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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-32375

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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  
(703) 883-1700**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 15, 2017, 3,220,996 shares of Class A common stock, par value \$0.01 per share, and 220,250 shares of Class B common stock, par value \$0.01 per share, of the registrant were outstanding.

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,702	\$ 5,761
Restricted cash	1,519	1,238
Trade receivables	144	613
Real estate inventories	49,438	49,842
Fixed assets, net	219	255
Other assets, net	1,374	2,112
<b>TOTAL ASSETS</b>	<u>\$ 56,396</u>	<u>\$ 59,821</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 6,935	\$ 7,721
Notes payable - secured by real estate inventories, net of deferred financing charges	26,665	26,927
Notes payable - due to affiliates, unsecured, net of discount and deferred financing charges	15,944	15,866
Notes payable - unsecured, net of deferred financing charges	959	911
Income taxes payable	19	19
<b>TOTAL LIABILITIES</b>	<u>50,522</u>	<u>51,444</u>
Commitments and contingencies (Note 8)		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Series C preferred stock \$0.01 par value, 3,000,000 shares authorized, 772,210 and 0 shares issued and liquidation preference of \$3,861 and \$0 at March 31, 2017 and December 31, 2016, respectively	\$ 588	\$ —
Series B preferred stock \$0.01 par value, 3,000,000 shares authorized, 0 and 841,848 shares issued and liquidation preference of \$0 and \$4,209 at March 31, 2017 and December 31, 2016, respectively	—	1,280
Class A common stock, \$0.01 par value, 11,038,071 shares authorized, 3,050,746 and 3,035,922 issued, and outstanding, respectively	30	30
Class B common stock, \$0.01 par value, 390,500 shares authorized, issued, and outstanding	4	4
Additional paid-in capital	177,012	176,251
Treasury stock, at cost (85,570 shares Class A common stock)	(2,662)	(2,662)
Accumulated deficit	(185,425)	(184,778)
<b>TOTAL COMSTOCK HOLDING COMPANIES, INC. DEFICIT</b>	<u>(10,453)</u>	<u>(9,875)</u>
Non-controlling interests	16,327	18,252
<b>TOTAL EQUITY</b>	<u>5,874</u>	<u>8,377</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 56,396</u>	<u>\$ 59,821</u>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Revenue—homebuilding	\$ 10,064	\$ 9,523
Revenue—other	204	183
Total revenue	10,268	9,706
<b>Expenses</b>		
Cost of sales—homebuilding	9,101	8,645
Cost of sales—other	224	91
Sales and marketing	381	483
General and administrative	1,246	1,542
Interest and real estate tax expense	—	216
Operating loss	(684)	(1,271)
Other income, net	20	8
Loss before income tax expense	(664)	(1,263)
Income tax expense	—	(25)
Net loss	(664)	(1,288)
Net (loss) income attributable to non-controlling interests	(17)	436
Net loss attributable to Comstock Holding Companies, Inc.	(647)	(1,724)
Paid-in-kind dividends on Series B Preferred Stock	78	86
Extinguishment of Series B Preferred Stock	(1,011)	—
Net income (loss) attributable to common stockholders	\$ 286	\$ (1,810)
Basic net income (loss) per share	\$ 0.09	\$ (0.55)
Diluted net income (loss) per share	\$ 0.08	\$ (0.55)
Basic weighted average shares outstanding	3,343	3,304
Diluted weighted average shares outstanding	3,373	3,304

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net loss	\$ (664)	\$ (1,288)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities		
Amortization of loan discount, loan commitment and deferred financing fees	210	209
Deferred income tax benefit	—	3
Depreciation expense	37	55
Earnings from unconsolidated joint venture, net of distributions	18	44
Stock compensation	32	26
Changes in operating assets and liabilities:		
Purchaser escrow deposits	(149)	115
Trade receivables	469	(458)
Real estate inventories	524	2,858
Other assets	550	(518)
Accrued interest	253	144
Accounts payable and accrued liabilities	(754)	(1,575)
Net cash provided by (used in) operating activities	<u>526</u>	<u>(385)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(1)	—
Principal received on note receivable	9	10
Collateral for letters of credit	(132)	(90)
Net cash used in investing activities	<u>(124)</u>	<u>(80)</u>
Cash flows from financing activities:		
Proceeds from notes payable	5,499	5,209
Payments on notes payable	(5,981)	(11,175)
Loan financing costs	(71)	—
Distributions to non-controlling interests	(1,908)	(1,400)
Taxes paid related to net share settlement of equity awards	—	(4)
Net cash used in financing activities	<u>(2,461)</u>	<u>(7,370)</u>
Net decrease in cash and cash equivalents	(2,059)	(7,835)
Cash and cash equivalents, beginning of period	5,761	12,448
Cash and cash equivalents, end of period	<u>\$ 3,702</u>	<u>\$ 4,613</u>
Supplemental cash flow information:		
Interest paid, net of interest capitalized	\$ 243	\$ (65)
Supplemental disclosure for non-cash activity:		
Seller's note payable	\$ 115	\$ —
Accrued liability settled through issuance of stock	\$ 32	\$ 14
Increase in Series B preferred stock value in connection with dividends paid in-kind	\$ 24	\$ 26
Extinguishment of Series B Preferred Stock	\$ 1,011	\$ —

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 AND BASIS OF PRESENTATION**

The accompanying unaudited financial statements of Comstock Holding Companies, Inc. and subsidiaries (“Comstock” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the disclosures required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies, other than discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

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

Throughout this quarterly report on Form 10-Q, amounts in thousands, except per share data, number of units, or as otherwise noted.

For the three months ended March 31, 2017 and 2016, comprehensive income (loss) equaled net income (loss); therefore, a separate statement of comprehensive income (loss) is not included in the accompanying consolidated financial statements.

**Liquidity and Capital Resources**

We require capital to operate, to post deposits on new potential acquisitions, 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 we believe will 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 13 in the accompanying consolidated financial statements for more details on our credit facilities and Note 11 in the accompanying consolidated financial statements for details on private placement offerings.

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 of our projects or collection of our projects to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders.

As of March 31, 2017, \$35.3 million of the Company’s outstanding credit facilities and project related loans mature at various periods through the end of 2017. We are in active discussions with our lenders seeking long term extensions and modifications to these loans. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations, and financial covenant compliance. If we fail to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan’s maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default. We are anticipating that with the successful resolution of the debt extension discussions with our lenders, capital raises from our recent private placement, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, the Company will 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. The Company will also continue to focus on its cost structure in an effort to conserve cash and manage expenses. Such actions may include cost reductions and/or deferral arrangements with respect to current operating expenses.

## Recent Developments

On March 22, 2017, the Company entered into a Share Exchange Agreement with the holders of the Company's Series B Preferred Stock pursuant to which the Company exchanged 772,210 shares of the Company's Series B Preferred Stock for 772,210 shares of the Company's newly created Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share (the "Series C Preferred Stock"). The Series C Preferred Stock has a discretionary dividend feature, as opposed to the mandatory dividend feature in the Series B Preferred Stock. The Series B Preferred Stock, together with all accrued dividend earned through the conversion date, was retired upon re-acquisition.

On March 24, 2017, the Company entered into a share repurchase agreement with Investor Management, L.C., an entity owned by Gregory V. Benson, the former Chief Operating Officer of the Company, whereby the Company agreed to repurchase 193,052 shares of the Series C Preferred Stock held by Investor Management, L.C. for \$89. The Series C Preferred Stock acquisition closed on April 4, 2017, and the Series C Preferred Stock was retired.

On March 24, 2017, Comstock Acquisitions II, L.C. ("Purchaser"), an entity wholly owned by certain officers, directors, and employees of the Company, entered into a share repurchase agreement with Mr. Benson and Clareth, LLC, an entity wholly owned by Mr. Benson ("Clareth"), pursuant to which it agreed to purchase 64,563 shares of the Company's Class A common stock and 170,250 shares of the Company's Class B common stock held by Clareth for \$235. The purchase transaction closed on April 4, 2017. Upon repurchase of the Company's Class B common stock, pursuant to the Amended and Restated Certificate of Incorporation of the Company, the Class B common stock automatically converted to Class A common stock.

