder thereof to the Applicable Class B Per Share Vote in person or by proxy on all matters submitted to a vote of the stockholders of the Corporation, except with respect to any Going Private Transaction (as hereinafter defined), which shall be governed by Paragraph (A)(10) of this Article IV. As used herein, "Applicable Class B Per Share Vote" means fifteen (15) votes, provided that (i) in the event the Rights (such term and other capitalized terms used in this Article (IV)(A)(2)(b) and not otherwise defined in this Amended and Restated Certificate of Incorporation having the meanings assigned to such terms in the Section 382 Rights Agreement dated as of May 6, 2011 between the Corporation and American Stock Transfer & Trust Company, LLC, s the same may be amended from time to time (the "Rights Plan")) become exercisable for Class A Common Stock and/or other voting securities in accordance with Section 11 of the Rights Plan, "Applicable Class B Per Share Vote" shall mean the number of votes per share of Class B Common Stock that result in the aggregate voting power of the outstanding Class B Common Stock as a percentage of the total voting power of the outstanding voting securities of the Company immediately following time at which the Rights become so exercisable, when taken together with the aggregate voting power of all such Class A Common Stock and/or other voting securities issuable upon exercise of Rights distributed with respect to the Class B Common Stock, being equal to the aggregate voting power of the outstanding Class B Common Stock as a percentage of the total voting power of the outstanding voting securities of the Company immediately prior to the time at which the Rights become so exercisable, assuming the exercise of all Rights (taking into account from time to time each adjustment to the number of shares of Class A Common Stock or other voting securities so issuable, each adjustment to the Purchase Price and each adjustment to the number of outstanding Rights that is given effect in accordance with the terms of the Rights Plan), and (ii) in the event the Board of Directors of the Company takes an action to exchange all or any portion of the Rights for shares of Class A Common Stock and/or other voting securities in accordance with Section 27 of the Rights Plan, from and after the date of such action, the calculation of the Applicable Class B Per Share Vote to be made pursuant to clause (i) of this proviso shall be made by substituting for the number of shares of Class A Common Stock and other voting securities issuable upon exercise of the Rights to be so exchanged the number of shares of Class A Common Stock and other voting securities to be issued in exchange for such Rights.

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3. This Certificate of Amendment was duly adopted by the stockholders of the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Comstock Homebuilding Companies, Inc. has caused this Certificate of Amendment to be executed as of this 17<sup>th</sup> day of June, 2011.

COMSTOCK HOMEBUILDING COMPANIES, INC.

By: /s/ Christopher Clemente  
Name: Christopher Clemente  
Title: CEO

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**COMSTOCK HOMEBUILDING COMPANIES, INC.**  
**CERTIFICATE OF AMENDMENT**

Comstock Homebuilding Companies, Inc., a Delaware corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Corporation resolutions were duly adopted setting forth a proposed amendment of the Amended and Restated Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and directing that this Certificate of Amendment be considered at the next annual meeting of stockholders of the Corporation. The resolution setting forth the proposed amendment is substantially as follows:

**RESOLVED**, that the Board hereby approves and adopts a certificate of amendment to the Charter, so that, as amended, Article I of the Charter shall be and read as, "The name of the Corporation is Comstock Holding Companies, Inc.", declares the Certificate of Amendment to be advisable and directs that the Certificate of Amendment proposed be considered at the next annual meeting of stockholders of the Corporation (the "2012 Annual Meeting");

SECOND: That thereafter, pursuant to resolution of its Board of Directors, an annual meeting of the stockholders of the Corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: The undersigned acknowledges this Certificate of Amendment to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties of perjury.

FIFTH: Except as amended hereby, the rest and remainder of the Corporation's charter shall be and remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation to be signed in its name and on its behalf by its Chairman and Chief Executive Officer and attested to by its General Counsel and Secretary as of the 22nd day of June, 2012.

COMSTOCK HOMEBUILDING COMPANIES, INC.

By: /s/ Christopher Clemente  
Christopher Clemente  
Chairman and Chief Executive Officer

ATTEST

By: /s/ Jubal R. Thompson  
Jubal R. Thompson  
General Counsel and Secretary

AMENDED AND RESTATED  
PROMISSORY NOTE

\$25,000,000.00

\_\_\_\_\_, 201\_\_

**FOR VALUE RECEIVED**, the undersigned, **COMSTOCK HOLDING COMPANIES, INC.**, a Delaware corporation (the “**Maker**”), promises to pay to the order of **COMSTOCK GROWTH FUND, L.C.**, a Virginia limited liability company (the “**Lender**”), at 1886 Metro Center Drive, Suite 400, Reston, Virginia 20190, or at such other place as the holder hereof may from time to time designate in writing, the lesser of the principal sum of (i) the Capital Loan Availability advanced in accordance with Section 8.1(a) of the amended and restated operating agreement of the Lender dated \_\_\_\_\_, 201\_\_, or (ii) Twenty-Five Million and No/100 Dollars (\$25,000,000.00)(the “**Commitment**”), or such sum as may otherwise 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 be charged at a variable rate of interest equal to the 30 day LIBOR plus nine and three quarters percent (9.75%) per annum, but in no event shall the interest charged hereunder be less than ten percent (10%) per annum.

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 monthly payments in arrears of accrued interest only, commencing on November 30, 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 October 16, 2017 (the “**Maturity**”). If any payment comes due on a day which is a 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 up to the Commitment amount referenced in this Note and shall be responsible for the payment of the Origination Fee to Lender, as that term is defined in the operating agreement of the Lender. Once payments of principal are made under this Note by Maker, Lender is not obligated to make any re-advances hereunder.

C. Beginning on the first anniversary of the date of this Note, and continuing on each anniversary until the Maturity Date of this Note, Maker shall make a principal curtailment payment under this Note to Lender equal to the amount of ten percent (10%) of the average outstanding Loan balance of this Note for the prior year.

D. 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 the Maker as though such payment had not been made.

E. Except for normal and recurring payments of principal and interest under this Note and to effect the annual clean-up period requirement set forth above, the Note may be pre-paid, in whole or part, provided Maker provides Lender with 10-days’ advance written notice if the maker intends to pay this Note in full.

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3. Late Charges. In the event that any payment of interest is not actually received by the holder hereof within five (5) days of the date such payment is due and payable hereunder, the Maker agrees to pay a late charge equal to four percent (4%) of the late payment.

4. Events of Default. The failure to pay any principal or interest payment at the times stated herein or the resignation or removal of Christopher Clemente as the Chief Executive Officer of the Maker 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 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 per annum rate of interest (the “**Default Rate**”) equal to the lesser of (i) two and one half percent (2.5%) per annum in excess of the 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 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. Notwithstanding the foregoing, upon the occurrence of an Event of Default after the Maturity of this Note, 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 per annum rate of interest (the “**Default Rate**”) equal to the lesser of (i) five percent (5.0%) per annum in excess of the 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 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. 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.

7. 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.**

8. 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.

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9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

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

15. Governing Law. This Note shall be governed in all respects by the laws of the Commonwealth of Virginia and shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. The Maker hereby consents to be sued in an appropriate court in the Commonwealth of Virginia 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 Commonwealth of Virginia and waives any claim of forum non conveniens or for transfer of any such action to any other court.