On March 24, 2017, Christopher Clemente, the Chief Executive Officer of the Company entered into a share repurchase agreement with Clareth pursuant to which he agreed to purchase 25,000 shares of the Company's Class B common stock held by Clareth for \$25. The purchase transaction closed on April 4, 2017. See Note 9 to the consolidated financial statements for further information.

## Reclassifications

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

## Use of Estimates

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

## Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 for one year, which would make the guidance effective for the Company's first fiscal year beginning after December 15, 2017. Additionally, the FASB has also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. The Company is continuing to evaluate the impact of ASU 2014-09.

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In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”). The core principle of the standard is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in its statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this new standard will have on our financial statements.

We assessed other accounting pronouncements issued or effective during the three months ended March 31, 2017 and deemed they were not applicable to us and are not anticipated to have a material effect on our consolidated financial statements.

## 2. REAL ESTATE INVENTORIES

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

	March 31, 2017	December 31, 2016
Land and land development costs	\$ 32,665	\$ 33,355
Cost of construction (including capitalized interest and real estate taxes)	16,773	16,487
	<u>\$ 49,438</u>	<u>\$ 49,842</u>

## 3. WARRANTY RESERVE

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. 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 this reserve as they arise.

The following table is a summary of warranty reserve activity which is included in ‘Accounts payable and accrued liabilities’ within the consolidated balance sheets:

	Three Months Ended March 31,	
	2017	2016
Balance at beginning of period	\$ 288	\$ 312
Additions	50	44
Releases and/or charges incurred	(60)	(42)
Balance at end of period	<u>\$ 278</u>	<u>\$ 314</u>

## 4. CAPITALIZED INTEREST AND REAL ESTATE TAXES

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



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

	Three Months Ended March 31,	
	2017	2016
Total interest incurred and capitalized	\$ 1,026	\$ 736
Total real estate taxes incurred and capitalized	40	22
Total interest and real estate taxes incurred and capitalized	<u>\$ 1,066</u>	<u>\$ 758</u>
Interest expensed as a component of cost of sales	\$ 451	\$ 292
Real estate taxes expensed as a component of cost of sales	60	49
Interest and real estate taxes expensed as a component of cost of sales	<u>\$ 511</u>	<u>\$ 341</u>

The amount of interest from entity level borrowings that we are able to capitalize in accordance with Accounting Standards Codification (“ASC”) 835 is dependent upon the average accumulated expenditures that exceed project specific borrowings. For the three months ended March 31, 2017 and 2016, the Company expensed \$0 and \$208, respectively, of interest from entity level borrowings.

Additionally, 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 they are incurred. For the three months ended March 31, 2017 and 2016, the Company expensed \$0 and \$8 of interest and real estate taxes for inactive projects.

## 5. EARNINGS PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 are presented in the accompanying consolidated statements of operations. Restricted stock awards, stock options and warrants for the three months ended March 31, 2017 and 2016 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the periods, unless their inclusion would be anti-dilutive.

As a result of the net income attributable to common stockholders for the three months ended March 31, 2017, we have included the following shares to the diluted share computation. As a result of the net losses attributable to common stockholders for the three months ended March 31, 2016, the following shares have been excluded from the diluted share computation as their inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2017	2016
Restricted stock awards	5	1
Warrants	25	—
	<u>30</u>	<u>1</u>

## 6. SEGMENT DISCLOSURES

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

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

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

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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 table 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. area reportable geographic segment.

	<u>Homebuilding</u>	<u>Multi-family</u>	<u>Real Estate Services</u>	<u>Total</u>
<b>Three Months Ended March 31, 2017</b>				
Gross revenue	\$ 10,064	\$ —	\$ 204	\$10,268
Gross profit (loss)	963	—	(20)	943
Net (loss) income	(644)	—	(20)	(664)
Depreciation and amortization	65	—	9	74
Interest expense	—	—	—	—
Total assets	56,317	—	79	56,396
<b>Three Months Ended March 31, 2016</b>				
Gross revenue	\$ 9,523	\$ —	\$ 183	\$ 9,706
Gross profit (loss)	878	—	92	970
Net (loss) income	(1,380)	—	92	(1,288)
Depreciation and amortization	83	—	3	86
Interest expense	213	—	—	213
Total assets	48,161	—	263	48,424

The Company allocates sales, marketing and general and administrative expenses to the individual segments based upon specifically allocable costs.

## 7. INCOME TAX

For the three months ended March 31, 2017 the Company recognized income tax expense of \$0. For the three months ended March 31, 2016, the Company recognized income tax expense of \$25, and the effective tax rate was 2%.

The Company has not recorded any accruals related to uncertain tax positions as of March 31, 2017 and 2016. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2013 through 2016 tax years remain subject to examination by federal and most state tax authorities.

At March 31, 2017 and December 31, 2016, due to the uncertainties surrounding the realization of the deferred tax assets, the Company recorded a full valuation allowance.

## 8. COMMITMENTS AND CONTINGENCIES

### *Litigation*

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

**Letters of credit, performance bonds and compensating balances**

The Company has commitments as a result of contracts with certain third parties, primarily local governmental authorities, to meet certain performance criteria 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 March 31, 2017 and 2016, the Company had \$1.1 million and \$1.9 million in outstanding letters of credit, respectively. At March 31, 2017 and 2016, the Company had \$4.2 million and \$4.8 million in outstanding performance and payment bonds, respectively. No amounts have been drawn against the outstanding letters of credit or performance bonds.

We are required to maintain compensating balances in escrow accounts as collateral for certain letters of credit, which are funded upon settlement and release of units. The cash contained within these escrow accounts is subject to withdrawal and usage restrictions. As of March 31, 2017 and December 31, 2016, we had approximately \$1.0 million and \$0.8 million, respectively, in these escrow accounts, which are included in 'Restricted cash' in the accompanying consolidated balance sheets.

**9. RELATED PARTY TRANSACTIONS**

The Company leases its corporate headquarters from an affiliated entity that is wholly-owned by our Chief Executive Officer. Future minimum lease payments under this lease are as follows:

2017	\$157
2018	160
Total	<u>\$317</u>

For the three months ended March 31, 2017 and 2016, total payments made under this lease agreement were \$52 and \$81, respectively.

On February 23, 2009, Comstock Homes of Washington, L.C., a wholly-owned subsidiary of the Company, entered into a Services Agreement with Comstock Asset Management, L.C., an entity wholly-owned by our Chief Executive Officer, to provide services related to real estate development and improvements, including legal, accounting, marketing, information technology and other additional support services. For the three months ended March 31, 2017 and 2016, the Company billed Comstock Asset Management, L.C. \$203 and \$183, respectively, for services and out-of-pocket expenses. Revenues from this arrangement are included within 'Revenue – other' in the accompanying consolidated statements of operations. As of March 31, 2017 and December 31, 2016, the Company was owed \$68 and \$132, respectively, under this contract, which is included in 'Trade receivables' in the accompanying consolidated balance sheets.

On October 17, 2014, Comstock Growth Fund ("CGF"), an administrative entity managed by the Company, 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 a principal amount of \$10 million. Other purchasers who purchased interests in the private placement included members of the Company's management and board of directors and other third-party, accredited investors for an additional principal amount of \$6.2 million (the "CGF Private Placement").

Simultaneously, on October 17, 2014, the Company entered into an unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal 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. All of the other terms of the unsecured promissory note remained the same. The Company borrowed an additional principal loan amount of \$6.2 million under the amended and restated CGF promissory note bringing the total aggregate principal amount borrowed to \$16.2 million. The CGF 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. Purchasers other than CDS who purchased membership interests in CGF received warrants that represent the right to purchase an amount of shares of our Class A common stock, depending upon the investment amount. As of March 31, 2017 and December 31, 2016, there were 76 warrants issued in connection with the CGF Private Placement outstanding, representing the right to purchase shares of our Class A common stock having an aggregate fair value of \$433, which was considered as a debt discount. The Company amortizes the debt discount over the three year term of the loan to interest expense. As of March 31, 2017, \$12.6 million was outstanding in principal and accrued interest, net of discounts, on the CGF loan. For the three months ended March 31, 2017 and 2016, the Company made interest payments of \$0.4 million, on the CGF loan. In May 2017, subsequent to quarter end, the Company made the second principal curtailment to CGF in the amount of \$1.5 million.