16. Limitation on Issuance of Debt. The Company hereby agrees not to, without the prior written consent of the holders of a Majority of Interests of the Lender, as that term is defined in the operating agreement of the Lender, to issue any new corporate indebtedness of the Company unless such indebtedness shall be expressly subordinate by its terms to the repayment of this Note; provided however, nothing herein shall limit the Company from (i) providing its corporate guarantee related to its normal and recurring project indebtedness, or (ii) making payments under its existing corporate indebtedness, or making any modifications thereto that may occur from time to time.

17. Notice. Any notice, demand or request under this Note shall be provided in writing and shall be delivered as follows:

To Lender:           Comstock Growth Fund, L.C.  
                          1886 Metro Center Drive, Suite 400  
                          Reston, Virginia 20190  
                          Attn: Christopher Clemente

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With a copy to: Comstock Growth Fund, L.C.

1886 Metro Center Drive, Suite 400  
Reston, Virginia 20190  
Attn: General Counsel

To Maker: Comstock Holding Companies, Inc.

1886 Metro Center Drive, Suite 410  
Reston, Virginia 20190  
Attn: Joseph Squeri, CFO

With a copy to: Comstock Holding Companies, Inc.

1886 Metro Center Drive, Suite 410  
Reston, Virginia 20190  
Attn: Jubal Thompson

**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:

**“THE TRANSFER OF THIS WARRANT IS SUBJECT TO RESTRICTIONS CONTAINED HEREIN. THIS SECURITY HAS BEEN ISSUED IN RELIANCE UPON THE REPRESENTATION OF THIS SECURITY HOLDER THAT IT HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TOWARD THE RESALE OR OTHER DISTRIBUTION THEREOF. NEITHER THIS WARRANT NOR THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR REGISTERED OR QUALIFIED UNDER THE PROVISIONS OF ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THIS WARRANT NOR THE SECURITIES ISSUABLE UPON EXERCISE HEREOF MAY BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL SATISFACTORY TO COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.”**

**FORM OF WARRANT**

**COMSTOCK HOLDING COMPANIES, INC.**

**WARRANTS FOR THE PURCHASE OF SHARES OF COMMON STOCK**

No. [       ]

\_\_\_\_\_ Shares

THIS CERTIFIES that, for value received, Comstock Holding Companies, Inc., a Delaware corporation (the “Company”), upon the surrender of this Warrant to the Company at the address specified herein, at any time during the Exercise Period (as defined below) will upon receipt of the Exercise Price (as defined below), sell and deliver to Comstock Growth Fund, L.C. (the “Holder”), up to the number of duly authorized, validly issued and fully paid and nonassessable shares of Class A common stock of the Company, par value \$0.01 per share (the “Common Stock”), set forth above, as appropriately adjusted pursuant to Section G. The term “Common Stock” shall mean the aforementioned common stock of the Company together with any other equity securities that may be issued by the Company in connection therewith or in substitution therefor, as provided herein, that is not limited as to final sum or percentage in respect of the rights of the holders thereof to participate in dividends or in distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company. The “Exercise Period” shall begin on the date six months from the date hereof and shall end on \_\_\_\_\_, 2023. During the Exercise Period and subject to the restrictions set forth in Section D, the Holder may purchase such number of shares of Common Stock at a purchase price per share equal to the price set forth on Schedule A hereto, and as appropriately adjusted pursuant to Section G (the “Exercise Price”).

The number of shares of Common Stock to be received upon the exercise of this Warrant and the price to be paid for a share of Common Stock are subject to adjustment from time to time as hereinafter set forth. The shares of Common Stock deliverable upon such exercise, as adjusted from time to time, are hereinafter sometimes referred to as “Warrant Shares.”

**Section A. Exercise of Warrant.** Subject to the terms and conditions of this Warrant and applicable securities laws, the purchase right represented by this Warrant may be exercised in whole or in part, at any time or from time to time, during the Exercise Period by presentation and surrender of this Warrant to the Company at its principal office at 1886 Metro Center Dr., 4<sup>th</sup> Floor, Reston, Virginia 20190 (or at such other address in the United States of America as the Company may hereafter designate in writing to the Holder), with the Notice of Exercise, contained herein as Exhibit A, duly executed and accompanied by a wire transfer of immediately available funds, cash or a certified or official bank check drawn to the order of “Comstock Holding Companies, Inc.” in the amount of the Exercise Price multiplied by the number of Warrant Shares specified in such form. The Exercise Price may also be paid in whole or in part, by delivery of such a Notice of Exercise and shares of Common Stock owned by the Holder having an aggregate Fair Market Value (as defined below) on the last business day ending immediately prior to the exercise date equal to the portion of the aggregate Exercise Price being paid in such shares. In addition, each

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Warrant may be exercised, pursuant to a cashless exercise by providing irrevocable instructions to the Company, through delivery of a Notice of Exercise with an appropriate reference to this Section A as set forth below in this Section A. If this Warrant should be exercised in part only, the Company shall, upon surrender of this Warrant, promptly execute and deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares purchasable hereunder. Upon receipt by the Company during the Exercise Period of this Warrant and such Notice of Exercise, in proper form for exercise, together with proper payment of the Exercise Price, at such office, the Holder shall be deemed to be the holder of record of the number of Warrant Shares specified in such Notice of Exercise; provided, however, that if the date of such receipt by the Company or its agent is a date on which the stock transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding business day on which the stock transfer books of the Company are open. Any new or substitute Warrant issued under this Section A, or any other provision of this Warrant, shall be dated the date of this Warrant. Upon exercise of this Warrant, the Company shall, as soon as possible and in any event within 30 days after such exercise, cause to be issued and shall promptly deliver upon written order of the Holder, and in such name or names as the Holder may designate, a certificate or certificates for the Warrant Shares. If the Company fails to deliver to the Holder such certificate or certificates representing the Warrant Shares pursuant to this Section A by the 30<sup>th</sup> business day after exercise hereof, then, without limiting any of its other rights or remedies, the Holder will have the right to rescind such exercise in its sole discretion.

Notwithstanding the foregoing, in the event that at any time, the Holder elects to exercise all or any part of this Warrant, this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing  $[(A-B)(X)]$  by (A), where:

(A) = the Fair Market Value;

(B) = the Exercise Price of this Warrant, as adjusted (to the date of such calculation); and

(X) = the number of Warrant Shares issuable in accordance with the terms of this Warrant for which a cashless exercise has been requested (which shall be zero if B equals or exceeds A).

The "Fair Market Value" of a share of Common Stock on any day means (a) if the principal market for the Common Stock is The Nasdaq Stock Market or any other national securities exchange, the average of the closing stock price of the 20 trading days preceding such day as reported by such exchange or market, or on a consolidated tape reflecting transactions on such exchange or market, or (b) if the principal market for the Common Stock is not a national securities exchange or The Nasdaq Stock Market and the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System, the average of the mean between the closing bid and the closing asked prices for the Common Stock of the 20 trading days preceding such day as quoted on such System, or (c) if the Common Stock is not quoted on the National Association of Securities Dealers Automated Quotations System, the average of the mean between the highest bid and lowest ask prices for the Common Stock of the 20 trading days preceding such day as reported by the National Quotation Bureau, Inc.; provided, that if none of (a), (b) or (c) above is applicable, or if no trades have been made or no quotes are available for such day, the Fair Market Value of the Common Stock shall be determined by a generally recognized source selected by the Board of Directors of the Company reasonably acceptable to the Holder.

In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise of this Warrant on or before the 30<sup>th</sup> business day following such exercise, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) Common Stock to deliver in satisfaction of a sale by the Holder of Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of this Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of Warrant Shares that

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would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Company. Nothing herein shall limit the Holder's right to pursue any other rights or remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver a certificate or certificates representing the Warrant Shares upon exercise of this Warrant as required pursuant to the terms hereof.

**Section B. Stock Fully Paid; Reservation of Shares.** All Warrant Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance pursuant to the terms and conditions herein, be validly issued, fully paid and nonassessable, and free and clear from all liens and all contractual restrictions and preemptive rights with respect to the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of the issue upon exercise of the rights represented by this Warrant, a sufficient number of shares of its Common Stock to provide for the exercise of the rights represented by this Warrant.

**Section C. Warrant Register; Transfer and Exchange.** The Company will maintain a register containing the names and addresses of each Holder of this Warrant. Any registered Holder may change such registered Holder's address as shown on the warrant register by written notice to the Company requesting such change. Any notice or written communication required or permitted to be given to the Holder may be delivered or given by mail to the Holder as shown on the warrant register and at the address shown on the warrant register. Until any transfer of this Warrant is made in the warrant register, the Company may treat the registered Holder of this Warrant as the absolute owner hereof for all purposes; provided, however, that if and when this Warrant is properly assigned in blank, the Company may (but shall not be required to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary. This Warrant may not be transferred or assigned without compliance with all applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company). Subject to the provisions of this Warrant with respect to compliance with the Act, this Warrant and all rights hereunder may be transferred by Holder, in whole or in part, on the books of the Company maintained for such purpose at the principal office of the Company, upon surrender of this Warrant with a properly executed assignment in the form of Exhibit B hereto (the "Assignment Form") and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. If this Warrant should be transferred in part only, the Company shall, upon surrender of this Warrant, promptly execute and deliver a new Warrant evidencing the rights of the Holder thereof to purchase the balance of the Warrant Shares purchasable hereunder.

**Section D. Compliance with Securities Laws.** The Holder, by acceptance hereof, agrees that, absent an effective registration statement filed with the Securities and Exchange Commission (the "SEC") under the Act, covering the disposition or sale of this Warrant or the Warrant Shares issued or issuable upon exercise hereof, as the case may be, and registration or qualification under applicable state securities laws, the Holder will not sell, transfer, pledge, or hypothecate any or all such Warrants or Warrant Shares, as the case may be, unless either (a) the Company has received an opinion of counsel, in form and substance reasonably satisfactory to the Company, to the effect that such registration is not required in connection with such disposition, or (b) the sale of such securities is made pursuant to Rule 144 under the Act. By acceptance of this Warrant, the Holder hereby represents, warrants and covenants that (i) it is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Act; (ii) any Warrant Shares shall be acquired for investment only and not with a view to, or for sale in connection with, any distribution thereof; (iii) that the Holder has had such opportunity as such Holder has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Holder to evaluate the merits and risks of its investment in the Company; (iv) that the Holder is able to bear the economic risk of holding such shares as may be acquired pursuant to the exercise of this Warrant for an indefinite period; (v) that the Holder understands that the shares of stock acquired pursuant to the exercise of this Warrant will not be registered under the Act (unless otherwise required pursuant to exercise by the Holder of the registration rights, if any, previously granted to the registered the Holder) and will be "restricted securities" within the meaning of Rule 144 under the Act and that the exemption from registration under Rule 144 will not be available until the applicable holding period has been satisfied and unless a public market then exists for the stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and (vi) that all stock certificates representing shares of stock issued to the Holder upon exercise of this Warrant may have affixed thereto a legend substantially in the following form:

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THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of the Warrant Shares upon which it is stamped or issue to such holder by electronic delivery at the applicable balance account at DTC, if (A) such Warrant Shares are sold or transferred pursuant to Rule 144 (assuming the transferor is not an Affiliate of the Company (as defined below)), (B) such Warrant Shares are eligible for sale under Rule 144 free from any volume or other restrictions, or (C) if such legend is not required under applicable requirements of the Act (including controlling judicial interpretations and pronouncements issued by the SEC).

**Section E. Lost, Mutilated or Missing Warrant.** Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) of reasonably satisfactory unsecured indemnification, and upon surrender and cancellation of this Warrant, if mutilated, the Company, at its expense, shall execute and deliver a new Warrant of like tenor and date.

**Section F. Rights of the Holder.** Subject to applicable law, the Holder shall not, by virtue hereof, be entitled to any rights or subject to any obligation or liability of a shareholder in the Company, either at law or equity, and the rights of the Holder are limited to those expressed in this Warrant, except to the extent the Holder has duly exercised this Warrant.

**Section G. Adjustments.** The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from time to time as follows:

1. **Subdivision and Combination.** If the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number or combine into a smaller number, the number of Warrant Shares and the Exercise Price shall forthwith be proportionately decreased in the event of subdivision or increased in the event of combination.

2. **Adjustment in Number of Securities.** Upon each adjustment of the Exercise Price pursuant to the provisions of this Section G, the number of securities issuable upon the exercise of this Warrant shall be adjusted to the nearest full amount by multiplying (a) a number equal to the Exercise Price in effect immediately prior to such adjustment by (b) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

3. **Merger or Consolidation.** In the event that at any time or from time to time after the date hereof, (a) the Company shall (i) effect a reorganization, (ii) consolidate with or merge into any other person, or (iii) sell, transfer or otherwise dispose of all or substantially all of its properties or assets or (b) more than 50% of the voting equity securities of the Company (whether issued and outstanding, newly issued, from treasury, or any combination thereof) is acquired by any other person or group under any plan or arrangement contemplating the consolidation or merger, sale, transfer or disposition, or dissolution of the Company (each, a "Trigger Event"), the corporation or entity formed by or resulting from such consolidation or merger or the recipient of such properties, assets or equity securities shall execute and deliver to the Holder a supplemental warrant agreement whereby the Holder shall thereafter be entitled to purchase pursuant to such supplemental warrant agreement (in lieu of the number of Warrant Shares which the Holder would have been entitled to purchase immediately prior to such Trigger Event) the kind and number of shares of stock or other securities or property to which the Holder would have been entitled

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upon such Trigger Event if the Holder had exercised this Warrant in full immediately prior to such Trigger Event and acquired the applicable number of Warrant Shares then issuable hereunder as a result of such exercise, at an aggregate purchase price equal to that which would have been payable if such number of Warrant Shares had been purchased immediately prior thereto. In case of any such Trigger Event, lawful, adequate and appropriate provision shall be made with respect to the rights and interests thereafter of the Holder such that all the provisions of each Warrant shall thereafter be applicable, as nearly as practicable, to such stock or other securities ("Replacement Securities") and/or property thereafter deliverable upon the exercise of each Warrant. The supplemental warrant agreement shall contain the express assumption by such successor corporation or entity of the due and punctual performance and observation of every provision of each Warrant to be performed and observed by the Company and of all liabilities and obligations of the Company hereunder and thereunder. Upon consummation of any such transaction, the term "Common Stock" as used herein, shall be deemed to mean, as appropriate, such Replacement Securities and/or property, including without limitation, the definition of Warrant Shares as used herein.