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On December 18, 2014, CGF entered into amended and restated subscription agreements with CDS, members of the Company's management and board of directors and the other third party accredited investors who participated in the CGF Private Placement (the "Amended CGF Private Placement"). Under the Amended CGF Private Placement, in addition to the warrants described above, the Company entered into a commitment to grant 226,857 shares of our Class A common stock to the purchasers in the Amended CGF Private Placement. On May 12, 2015, the Company issued 226,857 un-registered shares of its Class A common stock to the purchasers in the Amended CGF Private Placement. The Amended CGF Private Placement was closed for additional investments on May 15, 2015.

On December 29, 2015, the Company and Stonehenge Funding, L.C. ("Stonehenge"), an entity wholly owned by our Chief Executive Officer, entered into a Note Exchange and Subscription Agreement pursuant to which the note in the original principal amount of \$4,500 issued to the Company by Stonehenge was exchanged for 772,210 shares of the Company's Series B Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share (the "Series B Preferred Stock"). The number of shares of Series B Preferred Stock received by Stonehenge in exchange for the note represented the principal amount outstanding plus accrued interest under the note as of December 29, 2015, which was \$3,861. The note was cancelled in its entirety on December 29, 2015. The holders of Series B Preferred Stock earn dividends at a rate of 8.75% per annum accruing from the effective date of the Note Exchange and Subscription Agreement. For the three months ended March 31, 2017 and 2016, 15,663 and 17,216 shares of the Series B Preferred Stock, respectively, with a liquidation value of \$78 and \$86, respectively, were paid in-kind, and are included in 'Stockholders' equity' in the accompanying consolidated balance sheets.

On March 22, 2017, the Company entered into a Share Exchange Agreement with the holders of the Company's Series B Preferred Stock pursuant to which the Company exchanged 772,210 shares of the Company's Series B Preferred Stock for 772,210 shares of the Company's newly created Series C Non-Convertible Preferred Stock, par value \$0.01 per share and a stated value of \$5.00 per share. The Series C Preferred Stock has a discretionary dividend feature, as opposed to the mandatory dividend feature in the Series B Preferred Stock. The Series B Preferred Stock, together with all accrued dividends earned through the conversion date, was retired upon re-acquisition and the fair value of the Series C Preferred Stock is recorded in 'Stockholders' equity' in the accompanying consolidated balance sheets.

On March 24, 2017, the Company entered into a share repurchase agreement with Investor Management, L.C., an entity owned by Gregory V. Benson, the former Chief Operating Officer of the Company, whereby the Company agreed to repurchase 193,052 shares of the Series C Preferred Stock held by Investor Management, L.C. for \$89. The Series C Preferred Stock acquisition closed on April 4, 2017, and the Series C Preferred Stock was retired.

On December 29, 2015, Comstock Growth Fund II, L.C. ("CGF II"), an administrative entity managed by the Company was created for the purpose of extending loans to the Company. CGF II entered into a subscription agreement with CDS pursuant to which CDS purchased membership interests in CGF II for an initial aggregate principal amount of \$5.0 million (the "CGF II Private Placement").

Simultaneously, on December 29, 2015, the Company and CGF II entered into an unsecured revolving line of credit promissory note in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in-kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. As of March 31, 2017 and December 31, 2016, \$3.3 million was outstanding in principal and accrued interest on the CGF II loan.

See Note 11 to the consolidated financial statements for a description of the Comstock VIII and Comstock X Private Placements and Note 13 to the consolidated financial statements for a description of the CGF Private Placement and the CGF II Private Placement.

## **10. NOTE RECEIVABLE**

The Company originated a note receivable to a third party in the amount of \$180 in September 2014. This note has a maturity date of September 2, 2019 and is payable in monthly installments of principal and interest of \$3. This note bears a fixed interest rate of 6% per annum. As of March 31, 2017 and December 31, 2016, the outstanding balance of the note was \$94 and \$103, respectively, and is included within 'Other assets' in the accompanying consolidated balance sheets. The interest income of \$1 and \$2 for the three months ended March 31, 2017 and 2016, respectively, is included in 'Other income, net' in the consolidated statements of operations.

## 11. VARIABLE INTEREST ENTITY

Included within the Company's real estate inventories at March 31, 2017 and December 31, 2016 are several projects that are determined to be variable interest entities ("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 the three months ended March 31, 2016, New Hampshire Ave. Ventures, LLC distributed \$1.4 million to its non-controlling interest member, 6000 New Hampshire Avenue, LLC. No such distributions were made during the three months ended March 31, 2017.

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"). In connection with the Comstock VIII Private Placement, the Company issued 15 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 former 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 have been used for the 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 were utilized to provide capital needed to complete the Investor VIII Projects in conjunction with project financing for the Investor VIII Projects, to reimburse the Company for prior expenditures incurred on behalf of the Investor VIII Projects, and for general corporate purposes of the Company. The Company evaluated Comstock VIII and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits accordingly, the Company consolidates this entity. In January 2017, the Company fully redeemed the remaining equity interest of Class B Members in Comstock VIII after paying \$1.9 million in distributions. No distributions were paid to the Comstock VIII Class B Members during the three months ended March 31, 2016.

In June 2015, Comstock Investors IX, L.C. ("Comstock IX") entered into subscription agreements with third-party accredited investors ("Comstock IX Class B Members"), pursuant to which Comstock IX Class B Members purchased membership interests in Comstock IX for an aggregate amount of \$2.5 million (the "Comstock IX Private Placement"). The Comstock IX 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 IX Class B Members at any time, provided that (i) all of the Comstock IX Class B Members' interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock IX Class B Members' capital accounts plus any 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 IX Private Placement have been utilized (A) for the current construction of the Marrwood East project of 35 single family homes in Loudoun County Virginia, (B) to reimburse the Company for prior expenditures incurred on behalf of the Marrwood East project and (C) for general corporate purposes of the Company. The Company evaluated Comstock IX and determined that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support and the Company was the primary beneficiary as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses or receive benefits. Accordingly, the Company consolidates this entity. No distributions have been paid to the Comstock IX Class B Members to date.

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In August 2016, Comstock Investors X, L.C. (“Comstock X”) entered into a subscription agreement with an accredited investor (“Comstock X Class B Member”), pursuant to which the Comstock X Class B Member purchased membership interests in Comstock X for an initial amount of \$5.0 million, which is part of an aggregate capital raise of \$14.5 million (the “Comstock X Private Placement”). The Comstock X Class B Member is Comstock Development Services, LC (“CDS”), an entity wholly owned by Christopher Clemente, our Chief Executive Officer. In October 2016, the Comstock X Class B Member purchased additional interests in the Comstock X Private Placement in an amount of \$9.5 million resulting in an aggregate subscription amount of \$14.5 million. In connection with the Comstock X Private Placement, the Company issued a total of 150 warrants for the purchase of shares of the Company’s Class A common stock, having an aggregate fair value of \$258. The Comstock X Member is entitled to a cumulative, preferred return of 6% per annum, compounded annually on the capital account balance. The Company has the right to repurchase the interest of the Comstock X Class B Member at any time, provided that (i) all of the Comstock X Class B Members’ interest is acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock X Class B Members’ capital account plus accrued priority return. Proceeds of the Comstock X Private Placement are being utilized (A) to provide capital needed to complete the projects known as The Townes at Totten Mews, consisting of 40 townhomes in Washington, D.C., and The Towns at 1333, consisting of 18 townhomes in the City of Alexandria, Virginia (collectively, the “Investor X Projects”), (B) to reimburse the Company for prior expenditures incurred on behalf of the Investor X Projects, and (C) for general corporate purposes of the Company. The Company evaluated Comstock X 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 of the VIE as a result of its complete operational control of the activities that most significantly impact the economic performance and its obligation to absorb losses, or receive benefits. Accordingly, the Company consolidates this entity. No distributions have been paid to the Comstock X Class B Members to date.