4. No Adjustment of Exercise Price in Certain Cases. No adjustment of the Exercise Price shall be made:

(a) if the amount of said adjustment shall be less than one cent (\$.01) per share of Common Stock issuable upon exercise of this Warrant; provided, however, that in such case any adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to at least one cent (\$.01) per share of Common Stock issuable upon exercise of this Warrant;

(b) based upon the issuance of Common Stock to employees, consultants or directors pursuant to the Company's 2004 Long-Term Incentive Compensation Plan (as may be amended from time to time);

(c) based upon the issuance of equity securities of the Company in consideration for the acquisition (whether by merger or otherwise) by the Company or any of its subsidiaries of all or substantially all of the stock or assets of any other entity; provided that such transaction, and the issuance of shares in connection therewith, (i) has been approved by a majority of the Board of Directors of the Company and (ii) is on commercially reasonable terms and does not involve an Affiliate (as defined in the Amended and Restated Indenture, dated as of March 14, 2008, between the Company and Wells Fargo Bank, N.A., as may be amended from time to time); or

(d) based upon the issuance of equity securities of the Company issued or issuable to banks or similar institutional credit financing sources pursuant to a debt financing or similar transaction; provided that such transaction, and the issuance of shares in connection therewith, is on commercially reasonable terms and does not involve an Affiliate.

5. Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section G, the Company, at its own expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any such Holder, furnish or cause to be furnished to such Holder a like certificate setting forth: (a) such adjustments and readjustments; (b) the Exercise Price at the time in effect; and (c) the number of shares of Common Stock and the amount, if any, of other property that at the time would be received upon the exercise of this Warrant.

Section H. Fractional Shares. No fractional shares of Common Stock will be issued in connection with any exercise hereunder but in lieu of such fractional shares the Company shall make a cash refund therefor equal in amount to the product of the applicable fraction multiplied by the Exercise Price paid by the Holder for one Warrant Share upon such exercise.

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**Section I. Notices of Certain Events.** In the event of:

1. any capital reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock and other than a change in par value of the Common Stock) or of any consolidation or merger to which the Company is a party or of the conveyance or transfer of all or substantially all of the properties and assets of the Company;
2. the voluntary or involuntary dissolution, liquidation or winding-up of the Company; or
3. any other actions would require an adjustment under Section G,

the Company will cause to be mailed to the Holder, at least ten business days before the applicable record or effective date hereinafter specified, a notice stating (A) the date as of which the holders of Common Stock of record entitled to receive any such rights, warrants or distributions are to be determined, or (B) the date on which any such consolidation, merger, conveyance, transfer, dissolution, liquidation or winding-up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record will be entitled to exchange their shares of Common Stock for securities or other property, if any, deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding-up. Nothing herein shall prevent the Holder from exercising this Warrant during such 10 business day period.

**Section J. Listing on Securities Exchanges.** Subject to the restrictions on the securities stated herein, the Company will list on The Nasdaq Stock Market and each national securities exchange on which any Common Stock may at any time be listed all shares of Common Stock from time to time issuable upon the exercise of this Warrant, subject to official notice of issuance upon the exercise of this Warrant, and will maintain such listing so long as any other shares of its Common Stock are so listed; and the Company shall so list on The Nasdaq Stock Market and each national securities exchange, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of capital stock of the same class are listed on The Nasdaq Stock Market and such national securities exchange by the Company. Any such listing will be at the Company's expense.

**Section K. Successors.** All of the provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its respective successors and assigns.

**Section L. Headings.** The headings of sections of this Warrant have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

**Section M. Amendments.** Except as otherwise provided herein, the terms and provisions of this Warrant may not be modified or amended, or any provisions hereof waived, temporarily or permanently, except by written consent of the Company and the Holder.

**Section N. Notices.** Unless otherwise provided in this Warrant, all notices, requests, consents and other communications hereunder shall be in writing, shall be sent by first-class U.S. Mail or a nationally recognized overnight express courier postage prepaid, and shall be deemed given five business days after being sent by U.S. mail and one business day after being sent by such courier, or if delivered by hand shall be deemed given on the date of such delivery to such party, or if sent to such party (in the case of a Holder) at its address in the warrant register that will be maintained by the Company or its agent in accordance with Section B hereof or (in the case of the Company) at its address set forth above, Attention: Chief Financial Officer, or to such other address as is designated by written notice, similarly given to each other party hereto.

**Section O. Governing Law.** This Warrant shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be construed in accordance with the laws of said State as applied to contracts made and to be performed in Delaware between Delaware residents.

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**Section P. Closing of Books.** The Company shall at no time close its transfer books against the transfer of any shares issued or issuable upon the exercise of this Warrant in a manner that interferes with the timely exercise of this Warrant.

**Section Q. Severability.** If any provision of this Warrant shall be held to be invalid and unenforceable, such invalidity or unenforceability shall not affect any other provision of this Warrant.

**Section R. Counterparts.** This Warrant may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Warrant delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Warrant.

IN WITNESS WHEREOF, the Company has duly caused this Warrant to be signed and attested by its duly authorized officer and to be dated as of \_\_\_\_\_, \_\_\_\_\_.

COMSTOCK HOLDING COMPANIES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: Chief Executive Officer

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**SCHEDULE A**  
**[NOTE: PLEASE INSERT PRICES INTO SCHEDULE A.]**

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**EXHIBIT A  
NOTICE OF EXERCISE**

Date: \_\_\_\_\_, 20\_\_

The undersigned hereby elects to exercise this Warrant to purchase \_\_\_\_\_ shares of Common Stock and herewith:

- makes a cash payment of \$\_\_\_\_\_, representing the full purchase price for such shares at the price per share provided for in such Warrant.
- delivers \_\_\_\_\_ shares of Common Stock having a Fair Market Value as of the last trading day preceding the date hereof of \$\_\_\_\_\_, representing the full purchase price for such shares at the price per shares provided for in such Warrant.
- acquires in a cashless exercise \_\_\_\_\_ shares of Common Stock pursuant to the terms of Section A of such Warrant.

Warrant Shares shall be delivered to the following address:

The undersigned represents that (i) it is an “accredited investor” as defined in Rule 501 under Regulation D promulgated under the Securities Act of 1933, as amended, and (ii) the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares, except as in compliance with applicable securities laws.

\_\_\_\_\_  
[Holder's Name]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT B  
ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant for the purchase of shares of Common Stock of Comstock Holding Companies, Inc. hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of shares of Common Stock set forth below:

Name of Assignee	Address/ Number	No. of Shares
_____	_____	_____
	_____	
	_____	

and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney-in-fact to register such transfer on the books of the Company, maintained for the purpose, with full power of substitution in the premises.

The undersigned also represents that, by assignment thereof, the Assignee acknowledges that the attached Warrant and the shares of stock to be issued upon exercise thereof are being acquired for investment and that the Assignee will not offer, sell, or otherwise dispose of the attached Warrant or any shares of stock to be issued on exercise thereof, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws. Further, the Assignee has acknowledged that upon exercise of the attached Warrant, the Assignee shall, if requested by the Company, confirm in writing, in form satisfactory to the Company, that the shares of stock so purchase are being acquired for investment and not with a view toward distribution or resale.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_

Dated: \_\_\_\_\_

Witness: \_\_\_\_\_

**ACQUISITION AND CONSTRUCTION LOAN AGREEMENT**

(Revolving Line of Credit)

THIS ACQUISITION AND CONSTRUCTION LOAN AGREEMENT made as of the 19<sup>th</sup> day of December, 2014 by and between **COMSTOCK TWO RIVERS II, L.C.**, a limited liability company organized under the laws of the commonwealth of Virginia (the "Borrower"), and **CARDINAL BANK**, a bank chartered under the laws of the commonwealth of Virginia ("Lender").

WHEREAS, Borrower intends to acquire fifty-four (54) finished single family attached building lots (individually, a "Lot" and collectively, the "Lots") and to construct dwellings on each Lot (individually, a "Dwelling" and collectively, the "Improvements") (a Lot and Dwelling is individually, a "Unit" and the Lots and Dwellings are collectively, the "Units") in a portion of the residential project known as Two Rivers, Anne Arundel County, Maryland;

WHEREAS, Lender has agreed to provide Borrower with a revolving acquisition and construction line of credit in the maximum principal amount of **SIX MILLION FOUR HUNDRED FORTY THOUSAND and no/100 DOLLARS (\$6,440,000.00)** that can be outstanding at any one time, which amount is to be used in accordance with the terms hereof and is to be used by Borrower to acquire the Lots and for the materials to be furnished and labor and services to be performed in connection with the construction of the Improvements on the Land; 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 \$6,440,000.00 and that certain Deed of Trust, Assignment 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:

Acquisition Costs - The Acquisition Costs as shown on that line item of the Unit Loan Budget for each Unit.

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

Commitment - The commitment letter dated October 20, 2014 from Lender to Borrower in connection with the Line of Credit, as the same may be from time to time amended.

Completion Date - For each Unit, the date that is the earlier to occur of (i) the Loan Maturity Date, or (ii) the sale date under the Contract.

Construction Costs - The Hard & Soft Construction Costs as shown on that line item of the Unit Loan Budget for each 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.

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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 equal to three percent (3%) of the Contract sale 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 Maryland statute;
- (iii) the purchaser under the Contract shall be pre-qualified by a reputable mortgage lender, who shall issue a pre-qualification letter which indicates that the purchaser will be approved after appropriate verifications for the purchase money mortgage loan necessary to purchase such Unit.

Deed of Trust - That certain Deed of Trust, Assignment 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.

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

Financing Documents - The Commitment, this Loan Agreement, the Environmental Indemnity Agreement executed in connection with the Line of Credit, the Deed of Trust 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.

Guarantor - Comstock Holding Companies, Inc., a Delaware corporation.

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 Real 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 Real 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 Real 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 Financing 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.

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**Indebtedness** - All amounts due Lender pursuant to or on account of the Note, this Loan Agreement or any of the other Financing 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 readvanced), 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 Financing Documents.

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

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

**Line of Credit** - The revolving line of credit from Lender to Borrower evidenced by the Note, to be advanced, re-advanced and repaid pursuant to this Loan Agreement and secured by the Financing Documents.

**Line of Credit Maturity Date** - The date that is the earlier to occur of (i) the date that the last Unit for which Line of Credit funds remain outstanding is sold and settled, or (ii) the date that is twelve (12) months after the date of the first Loan advance for Construction Costs for the last Unit for which Lender has made a Loan commitment under the Line of Credit prior to the Loan Commitment Termination Date.

**Loan** - A non-revolving limited amount which Lender has committed to fund under the Line of Credit for a specified Unit.

**Loan Commitment Termination Date** - December 19, 2015 (the "Initial Loan Commitment Termination Date") unless the Initial Loan Commitment Termination Date is extended (the Initial Loan Commitment Termination Date, including any extensions thereto, is hereinafter referred to as the "Loan Commitment Termination Date"). The Initial Loan Commitment Termination Date and accordingly, the Loan Commitment Termination Date, shall be automatically extended to December 19, 2016, but only if:

- (a) there are no defaults or events which with the passage of time would constitute a default under the Note or the Financing Documents;
- (b) Borrower has satisfied all other terms and conditions required to be satisfied as of the Initial Loan Commitment Termination Date set forth in the Financing Documents; and
- (c) Borrower shall have entered into binding Contracts for the sale of at least twelve (12) Units and shall have closed on the sale of at least eight (8) Units on or before the Initial Loan Commitment Termination Date.

**Loan Fee** - The fully earned non-refundable fee that Borrower shall pay Lender at the time that the Lender makes a Loan commitment for a specified Unit in an amount equal to one-half of one percent (.5%) of the total Loan commitment for that Unit.

**Loan Maturity Date** - The date on the earlier to occur of (i) the date that the Unit is sold, or (ii) the date that is twelve (12) months after the date of the first Loan advance for Construction Costs for the Unit.

**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 Financing 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.

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Pre-sold Lot - A Lot subject to a Contract.

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

Project - The Lots and the Dwellings comprising the Units to be constructed on and to become a part of the Real Property.

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

Speculative Lot - A Lot on which construction of a Dwelling had not yet commenced and that is not subject to a Contract.

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

Unit - A Lot and the Dwelling constructed thereon together with any common elements appurtenant thereto within the Project.

ARTICLE II  
THE LINE OF CREDIT – ADVANCES AND REPAYMENTS

2.0 The Line of Credit. Lender agrees to advance Loan proceeds out of the Line of Credit to Borrower, subject to the terms and conditions herein set forth and in accordance with the “Pro Forma Per Unit Cost and Loan Budget” attached hereto as **EXHIBIT “B”** and incorporated herein by reference, as amended from time to time by Lender (the “Pro Forma Unit Budget”). Each Loan shall conform to the Pro Forma Unit Budget unless the Lender approves a separate Loan budget for a particular Unit establishing different maximum amounts of Acquisition Costs, Construction Costs and Interest Reserve for the specified Unit (a “Unit Loan Budget”). Each Unit Loan Budget shall be attached hereto and made a part of **EXHIBIT “B”** and shall supersede the Pro Forma Unit Budget as to the specified Unit. Aggregate advances under the Line of Credit shall also conform to the Approved Final Project Cost Budget and Draw Schedule as approved by the Lender attached or to be attached hereto as **EXHIBIT “C”** and incorporated herein by reference, as amended from time to time by Lender (the “Project Budget”). **After the Loan Commitment Termination Date, Lender shall have no obligation to commit to a Loan for any Lot or Unit that Lender did not approve prior to the Loan Commitment Termination Date.**

2.1 Applications for Advances. Borrower shall make applications for Loan advances 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 (including inspections of the foundations). Borrower shall pay Lender the actual cost of the Lender’s Consulting Engineer or Progress Inspector for each visit by Lender (or its Consulting Engineer or Progress Inspector) 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 Line of Credit each calendar month.

2.2 Revolving Line of Credit. Prior to the Line of Credit Maturity Date, Borrower shall have the right to borrow, repay and re-borrow, from time to time, the principal amount evidenced by the Note provided and so long as (i) no Event of Default exists hereunder; (ii) Lender has not made demand for any payment under the Note which remains unpaid; (iii) the outstanding principal balance due hereunder together with Loan proceeds that the Lender has committed to advance for all Units then under construction shall not exceed \$6,440,000; (iv) all advances and re-advances are made in accordance with this Loan Agreement; and (v) Loan advances per Unit shall not exceed the following amounts:

(a) Acquisition Costs Advances: As to Pre-sold Lots, an amount not to exceed the lesser of (i) forty-nine percent (49%) of the “as-is” appraised value of the Lot, (ii) forty-nine percent (49%) of the actual Acquisition Costs of the Lot, and (iii) the approved Acquisition Costs Advance for a Pre-sold Lot per the applicable Unit Loan Budget. As to Speculative Lots, an amount not to exceed the lesser of (i) nineteen percent (19%) of the “as-is” appraised value of the Lot, (ii) nineteen percent (19%) of the actual Acquisition Costs of the Lot, and (iii) the approved Acquisition Costs Advance for a Speculative Lot per the applicable Unit Loan Budget.