The distributions to and contributions from the VIEs discussed above are included within the ‘non-controlling interest’ in the consolidated balance sheets for the periods presented.

At March 31, 2017 and December 31, 2016, total assets of these VIEs were approximately \$32.4 million and \$38.1 million, respectively, and total liabilities were approximately \$15.5 million and \$18.5 million, respectively. The classification of these assets is primarily within ‘Real estate inventories’ and the classification of liabilities are primarily within ‘Accounts payable and accrued liabilities’ and ‘Notes payable – secured by real estate inventories’ in the accompanying consolidated balance sheets.

## 12. UNCONSOLIDATED JOINT VENTURE

The Company accounts for its interest in its title insurance joint venture using the equity method of accounting and periodically adjusts the carrying value for its proportionate share of earnings, losses and distributions. The carrying value of the investment is included within ‘Other assets’ in the accompanying consolidated balance sheets and our proportionate share of the earnings from the investment are included in ‘Other income, net’ in the accompanying consolidated statements of operations for the periods presented. Our share of the earnings for the three months ended March 31, 2017 and 2016, are \$18 and \$8, respectively. During the three months ended March 31, 2017 and 2016, the Company collected total distributions of \$36 and \$52, respectively, as a return on investment.

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

	Three Months Ended March 31,	
	2017	2016
<b>Statement of Operations:</b>		
Total net revenue	\$ 66	\$ 45
Total expenses	30	29
Net income	\$ 36	\$ 16
Comstock Holding Companies, Inc. share of net income	\$ 18	\$ 8

**13. CREDIT FACILITIES**

Notes payable consisted of the following:

	March 31, 2017	December 31, 2016
Construction revolvers	\$ 5,601	\$ 6,429
Development and acquisition notes	16,862	16,278
Mezzanine notes	1,439	1,424
Line of credit	2,929	2,929
Total secured notes	26,831	27,060
Deferred financing charges, net of amortization	(166)	(133)
Net secured notes	26,665	26,927
Unsecured financing, net of unamortized deferred financing charges of \$105 and \$121	959	911
Notes payable, unsecured, net of \$2.1 million discount and unamortized deferred financing charges	15,944	15,866
Total notes payable	<u>\$ 43,568</u>	<u>\$ 43,704</u>

As of March 31, 2017, maturities and/or curtailment obligations of all borrowings are as follows:

2017	\$35,258
2018	6,198
2019	1,997
2020	115
Total	<u>\$43,568</u>

As of March 31, 2017, the Company had \$35.3 million of its credit facilities and project related loans scheduled to mature during the remainder of 2017, and we are in active discussions with our lenders seeking long-term extensions.

**Construction, development and mezzanine debt – secured**

The Company enters into secured acquisition and development loan agreements from time to time 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 March 31, 2017 and December 31, 2016, the Company had secured construction revolving credit facilities with a maximum loan commitment of \$30.5 million and \$26.6 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 March 31, 2017 and December 31, 2016, the Company had approximately \$24.9 million and \$20.2 million, respectively, of unused construction loan commitments. The Company had \$5.6 million and \$6.4 million of outstanding construction borrowings as of March 31, 2017 and December 31, 2016, respectively. 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 March 31, 2017 and December 31, 2016, the weighted average interest rate on the Company’s outstanding construction revolving facilities was 4.6% per annum. The construction credit facilities have maturity dates ranging from April 2017 to March 2019, including extensions subject to the Company meeting certain conditions. Subsequent to March 31, 2017, \$0.2 million of the outstanding construction revolving credit facilities matured in April 2017 and therefore, the Company secured an extension for this borrowing. See Note 16 for further discussion on the extension.



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As of March 31, 2017 and December 31, 2016, the Company had approximately \$24.3 million and \$27.8 million, respectively, of aggregate acquisition and development maximum loan commitments of which \$16.9 million and \$16.3 million, respectively, were outstanding. These loans have maturity dates ranging from May 2017 to March 2019, including extensions subject to certain conditions, and bear interest at a rate based on LIBOR and prime rate pricing options, with interest rate floors ranging from 4.5% to 5.5% per annum. As of March 31, 2017 and December 31, 2016, the weighted average interest rate was 5.2% per annum.

As of March 31, 2017, the Company had one mezzanine loan that is being used to finance the development of the Momentum | Shady Grove project. The maximum principal commitment amount of this loan was \$1.1 million, of which \$1.4 million of principal and accrued interest was outstanding at March 31, 2017 and December 31, 2016. This financing carries an annual interest rate of 12% of which 6% is paid on a monthly basis with the remaining 6% being accrued and paid at maturity. This financing has a maturity date of December 31, 2017 and is guaranteed by the Company and our Chief Executive Officer.

### ***Line of credit – secured***

At March 31, 2017 and December 31, 2016, the Company had a secured revolving line of credit with a maximum capacity of \$3.0 million, of which \$2.9 million was outstanding at March 31, 2017 and December 31, 2016. 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 guaranteed by our Chief Executive Officer. The Company uses this line of credit to finance the predevelopment related expenses and deposits for current and future projects and bears a variable interest rate tied to a one-month LIBOR plus 3.25% per annum, with an interest rate floor of 5.0%. This line of credit calls for the Company to adhere to financial covenants, as defined in the loan agreement such as, minimum net worth and minimum liquidity, measured quarterly and minimum EBITDA measured on an annual basis and matures on December 31, 2017. As of March 31, 2017, the Company was in compliance with all financial covenants dictated by the line of credit agreement.

### ***Unsecured financing***

As of March 31, 2017 and December 31, 2016, the Company had \$0.9 million in outstanding balances under a 10-year unsecured note with a bank. Interest is charged on this financing on an annual basis at the Overnight LIBOR rate plus 2.2%. At March 31, 2017 and December 31, 2016, the interest rate was 3.1% and 2.9% per annum, respectively. The maturity date of this financing is December 28, 2018. The Company is required to make monthly principal and interest payments through maturity.

As of March 31, 2017, the Company had one unsecured seller-financed promissory note with an outstanding balance of \$0.1 million. This financing carries an annual interest rate of the prime rate plus 5%. This financing has a maturity date of February 27, 2020, and is guaranteed by our Chief Executive Officer.

### ***Notes payable to affiliate – unsecured***

#### **Comstock Growth Fund**

On October 17, 2014, CGF entered into a subscription agreement with CDS, pursuant to which CDS purchased membership interests in CGF for a principal amount of \$10.0 million (the "CGF Private Placement"). Other investors who subsequently purchased interests in the CGF Private Placement included members of the Company's management and board of directors and other third party accredited investors for an additional principal amount of \$6.2 million.

On October 17, 2014, the Company entered into an unsecured promissory note with CGF whereby CGF made a loan to the Company in the initial principal amount of \$10.0 million and a maximum amount available for borrowing of up to \$20.0 million with a three year term (the "Original Promissory Note"). On December 18, 2014, the loan agreement was amended and restated to provide for a maximum capacity of \$25 million. 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 \$12.6 million of outstanding borrowings under the CGF loan, net of discounts, as of March 31, 2017 and December 31, 2016. As of March 31, 2017 and December 31, 2016, the interest rate was 11.4% and 10.4% per annum, respectively. For the three months ended March 31, 2017 and 2016, the Company made interest payments of \$0.4 million. During the second quarter of 2017, the Company made the second principal curtailment to CGF in the amount of \$1.5 million.



***Comstock Growth Fund II***

On December 29, 2015, the Company entered into a revolving line of credit promissory note with CGF II whereby CGF II made a loan to the Company in the initial principal amount of \$5.0 million and a maximum amount available for borrowing of up to \$10.0 million with a two year term, which may be extended an additional year. The interest rate is 10% per annum, and interest payments will be accrued and paid in kind monthly for the first year, and then paid current monthly in arrears beginning December 31, 2016. The funds obtained from the loan are being used by the Company (i) to capitalize the Company's current and future development pipeline, (ii) to repay all or a portion of the Company's prior private placements, and (iii) for general corporate purposes. As of March 31, 2017 and December 31, 2016, \$3.4 million and \$3.3 million, respectively, was outstanding in principal and accrued interest under the CGF II loan.