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(b) Construction Costs Advances: As to Pre-sold Units, the amount when added to the Lot Acquisition Costs Advance applicable to that Unit that does not exceed the lesser of (i) seventy percent (70%) of the “as-if completed” appraised value of the Unit, (ii) eighty-one percent (81%) of the of the actual aggregate Acquisition and Construction Costs for the Unit, and (iii) the aggregate approved Construction Costs for a Pre-Sold Unit per the applicable Unit Loan Budget. As to Speculative Units, the amount when added to the Lot Acquisition Costs Advance for that applicable Unit that does not exceed the lesser of (i) sixty percent (60%) of the “as-if completed” appraised value of the Unit, (ii) sixty-nine percent (69%) of the of the actual aggregate Acquisition and Construction Costs for the Unit, and (iii) the aggregate approved Construction Costs for a Speculative Unit per the applicable Unit Loan Budget.

(c) Interest Reserve: Each Unit Loan Budget includes an interest reserve out of which the Lender shall automatically pay the monthly interest cost of each Loan when and as such interest payments are due under the Note up to the maximum amount specified in the applicable Unit Loan Budget.

(d) Funding Termination: Lender’s obligation to advance Line of Credit proceeds will terminate automatically on the Line of Credit Maturity Date as to the Line of Credit and on the Loan Maturity Date as to any specific Unit Loan that Lender commits to prior to the Loan Commitment Termination Date.

2.3 Conditions Precedent to the Initial Loan Advance. Lender shall not be obligated to make the first advance of Loan proceeds hereunder with respect to any Lot or Unit (the “Initial Advance”) unless the following conditions have been satisfied with respect to such Unit:

(a) The Note, the Deed of Trust (including any supplements or amendments thereto) and the other Financing 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 Financing 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 Line of Credit 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 Property with affirmative mechanic’s lien coverage, 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 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 of the other Financing 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 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 Property, or Borrower may provide to Lender the certificate of a professional engineer that the Property is not within a flood hazard area.

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(f) Lender shall have received copies of the recorded subdivision plat of the Property and/or 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 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 (the "Permits"); that all 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.

(h) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, to the effect that no construction work of any kind has commenced upon any unit within the Land which is financed with the proceeds of the Line of Credit and no materials (financed with the proceeds of the Line of Credit) 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.

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

(j) Lender shall have received and approved an appraisal of the Project that complies with the applicable requirements of the Commitment.

(k) 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.

(l) Lender shall have received soil reports which 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 Land.

(m) Lender shall have received a satisfactory Phase I environmental site assessment report for the Real Property.

(n) Lender shall have received a detailed Project Budget on forms acceptable to Lender which shall be attached hereto and incorporated herein as **EXHIBIT "C"**.

(o) Lender shall have received a list of the names of all contractors and materialmen (the "Contractors") that will perform work or supply materials in connection with the construction of the Improvements on the Land, together with copies of all contracts or subcontracts for such construction satisfactory to Lender, if requested.

(p) Lender shall have received the final site plan for the Project as approved by all necessary governmental authorities having jurisdiction over the Project.

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(q) Borrower shall have established a deposit relationship with the Lender and shall maintain such deposit relationship through the Line of Credit Maturity Date through which all Line of Credit advances and Borrower's funds pertaining to the construction of the Units shall be maintained and flow.

(r) Borrower shall have paid Lender **\$10,000** of the aggregate Loan Fee that the Lender shall credit against the first \$10,000 of Loan Fees due and payable pursuant to Lender's commitment to make Loans for specified Units under the Line of Credit.

(s) Lender shall have received financial statements from the Borrower and the Guarantor that are certified current within thirty (30) days prior to the date of this Agreement and certified true financial statements for the two fiscal years prior to the fiscal year covered by the current financial statements in form and substance satisfactory to the Lender.

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

(u) Lender shall have received a complete set of all Plans and Specifications for the Project.

2.4 Conditions Precedent to Acquisition Advances for Lots after the Initial Advance. The obligation of Lender to make advances out of the Acquisition line item of the Budget with respect to Borrower's acquisition of additional Lots within the Project subsequent to the Initial Advance (individually, an "Additional Lot" and collectively, the "Additional Lots") shall be conditioned upon the satisfaction of the conditions set forth in this Agreement, including the satisfaction of the conditions set forth in Section 2.3 as to each Additional Lot being financed with Acquisition line item proceeds, and of the following additional conditions:

(a) Borrower shall have executed and caused the recordation among the land records of Anne Arundel County, Maryland of an amendment to the Deed of Trust in the form attached hereto as **EXHIBIT "D"** (the "Amendment") to add the Additional Lots as part of the Property.

(b) Borrower shall have executed and delivered to Lender the Lender's standard form of Assignment of Plans and Specifications, Contracts and Permits and Environmental Indemnity Agreement for the Additional Lots.

(c) Borrower shall have caused a financing statement to be filed in the appropriate records sufficient to perfect the security interest in the personal property now or hereafter located on or in or used in connection with the Additional Lots.

(d) Lender shall have received an endorsement to the title insurance policy required by Section 2.3(b), which endorsement shall have the effect of adding the Additional Lots to the insured land referred to therein, and insuring that the lien of the Deed of Trust, as modified by the Amendment, is a valid first lien thereon.

2.5 Conditions Precedent to Advances of Construction Costs. Lender shall not be obligated to make any Loan advances of Line of Credit proceeds hereunder with respect to any Unit for Construction Costs, unless the conditions described in Section 2.3 remain satisfied, and the following conditions have been satisfied with respect to such Unit:

(a) 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.

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

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(c) 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.

(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) Borrower shall deliver evidence satisfactory to Lender that Borrower has obtained any and all Permits and bonds as are required for the construction of a Dwelling on the specific Lot for which Borrower has requested Lender to advance Loan proceeds to cover Construction Costs plus satisfactory evidence of the payment of fees therefor, required for purposes consistent with the uses contemplated in this Loan Agreement and the Loan Documents.

(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 Loan proceeds 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) 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.

(i) 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 which has insured the title to the Property.

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

2.6 Additional Conditions Precedent to Final Advance. Lender shall not be obligated to make the final advance of Line of Credit proceeds with respect to any Unit included within the Property unless the conditions described in Sections 2.3, 2.4 and Section 2.5 and the following additional conditions have been satisfied with respect to such 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) Lender shall have received fire and extended coverage insurance for the applicable Unit as set forth in Section 4.10 of this Loan Agreement;

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(e) To the extent required by Lender, all insurance policies shall be endorsed to insure the Improvements, in accordance with Section 4.10 of this Loan Agreement; and