**14. FAIR VALUE DISCLOSURES**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values based on their short maturities. The fair value of fixed and floating rate debt is based on unobservable market rates (Level 3 inputs).

The fair value of the floating rate debt was estimated using a discounted cash flow analysis on the blended borrower rates currently available to the Company for loans with similar terms. The following table summarizes the carrying amount and the corresponding fair value of fixed and floating rate debt:

	March 31, 2017	December 31, 2016
Carrying amount	\$ 43,568	\$ 43,704
Fair value	\$ 45,091	\$ 44,986

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.

**15. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS**

During the three months ended March 31, 2017, the Company issued 157 thousand stock options and 200 thousand restricted stock awards to employees.

Stock-based compensation expense associated with restricted stock and stock options is recognized based on the fair value of the award over its vesting period. For the three months ended March 31, 2017, total stock based compensation expense was \$37 of which, \$32 was charged to expenses within 'general and administrative' and 'cost of sales-other' in the consolidated statement of operations, and \$5 was capitalized to 'Real estate inventories'. For the three months ended March 31, 2016, total stock based compensation cost was \$31, and of this amount, \$26 was charged to expenses within 'general and administrative' and 'cost of sales-other' in the consolidated statement of operations, and \$5 was capitalized to 'Real estate inventories'.

Under net settlement procedures currently applicable to our outstanding restricted stock awards for employees, upon each settlement date and election by the employees, restricted stock awards are withheld to cover the required withholding tax, which is based on the value of the restricted stock award on the settlement date as determined by the closing price of our Class A common stock on the trading day immediately preceding the applicable settlement date. The remaining amounts are delivered to the recipient as shares of our Class A common stock.

As of March 31, 2017, the weighted-average remaining contractual term of unexercised stock options was 8 years. As of March 31, 2017 and December 31, 2016, there was \$0.7 million and \$0.1 million, respectively, of unrecognized compensation cost related to stock grants.

## **16. SUBSEQUENT EVENTS**

In April 2017, the Company and an entity wholly owned by certain officers, directors, and employees of the Company, closed on a repurchase of its Series B Common Stock from Gregory V. Benson, the Company's former Chief Operating Officer, and Clareth, LLC, an entity wholly owned by Mr. Benson. In addition, the Company also finalized the conversion of its Series B Preferred Stock to its Series C Preferred Stock. For further information regarding these transactions, see the 'Recent Developments' section within Note 1, and the 'Related Party Transactions' within Note 9 to the consolidated financial statements.

In April 2017, the Company repaid \$0.8 million of principal related to its secured line of credit. As of March 31, 2017, the Company had \$2.9 million in outstanding borrowings under this line of credit.

In April 2017, the Company extended its revolving construction and development loan related to the Estates at Falls Grove project. This loan had an initial maturity date of April 23, 2017 and the extension provides for a maturity date of July 23, 2017. As of March 31, 2017, the Company had \$0.2 million in outstanding borrowings under this revolving credit facility.

In May 2017, the Company made the second principal curtailment on the Amended CGF Private Placement in the amount of \$1.5 million.

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

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

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

***Cautionary Notes Regarding Forward-looking Statements***

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “estimate,” “may,” “likely,” “intend,” “expect,” “will,” “should,” “seeks” or other similar words or expressions. Forward-looking statements are based largely on our expectations and involve inherent risks and uncertainties, many of which are beyond our control. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply specifically to us. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation: general economic and market conditions, including interest rate levels; our ability to service our debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; economic risks in the markets in which we operate, including actions related to government spending; delays in governmental approvals and/or land development activity at our projects; regulatory actions; our ability to maintain compliance with stock market listing rules and standards; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates. Additional information concerning these and other important risk and uncertainties can be found under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Our actual results could differ materially from these projected or suggested by the forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements in light of new information or future events, except as required by law.

**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 homes, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. We operate our business through three segments: Homebuilding, Multi-family, and Real Estate Services as further discussed in Note 6 to the consolidated financial statements. We are currently focused in the Washington, D.C. metropolitan area, which is the sixth largest metropolitan statistical area in the United States.

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We are currently operating, or developing in multiple counties throughout the Washington, D.C. area market. The following table summarizes certain information for our owned or controlled communities as of March 31, 2017:

Pipeline Report as of March 31, 2017									
Project	State	Product Type (1)	Estimated Units at Completion	Units Settled	Backlog (8)	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	38	—	—	—	—	\$ 747
Townes at the Hampshires (3)	DC	TH	73	73	—	—	—	—	\$ 551
Estates at Falls Grove	VA	SF	19	18	—	1	—	1	\$ 543
Townes at Falls Grove	VA	TH	110	92	9	9	—	18	\$ 303
Townes at Shady Grove Metro	MD	TH	36	27	—	9	—	9	\$ 583
Townes at Shady Grove Metro (4)	MD	SF	3	3	—	—	—	—	\$ —
Momentum   Shady Grove Metro (5)	MD	Condo	110	—	—	110	—	110	\$ —
Estates at Emerald Farms	MD	SF	84	82	2	—	—	2	\$ 426
Townes at Maxwell Square	MD	TH	45	45	—	—	—	—	\$ 421
Townes at Hallcrest	VA	TH	42	42	—	—	—	—	\$ 465
Estates at Leeland	VA	SF	24	6	6	12	—	18	\$ 446
Villas   Preserve at Two Rivers 28'	MD	TH	6	5	1	—	—	1	\$ 458
Villas   Preserve at Two Rivers 32'	MD	TH	10	9	1	—	—	1	\$ 504
Marrwood East (7)	VA	SF	35	2	17	16	—	33	\$ 641
Townes at Totten Mews (6)	DC	TH	40	—	3	37	—	40	\$ 627
The Towns at 1333	VA	TH	18	—	1	17	—	18	\$ 995
The Woods at Spring Ridge	MD	SF	21	—	4	17	—	21	\$ 644
Solomons Choice	MD	SF	56	—	—	56	—	56	\$ —
Townes at Richmond Station	VA	TH	104	—	—	—	104	104	\$ —
Condominiums at Richmond Station	VA	MF	54	—	—	—	54	54	\$ —
<b>Total</b>			<b>928</b>	<b>442</b>	<b>44</b>	<b>284</b>	<b>158</b>	<b>486</b>	

- (1) "SF" means single family home, "TH" means townhouse, "Condo" means condominium, "MF" means multi-family.
- (2) Under land option purchase contract, not owned.
- (3) 3 of these units are subject to statutory affordable dwelling unit program.
- (4) Units are subject to statutory moderately priced dwelling unit program; not considered a separate community.
- (5) 16 of these units are subject to statutory moderately priced dwelling unit program.
- (6) 5 of these units are subject to statutory affordable dwelling unit program.
- (7) 1 of these units is subject to statutory affordable dwelling unit program.
- (8) "Backlog" means we have an executed order with a buyer but the settlement did not occur prior to report date.

**Results of Operations****Three months ended March 31, 2017 compared to three months ended March 31, 2016***Settlements, orders, cancellations and backlog*

The following table summarizes certain information related to new orders, settlements, and backlog for the three month periods ended March 31, 2017 and 2016:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Gross new orders	39	38
Cancellations	5	3
Net new orders	34	35
Gross new order revenue	\$ 19,557	\$ 16,089
Cancellation revenue	\$ 2,513	\$ 1,156
Net new order revenue	\$ 17,044	\$ 14,933
Average gross new order price	\$ 501	\$ 423
Settlements	25	22
Revenue—homebuilding	\$ 10,064	\$ 9,523
Average settlement price	\$ 403	\$ 433
Backlog units	44	38
Backlog revenue	\$ 23,920	\$ 16,264
Average backlog price	\$ 544	\$ 428

*Revenue – homebuilding*

Revenue from homebuilding increased by \$0.6 million to \$10.1 million for the three months ended March 31, 2017 as compared to \$9.5 million for the three months ended March 31, 2016. For the three months ended March 31, 2017, the Company settled 25 units (12 units at Falls Grove, 6 units at Hallcrest, 4 units at Emerald Farm, 1 unit at Marrwood, 1 unit at Leeland and 1 unit at Shady Grove), as compared to 22 units (6 units at Maxwell Square, 5 units at Falls Grove, 4 units at Two Rivers, 4 units at Hallcrest, and 3 units at The Hampshires) for the three months ended March 31, 2016. Our homebuilding gross margin percentage for the three months ended March 31, 2017 increased by 0.2% to 9.4%, as compared to 9.2% for the three months ended March 31, 2016. The increase noted in gross margins was mainly the result of the number of units settled and the mix of homes.