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

2.7 Trust Funds. Borrower will receive the advances to be made hereunder and will hold the right to receive the same as a trust fund for the purpose of paying the cost of the construction of the Improvements, and Borrower agrees not to expend any part of the proceeds of the Line of Credit 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 Financing Documents and any amounts so applied shall be part of the Line of Credit 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 Financing Document. If Borrower is in default hereunder or under any other Financing 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 Financing Documents, to so advance the proceeds of the Line of Credit. 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 a Unit will exceed the total remaining amount of Loan proceeds to be provided by Lender for that Unit, Lender shall not advance any more Loan proceeds for that Unit until Borrower has deposited with Lender the difference between the total remaining cost to complete that Unit (including sufficient funds to pay interest for the remaining term of the Loan) and the total remaining amount of the Loan proceeds for that Unit. This provision will apply whenever the total remaining cost to complete a Unit exceeds the total remaining Loan proceeds for that Unit. Therefore, if the projected total remaining costs to complete a Unit continues to increase after the first time that it exceeds the total amount of the remaining Loan proceeds for that Unit, Borrower shall deposit the incremental increase before Lender advances any more Loan proceeds for that Unit. The determination of the total remaining cost to complete 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 Line of Credit 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 Construction Starts; Limitations on Speculative Lots and Units. Borrower shall have not more than twenty (20) Units under construction at any given time during the term of the Line of Credit ("Construction Starts"). Construction Starts for Speculative Units shall not exceed six (6) at any time during the term of the Line of Credit. Model Units shall be deemed to be Speculative Units for the purpose of this Section. Model Units shall not exceed two (2) at any time during the term of the Line of Credit. In addition to the six (6) Construction Starts for Speculative Units, Borrower may have up to four (4) Speculative Lots in inventory at any time. Borrower shall

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provide Lender with all information that the Lender reasonably requests prior a new Construction Start. Borrower shall not commence a Construction Start until Lender has reviewed and approved the applicable Construction Start information submitted to Lender. Funding of additional Speculative Units shall not occur under the Line of Credit at any time that the maximum number of Speculative Units is exceeded. Funding of Pre-sold Units under the Line of Credit shall continue regardless of the existence of excess Speculative Units. When a Speculative Unit becomes subject to a Contract it shall automatically convert to a Pre-Sold Unit and Borrower shall have the right to obtain Line of Credit advances up to the maximum amount permitted for a Pre-Sold Unit pursuant to subsections 2.1(a) and 2.1(b) hereof for that converted Unit. However, if at any time after construction has started, the Contract for a Pre-sold Unit is canceled or otherwise terminated, Borrower will have sixty (60) days to obtain a replacement Contract for that Unit. If Borrower has not obtained a replacement Contract by the end of the sixty (60) day period, Borrower shall immediately curtail the principal amount outstanding under the Line of Credit attributable to that Unit to the maximum amount permitted pursuant to subsections 2.1(a) and 2.1(b) hereof with regard to Speculative Units and that Unit shall be automatically converted back to Speculative Unit status if a replacement Contract is not obtained within the sixty (60) day period. A Pre-Sold Unit that is converted back to Speculative Unit status pursuant to the preceding sentence shall not re-convert to Pre-Sold Unit status for the purpose of the Line of Credit funding limits thereafter.

2.13 Line of Credit and Loan Repayment. Borrower shall pay all principal and all accrued and unpaid interest and costs for each Loan under the Line of Credit on or before the Loan Maturity Date. Borrower shall pay all other outstanding principal, accrued and unpaid interest and costs which remain unpaid on the Line of Credit Maturity Date.

### 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 Line of Credit 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 construction of the Improvements will be commenced by Borrower unless and until all 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 accepted by such governmental authorities or have been or will be created by recorded easement and all necessary steps have been 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 Financing 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 Property.

3.6 Financial Statements. The financial statements heretofore delivered to Lender are true and correct in all 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 financial conditions 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 default on the part of Borrower under the Note or the Financing Documents and no event has occurred and is continuing which, with notice, the passage of time, or both, would constitute a default under the Note or the Financing Documents.

3.8 Compliance in Zoning. The current or anticipated use of the 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 pursue construction of each Unit 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 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.

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 or a certificate shall be deposited with Lender, 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 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 (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 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 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 Property. The term "full insurable value" means the actual replacement cost of the 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.

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(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 \$3,000,000.00 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 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 Property or the 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 Financing 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 Line of Credit proceeds to be made and delivered to Lender promptly in order to obtain advances of Line of Credit 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 Reappraisal. Borrower agrees that Lender shall have the right, in a commercially reasonable manner, to require a reappraisal of the Property at any time, but not more than once annually, and all fees, expenses and other costs associated therewith shall be paid by Borrower, and if not so paid, such amounts shall constitute a portion of Borrower's obligations evidenced by the Note and secured by the Deed of Trust.

4.16 Financial Reporting. On or before May 31 of each year, the Borrower and Guarantor will furnish to the Lender their federal income tax returns for the previous fiscal year. On or before May 31 of each year, the Borrower and Guarantor will furnish to the Lender internally prepared financial statements disclosing in detail the Borrower's income, expenses, retained earnings, changes in cash position and distributions during the previous one year period and a detailed balance sheet as of the end of such period. The Borrower and the Guarantor will also furnish to the Lender such other financial and operating information as the Lender may from time to time request.

4.17 End Loans and Sales Contracts. Borrower shall provide Lender with copies of all executed Contracts for the sale of Units within five (5) business days after full execution. Lender and/or its subsidiary, George Mason Mortgage Company, shall be provided the opportunity to offer loans to purchasers of Units and Borrower will include the terms of Lender's and/or George Mason Mortgage Company's terms in its sales packages so long as appropriate information is provided by Lender and George Mason Mortgage Company. 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 George Mason Mortgage Company.

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4.18 Loan Fee. Borrower shall pay Lender a Loan Fee at the time that Lender commits to make a Loan under the Line of Credit.

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 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 Financing Documents, other than in connection with the Financing 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 Financing Documents as to that portion of the 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 Property or any part thereof, or Borrower's legal or equitable interest in the Property, other than in connection with the Financing 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 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 Financing 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 Note or any of the Financing Documents, including but not limited to any principal payment, interest payment, loan fee, extension fee or late charge, at the time such payment is due, and Borrower fails to make such payment within ten (10) days after Lender's written notice to Borrower that such payment is past due.

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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 6.10 of this Article, and such default continues for thirty (30) days after written notice of such default is sent by Lender to Borrower, provided however that if such failure is capable of being cured within a reasonable period of time but, in Lender's judgment, cannot be cured within said thirty (30) day period, then, notwithstanding the foregoing, an Event of Default shall not be deemed to have occurred at the expiration of said thirty (30) day period if the Borrower (i) commences the cure of such failure within said thirty (30) day period, (ii) thereafter diligently and expeditiously to Lender's satisfaction proceeds to cure such failure, and (iii) completes the cure of such failure within a reasonable period of time not exceeding ninety (90) days after the date that such written notice was sent.

6.3 Other Defaults. If any other default shall occur under the Note or any of the Financing Documents or any document evidencing or securing a loan or line of credit to Borrower, Guarantor or any company in which the Borrower and/or Guarantor maintain a controlling interest.

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 Line of Credit 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 Line of Credit proceeds for a period in excess of thirty (30) days.

6.8 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.

6.9 Mechanic's Lien. The filing of any mechanic's or judgment lien against the Project, or the failure to pay any firm, person or corporation entitled to payment, which firm, person or corporation has a right to file a mechanic's lien against the Project regardless of the fact that such mechanic's lien or judgment lien or claim if filed is, or may be, subordinated to the lien of the Deed of Trust; provided, however, that the filing of a mechanic's or judgment lien affecting the Project shall not be deemed to be an Event of Default provided that (i) such lien is either bonded off by Borrower within sixty (60) days after the filing thereof, or (ii) Borrower posts security for or makes other arrangements for protection of Lender satisfactory to Lender, within sixty (60) days after the filing of such lien. Notwithstanding the foregoing, if any such lien is filed, Lender shall not be required to make any further advances hereunder until Borrower has either paid or bonded off the lien as described in (i) above, or has posted security or made other arrangements to the satisfaction of Lender as described in (ii) above.