Backlog which reflects the number of homes for which the Company has entered into a sales contract with a homebuyer but has not yet delivered the home increased by 6 units to 44 units at March 31, 2017, as compared to 38 units at March 31, 2016. At March 31, 2017, we had \$23.9 million in backlog to generate future revenue as compared to \$16.3 million at March 31, 2016, resulting in an increase of \$7.6 million.

Gross new order revenue, consisting of revenue from all units sold, for the three months ended March 31, 2017 was \$19.6 million on 39 units as compared to \$16.1 million on 38 units for the three months ended March 31, 2016. Net new order revenue, representing revenue for all units sold less cancellations, for the three months ended March 31, 2016 was \$17.0 million on 34 units as compared to \$14.9 million on 35 units for the three months ended March 31, 2016. The increases are attributable to the mix of homes sold.

*Cost of sales – homebuilding*

Cost of sales – homebuilding increased by \$0.5 million to \$9.1 million during the three months ended March 31, 2017, as compared to \$8.6 million for the three months ended March 31, 2016. The increase noted was primarily attributable to the number of units settled and the mix of homes settled during the three months ended March 31, 2017.

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### *Cost of sales – other*

Cost of sales – other increased by \$0.1 million to \$0.2 million during the three months ended March 31, 2017, as compared to \$0.1 million during the three months ended March 31, 2016. The increase primarily relates to our new initiatives within our real estate services segment to expand our footprint in the real estate consulting field.

### *Sales and marketing*

Selling and marketing expenses for the three months ended March 31, 2017 decreased by \$0.1 million to \$0.4 million, as compared to \$0.5 million for the three months ended March 31, 2016. The decrease is attributable to continued benefit from the general overhead cost saving measures.

### *General and administrative*

General and administrative expenses for the three months ended March 31, 2017 decreased by \$0.3 million to \$1.2 million, as compared to \$1.5 million for the three months ended March 31, 2016. The decrease is attributable to attrition in employee head count and general overhead cost saving measures.

### *Income taxes*

For the three months ended March 31, 2017 the Company recognized income tax expense of \$0. For the three months ended March 31, 2016, the Company recognized income tax expense of \$25, and the effective tax rate was 2%.

### *Recent Developments*

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

### ***Liquidity and Capital Resources***

We require capital to operate, to post deposits on new potential acquisitions, 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 we believe will 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 13 in the accompanying consolidated financial statements for more details on our credit facilities and Note 11 in the accompanying consolidated financial statements for details on private placement offerings.

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 of our projects or collection of our projects to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders.

As of March 31, 2017, \$35.3 million of the Company’s outstanding credit facilities and project related loans mature at various periods through the end of 2017. We are in active discussions with our lenders seeking long term extensions and modifications to these loans. These debt instruments impose certain restrictions on our operations, including speculative unit construction limitations, curtailment obligations, and financial covenant compliance. If we fail to comply with any of these restrictions, an event of default could occur. Additionally, events of default could occur if we fail to make required debt service payments or if we fail to come to agreement on an extension on a certain facility prior to a given loan’s maturity date. Any event of default would likely render the obligations under these instruments due and payable as of that event. Any such event of default would allow certain of our lenders to exercise cross default provisions in our loan agreements with them, such that all debt with that institution could be called into default. We are anticipating that with the successful resolution of the debt extension discussions with our lenders, capital raises from our recent private placement, current available cash on hand, and additional cash from settlement proceeds at existing and under development communities, the Company will 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. The Company will also continue to focus on its cost structure in an effort to conserve cash and manage expenses. Such actions may include cost reductions and/or deferral arrangements with respect to current operating expenses.

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See Note 11 and Note 13 to the accompanying consolidated financial statements for details on private placement offerings and for more details on our credit facilities, respectively.

### **Cash Flow**

Net cash provided by operating activities was \$0.5 million for the three months ended March 31, 2017 compared to the net cash used in operating activities of \$0.4 million for the three months ended March 31, 2016. The \$0.5 million net cash provided by operations was primarily attributable to collections of trade receivables of \$0.5 million and net releases of inventories of \$0.5 million, offset by the net loss of \$0.7 million. The \$0.4 million net cash used in operations for the three months ended March 31, 2016 was primarily due to \$2.9 million of net releases of inventories, offset by usage on accounts payable of \$1.6 million, increases in trade receivables of \$0.5 million and net loss of \$1.3 million.

Net cash used in financing activities was \$2.5 million for the three months ended March 31, 2017. This was primarily attributable to the distributions of \$1.9 million to the Comstock Investor VIII Class B Members to fully redeem their equity interest, along with the pay downs on notes payable of \$6.0 million, offset by borrowings of \$5.5 million. Net cash used in financing activities was \$7.4 million for the three months ended March 31, 2016. This was primarily attributable to the distribution of \$1.4 million to the New Hampshire Avenue non-controlling interest member, along with the pay downs on notes payable of \$11.2 million, offset by borrowings of \$5.2 million.

### **Seasonality**

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

### **Recently Issued Accounting Standards**

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

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

There have been no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2017 from those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Off Balance Sheet Arrangements**

None.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2017.

### **Limitations on the Effectiveness of Controls**

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

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

### **Changes in Internal Control**

No changes have occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 8 to the accompanying consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

### ITEM 6. EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to an exhibit to the Registrant’s Quarterly Report on Form 10-Q filed with the Commission on November 16, 2015).
- 3.2 Amended and Restated Bylaws (incorporated by reference to an Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
- 3.3 Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on March 27, 2015 (incorporated by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K filed with the Commission on March 27, 2015).
- 3.4 Certificate of Designation of Series B Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on December 29, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Commission on January 4, 2016).
- 3.5 Certificate of Designation of Series C Non-Convertible Preferred Stock of the Company filed with the Secretary of State of the State of Delaware on March 22, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Commission on March 28, 2017).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (File No. 333-118193)).
- 10.59\* Loan agreement between Comstock Sixth Street, LLC and Eagle Bank.
- 10.60\* Series C Share Repurchase Agreement between the Company and Investor Management, L.C.
- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101\* The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements.

\* Filed herewith.



**BUILDING LOAN AGREEMENT**

THIS BUILDING LOAN AGREEMENT (as amended, modified or supplemented from time to time, "Agreement"), dated as of the 15th day of February, 2017, by and between (i) EAGLEBANK (the "Lender"), and (ii) COMSTOCK SIXTH STREET, LLC, a Virginia limited liability company (the "Borrower"), recites and provides:

**RECITALS:**

R-1. The Borrower has acquired a certain development site consisting of 14 recorded townhouse lots (Lots 907-920 inclusive) being a part of land consisting of approximately 0.58 acres located at 4815 Sixth Street, N.E., Washington, D.C., as more particularly described on Exhibit A attached hereto (the "Property"), on which the Borrower intends to develop the first phase of a project known as Townes at Totten Mews, for construction of 14 townhouses (singularly a "Unit" and if referring to more than one, the "Units") of which 12 are to be market rate Units (the "Market Rate Units" and 2 are intended to qualify as affordable dwelling units ("ADU") (the "ADU Units") (the construction of such 14 Units, the "Project").

R-2. Subject to the terms of this Agreement, the Lender agrees to make a non-revolving construction loan (the "Loan") to the Borrower, as more particularly described in Section One below, for the purpose of financing the construction of the Units. The Loan will be secured by a first lien deed of trust, security agreement and fixture filing on the Property.

R-3. The Lender and the Borrower agree that the Loan will be made and advanced upon and subject to the terms, covenants and conditions set forth in this Agreement.

**AGREEMENT**

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

**SECTION ONE  
THE LOAN**

1.1 Amount. The maximum principal amount that may be advanced under the Loan shall not exceed the lesser of (i) Four Million Eight Hundred Sixty Thousand and No/100 Dollars (\$4,860,000.00), or (ii) sixty percent (60%) of the "as complete" value of each Unit pursuant to the Appraisal (hereinafter defined) and any appraisals which may be engaged by the Lender from time to time subsequent to the date hereof, or (iii) sixty-seven percent (67%) of costs of the Project as approved by the Lender, or (iv) an aggregate amount not in excess of Three Hundred Forty-Seven Thousand One Hundred Forty-Three and No/100 Dollars (\$347,143.00) per Unit on average. The Loan will be evidenced by a Non-Revolving Construction Loan Promissory Note made by the Borrower payable to the order of the Lender (as the same may be amended, renewed, restated, supplemented or substituted from time to time, the "Note") which shall be governed by Maryland law.

1.2 Purpose. The Borrower will use the Loan proceeds for the purpose of building (the "Construction") the Units in accordance with a schedule and a budget therefor which shall have been approved by the Lender in advance and in accordance with plans and specifications (the "Plans and Specifications") to be submitted to and approved by the Lender and its construction consultant, and with advances to be made as the work progresses, all as set forth in this Agreement. The overall Construction budget shall include and be consistent with the total costs per type of Unit that are to be set forth on Exhibit B (the "Unit Costs Budget"), which shall be agreed by the parties and attached hereto prior to and as a condition of the first advance of Loan proceeds.

1.3 Guarantor. Christopher Clemente ("Individual Guarantor") and Comstock Development Services LC, a Virginia limited liability company ("Entity Guarantor" and, together with the Individual Guarantor, collectively the "Guarantor") shall guarantee the payment and performance of the Borrower's obligations, covenants and agreements under the Loan, as evidenced by the Guaranty and Security Agreement executed of even date herewith.

1.4 Term. The Note shall mature upon the earlier of (i) twenty-four (24) months after the date of closing on the Loan or (ii) the occurrence of a Transfer (as defined in Section 5.15 hereof) (the "Maturity"). It is acknowledged and agreed that notwithstanding any provisions herein, the Borrower has not applied for, nor has the Lender made any commitment with respect to, any extension of such Maturity. Upon any application for an extension, any approval of an extension on any terms would be contingent upon the usual and customary underwriting procedures of EagleBank, including without limitation, the approval of the loan committee of EagleBank.

1.5. Interest Rate. (a) Commencing on the closing of the Loan and continuing until Maturity the unpaid principal balance of the Note outstanding from time to time shall bear interest and be payable at the floating rate equal to three and one-half percent (3.5%) above LIBOR (hereinafter defined), rounded upwards, if necessary, to the nearest one-one hundredth of one percent (0.010%). Notwithstanding the above, in no event shall the Note bear interest at any time at a rate below the floor interest rate of four and three-quarters percent (4.75%) per annum (the "Interest Rate Floor").

(b) As used herein:

- (i) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in the State of Maryland are authorized or required by law to close,
- (ii) "LIBOR" means the rate per annum determined pursuant to the following formula:

$$\text{LIBOR} = \text{Base Libor}$$

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$$100\% - \text{LIBOR Reserve Percentage}$$

- (iii) "Base LIBOR" means the rate of interest per annum determined by the Lender based on the rate for United States dollar deposits for delivery of funds for one (1) month as reported in the Wall Street Journal two (2) London Banking Days prior to the first day of the calendar month for which such rate is being determined, as the "London Interbank Offered Rate – 1-Month LIBOR (LIBOR 1 (ICE LIBOR))" or if not so reported, then as determined by the Lender from another recognized source of interbank quotation. If such day is not a London Banking Day, the LIBOR Rate shall be determined on the next preceding day which is a London Banking Day. If for any reason the Lender cannot determine the offered rate by the ICE Benchmark Administration, the Lender may, in its discretion, select a replacement index based on the arithmetic mean of the quotations, if any, of the interbank offered rate by the banks that had been included in the most recently comprised LIBOR Rate, for deposits in comparable amounts and maturities.
- (iv) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by the Lender for expected changes in such reserve percentage during the term of the Note.
- (v) "London Banking Day" means any day on which dealings in U.S. Dollar deposits are transacted in the London interbank market.
- (vi) If the LIBOR Rate determined as provided above would be less than zero, then such rate shall be deemed to be zero.

1.6 Interest Reserve. From the proceeds of the Loan, in addition to amounts reserved for advances for Construction, the amount of Eighty-Four Thousand Twenty-Four and No/100 Dollars (\$84,024.00) shall not be disbursed but shall be reserved by the Lender for the payment of interest on the Loan (the "Interest Reserve") until such reserve is exhausted. Notwithstanding the foregoing or any provision of the Loan Documents to the contrary, the Lender shall not be obligated to make any disbursements from the Interest Reserve if any Event of Default shall have occurred, and further, notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, nothing contained herein shall be deemed to release or in any way to relieve the Borrower from its obligation under the Note to pay interest as provided in the Note. Each disbursement from the Interest Reserve shall constitute a disbursement of principal of the Loan and shall be added to the then outstanding principal balance of the Loan.

1.7 Fees. The Borrower shall pay to the Lender a fee for the Loan in the amount of one-half of one percent (0.5%) of the Loan amount (\$24,300), payable upon closing the Loan. The Lender acknowledges receipt from the Borrower of Ten Thousand and No/100 Dollars (\$10,000.00), for application to the Lender's third-party costs incurred in connection with the Loan (including without limitation fees of appraisers, consultants and legal counsel), any unused balance of which may be applied to the foregoing Loan fee.

1.8 Collateral. The Loan shall be secured by, among other things, the following:

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

1.9 Equity Requirement. As a condition of the Loan, as of the closing of the Loan the Borrower shall have made an equity investment in the Property in the form of cash in an amount not less than thirty-three percent (33%) of the Lender-approved Project budget (the "Minimum Equity"). The Borrower's equity shall consist of acquisition, closing and Lender-approved soft costs, and the Borrower shall have provided full documentation supporting such investment to the Lender which shall be satisfactory to the Lender in all respects. As of the date of this Agreement, Lender confirms that Borrower has met the Minimum Equity requirement.

1.10 Loan Advances. Subject to the conditions set forth in this Agreement, the Lender's obligation to fund advances of the Loan is additionally subject to the following:

- (i) From and after the Borrower having satisfied the Minimum Equity requirement, the Lender shall advance the Loan proceeds based upon approved monthly draw requests in accordance with the final Lender-approved Construction budget and in accordance with the terms and conditions of this Agreement.
- (ii) The Lender's obligation to make any advances for Construction shall also be conditioned upon the Lender having received all of the following which shall be in a customary form and substance and in all respects reasonably satisfactory to the Lender and at no cost to the Lender: (a) contract with the general contractor for the Project ("General Contractor's Contract"); (b) an assignment of the General Contractor's Contract from the Borrower to the Lender; (c) Architect's contract and Consent to assignment thereof executed by the Project architect; (d) Project engineer's contract and Consent to Assignment thereof executed by the Project engineer; (e) final Construction budget; (f) final construction schedule in detail (the "Construction Schedule"); (g) final permit drawings for the Project and each constituent component thereof as submitted to and approved by the District of Columbia, two (2) sets of which shall be delivered to the Lender; (h) Consent to Assignment executed by the general contractor; (i) building permit(s) for the Project based upon final permit drawings; (j) contracts with all Major Subcontractors (hereinafter defined); (k) intentionally deleted; (l) Lender's construction consultant/engineer's cost verification report / front-end analysis; (m) copies of final site plan approval for the Property together with all other required approvals and evidence that the Townes at Totten Mews project is PUD-approved and fully entitled for no less than 40 townhouse units, and (n) any other material contracts, documents or government-issued permits necessary for Construction of the Project and not required (or waived by the Lender) as conditions for closing the Loan or requested by the Lender or its construction consultant or inspecting engineer in connection with the Construction. All of the foregoing items are herein for convenience called the "Required Construction Documents".