6.10 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 Line of Credit, if such condition or situation is not remedied within thirty (30) days after written notice to Borrower thereof.

6.11 Environmental Clean-up. If Borrower fails to pay the cost, or to provide for the payment of the cost and performance of the "clean up" of the Project pursuant to an order issued under the Environmental Response Compensation and Liability Act in a manner satisfactory to Lender and such failure continues for a period of thirty (30) days after the date of written notice of such failure from Lender to Borrower.

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6.12 Dissolution of Borrower or Guarantor. If either of the Borrower or Guarantor are dissolved.

6.13 Inspection of the Project. If the Borrower fails or refuses to permit a representative of Lender to enter the Project and inspect the same at reasonable times.

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 Financing Documents, to enter into possession of the 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 Property.

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 which shall be 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 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 upon ten (10) days prior written notice to Borrower.

7.1 No Conditions Precedent to Exercise of Remedies. Neither Borrower nor any guarantor of the payment of all or any part of the Indebtedness or the performance of any of the Obligations 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 Note or the Financing Documents, or by reason of the release, regardless of consideration, of all or any part of the Property, or by reason of any agreement of stipulation between any subsequent owner of the Property and Lender extending the time of payment or modifying the terms of the Note or the Financing Documents without first having obtained the consent of Borrower or such guarantor; and in the latter event, Borrower and such guarantor 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.

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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 Note or in the Financing Documents, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, under the Note or the Financing Documents, or now or hereafter existing at law or in equity or by statute. Every right, power and remedy given by the Note and the Financing Documents to Lender shall be concurrent and may be pursued separately, successively or together against Borrower, the guarantor of the payment of all or any part of the Indebtedness or the performance of any of the Obligations, or the Property or any part thereof, or any one or more of them; and every right, power and remedy given by the Note or the Financing 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 Note or the Financing 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 Note or the Financing Documents or the validity of the remaining Obligations, and the remaining provisions of the Note and the Financing 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 and every of the covenants, terms, provisions and conditions of this Loan Agreement, the Note and the Financing 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.

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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 Line of Credit 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 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, 4<sup>th</sup> floor  
Reston, Virginia 20190  
Attn: Christopher Clemente

With a copy to:

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

(b) If to Lender, then to it at:  
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 Financing 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 Real Property satisfactory to Lender and Borrower, which signs shall recite, among other things, that Lender is financing the acquisition of the Lots and 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 Project, specifically to include but not limited to releases detailing Lender's involvement with the financing of the Project.

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 Line of Credit is paid in full. Any discrepancy between the terms of the Commitment and the terms of the Financing Documents shall be construed in favor of the Financing 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.

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BORROWER:

**COMSTOCK TWO RIVERS II, 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]

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LENDER:

**CARDINAL BANK**, a banking corporation organized under the laws of the Commonwealth of Virginia

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

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EXHIBIT "A"

**Description of Land**

List of the Infrastructure Subdivision Plats comprising the Land

Plats 1 through 24, "Two Rivers Infrastructure Subdivision, Section 1 & Section 2," recorded among the Land Records of Anne Arundel County, Maryland in Plat Book 322, pages 49-50, and Plat Book 323, pages 1-22, Plats No. 16675 through Plat 16698.

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EXHIBIT "B"

Pro Forma Per Unit Cost and Loan Budget

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EXHIBIT "C"

Approved Final Project Cost Budget and Draw Schedule

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EXHIBIT D

FORM OF

AMENDMENT TO DEED OF TRUST,  
ASSIGNMENT AND SECURITY AGREEMENT

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EXHIBIT A  
TO  
AMENDMENT TO DEED OF TRUST

Legal Description

## List of Subsidiaries

<u>Name</u>	<u>State of Incorporation or Organization</u>
1. Comstock Cascades, L.C.	Virginia
2. Comstock Cascades II, L.C	Virginia
3. Comstock Emerald Farm, L.C.	Virginia
4. Comstock Holland Road, L.L.C.	Virginia
5. Comstock Penderbrook, L.C.	Virginia
6. Comstock Potomac Yard, L.C.	Virginia
7. Comstock Ventures XVI, L.C.	Virginia
8. New Hampshire Ave. Ventures, L.L.C.	Virginia
9. W Street Ventures, L.L.C.	Virginia
10. Capitol Homes, L.L.C.	North Carolina
11. Comstock Homes of North Carolina, L.L.C.	North Carolina
12. Comstock Homes of Washington, L.C.	Virginia
13. Comstock Opportunities Fund I, L.C.	Virginia
14. Comstock Property Management, L.C.	Virginia
15. Comstock Realty, LLC	Virginia
16. Comstock Real Estate Services, L.C	Virginia
17. Settlement Title Services, L.L.C.	Virginia
18. Comstock Newell, L.C.	Virginia
19. Comstock Yorkshire, L.C	Virginia
20. Comstock Contracting, L.C.	Virginia
21. Comstock Eastgate, L.C.	Virginia
22. Comstock Redland Road, L.L.C.	Virginia
23. Comstock Quarry Road, L.C.	Virginia
24. Comstock Popkins Lane, L.C.	Virginia
25. Comstock Maxwell Square, L.C.	Virginia
26. Comstock Investors VII, L.C.	Virginia
27. Comstock Hall Road, L.C.	Virginia
28. Comstock Highlands, L.C.	Virginia
29. Comstock Investors VIII, L.C.	Virginia
30. Comstock Redland Road II, L.C.	Virginia
31. Comstock Homes of the Carolinas, L.L.C.	North Carolina
32. Comstock Summerland, L.C.	Virginia
33. Comstock Mains Heights, L.C.	Virginia
34. Comstock New Design, L.C.	Virginia
35. Comstock Sixth Street, L.C.	Virginia
36. Comstock Two Rivers I, L.C.	Virginia
37. Comstock Two Rivers II, L.C.	Virginia
38. Comstock Growth Fund, L.C.	Virginia
39. Superior Title Services, L.C.	Virginia
40. Richmond Station Ventures, L.C.	Virginia

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-196260) and Registration Statements on Form S-8 (No. 333-123709 and No. 333-182838) of Comstock Holding Companies, Inc. of our report dated April 14, 2015 relating to the financial statements, which appears in this Form 10-K.

/S/ PricewaterhouseCoopers LLP

McLean, Virginia

April 14, 2015

**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 annual report on Form 10-K of Comstock Holding Companies, Inc. for the fiscal year ended December 31, 2014;
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: April 14, 2015

/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 annual report on Form 10-K of Comstock Holding Companies, Inc. for the fiscal year ended December 31, 2014;
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: April 14, 2015

/S/ JOSEPH M. SQUERI

Joseph M. Squeri  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting 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 Annual Report on Form 10-K of Comstock Holding Companies, Inc. (the "Company") for the year ended December 31, 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, certifies, to his 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 (15 U.S.C. 78m(a) or 78o(d)); 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: April 14, 2015

/S/ CHRISTOPHER CLEMENTE

Christopher Clemente  
Chairman and Chief Executive Officer

Date: April 14, 2015

/S/ JOSEPH M. SQUERI

Joseph M. Squeri  
Chief Financial Officer