- (iii) The term “Major Subcontractors” are those with contracts for the following components of construction: (a) sheeting and shoring, (b) concrete, (c) masonry, (d) waterproofing and roofing, (e) drywall, (f) windows and metal panels, (g) plumbing, (h) mechanical, (i) electrical, (j) fire protection, and (k) elevators, if any within any Unit.

1.11 Deposit Relationship. As a condition of the Loan, the Borrower shall establish its primary operating account and an escrow deposit account (for deposits under sales contracts) with the Lender and shall maintain such accounts with the Lender throughout the term of the Loan. In addition, the Borrower and/or any related entities shall maintain a minimum monthly average aggregate deposit balance with the Lender of not less than ten percent (10%) of the aggregate outstanding principal balance of the Loan and all other loans outstanding from the Lender to affiliates or related entities of Borrower (“Compensating Balances”), tested quarterly, with the first test period being January 1 to March 31, 2017. Such deposits shall be held in demand deposits or money market accounts. If at any time under any of the Loan Documents the Lender is collecting deposits for the payment of insurance premiums and/or real estate taxes, the amount(s) on deposit, to the extent unapplied as of the date of any such quarterly test, shall be counted toward the foregoing deposit balance requirements. The foregoing deposit balance requirement is in addition to any deposit balance requirement under the terms of the loan documents for any other loan or loans by the Lender to the Borrower, any affiliate(s) of the Borrower. The failure to comply with the foregoing deposit balance requirements shall not constitute a default under the Loan; however, interest shall accrue on all amounts outstanding under the Loan at one-quarter of one percent (0.25%) plus the rate of interest then payable under the Note (and the Interest Rate Floor shall also increase by one-quarter of one percent (0.25%)) from the date of such failure until such time as the deposit balance requirement is satisfied at the next quarterly test.

1.12 Release Provisions. The Deed of Trust shall contain the following provision for release of Units from the lien thereof:

“Provided that the Grantor requests the release of one of the Units from the lien of this Deed of Trust prior to the repayment in full of the Loan, and provided that the sales contract with respect to such Unit is in the form approved by the Beneficiary and at a minimum price satisfactory to the Beneficiary in its discretion, then the Beneficiary agrees to release the lien of this Deed of Trust with respect to any one of the Units, upon Grantor’s written request, upon the following terms and conditions:

- (a) With respect to any completed Unit, payment of a Release Payment for each Unit to be released equal to (i) \$108,086.00 per Unit plus (ii) one hundred percent (100%) of the total hard and soft costs advanced from the Loan for Construction of the Unit.

The Release Payment will be applied by the Lender first to the costs advanced from the Loan for Construction of the Unit and the remainder will be applied to the outstanding principal balance of the Loan.

- (b) No Event of Default shall then exist and be continuing;
- (c) The Grantor pays all fees, costs, charges and expenses (including without limitation reasonable attorneys’ fees) relating to the preparation, execution and recordation of any document required in connection with any such partial release; and
- (d) The Grantor pays a fee in the amount of One Hundred and No/100 Dollars (\$100.00) for processing the request for release (“Processing Fee”); provided, however, that the Processing Fee will be waived in the event the purchaser under the sales contract acquires the Unit using EagleBank as its mortgage lender for the purchase money of the Unit.

Notwithstanding the foregoing, no release price shall be payable for the release of streets or roadways, or storm water maintenance or other public facilities, that are to be dedicated to the District of Columbia for public maintenance, provided the same are in accordance with a site plan that shall have been approved by the Beneficiary.”

1.13 Home Owners Association. In the event the Borrower intends to establish a home owners association for the Project (whether separately or together with the balance of the Townes at Totten Mews project), the organizational and governing documents, and all rules and regulations related thereto, shall be subject to the Lender’s prior written approval.

1.14 Bonding Project Facilities. Any bonding, letters of credit or other surety required to be posted or placed to secure completion of any Project facilities or infrastructure shall be obtained by the Borrower from third-party providers, and the Property shall not be further encumbered to secure any such bonding, any letters of credit or any other third-party surety or debt. As of the date of this Agreement, Borrower represents and warrants to Lender that there are no bonding or surety requirements of any material amount that are required in connection with the Project.

1.15 Inclusionary Zoning Covenant. It is understood that the Property is located in a zoning district that is subject to the Inclusionary Zoning Program under applicable District of Columbia zoning law, and that the applicable authorities require the recordation of an Inclusionary Development Covenant (“IZ Covenant”) to set forth of record the terms, restrictions and conditions upon which the owner of the Property may construct, maintain, rent and sell the ADU Units. The Lender has reviewed and approved the form of IZ Covenant that has been submitted to and approved by the D.C. Zoning Administrator. Promptly upon signature of the IZ Covenant by the applicable District of Columbia zoning authorities, the Borrower shall cause the IZ Covenant to be recorded among the Land Records of the District of Columbia and shall provide the Lender and its counsel with executed and recorded copies thereof. The IZ Covenant shall be a permitted exception to title.

## SECTION TWO PAYMENTS, COMPUTATIONS, FEES, CHARGES AND PROTECTIVE ADVANCES

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

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

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

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

2.5 Prepayment. The Borrower may prepay the Note in whole or in part without premium or penalty at any time upon ten (10) days prior written notice to the Lender. Partial prepayments shall be applied to installments of principal in their inverse order of maturity, if applicable. Amounts prepaid under the Note may not be re-borrowed.

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

## SECTION THREE CONDITIONS

3.1 Conditions Precedent to Closing. In addition to any other conditions stated in this Agreement, the following conditions must be satisfied prior to Lender closing on the Loan.

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

(b) Organizational Documents. The Borrower shall supply to the Lender: (i) a currently certified copy of its Articles of Organization/Articles of Incorporation and all amendments thereto; (ii) evidence satisfactory to the Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party; and (iv) certified copies of its Operating Agreement/Bylaws and all amendments thereto. The Articles of Organization and the Operating Agreement of Borrower and each entity comprising the Borrower shall not be amended, changed or modified in any respect without prior written consent of the Lender. In addition, Borrower shall cause Entity Guarantor to supply, to the extent it has not previously done so in any prior transaction with the Lender: (i) a currently certified copy of its Articles of Organization/Articles of Incorporation and all amendments thereto; (ii) evidence that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its business or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and a certificate of incumbency; and (iv) certified copies of its By-Laws or Operating Agreement and all amendments thereto. The organizational documents of Entity Guarantor shall not be amended, changed or modified in any respect without the prior written consent of the Lender, which consent shall not be unreasonably withheld, delayed or conditioned.

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

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

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

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

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

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

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



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

(4) Subdivision Plat. Recordation of a subdivision plat, or such other evidence as the Lender requires to evidence that the Units can lawfully be separately conveyed, which plat or other evidence shall have been approved by the Lender and its construction consultant.

(5) Site Plan Approval. Evidence reasonably satisfactory to the Lender that a site plan for development of the Property has been approved by all necessary governmental authorities.

(6) Environmental Report. A Phase I Environmental Site Assessment of the land prepared by an engineer acceptable to the Lender, which report shall be certified to the Lender and shall otherwise be acceptable to the Lender in form and content.

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

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

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

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

(11) PUD Order. If applicable, receipt and satisfactory review and analysis by the Lender and its counsel of a Planned Unit Development Order constituting approval of development of the Property and evidence that the Order remains in full force and effect.

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

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

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

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

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

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

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

(b) Intentionally Deleted.

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

(d) Trade Payment Breakdown. A breakdown of total development costs, which shall include a draw schedule (the "Construction Budget") containing reasonable details of amounts anticipated to be payable for each category of work to be performed and materials to be supplied in connection with the Construction, and a projected schedule for the progress of the Construction in each Phase, all in such form and containing such details as the Lender shall require. The parties shall have agreed on the Unit Costs Budget and have attached the approved Unit Costs Budget to this Agreement as Exhibit B. Any change orders shall be subject to the Lender's prior approval. No hard costs shall be advanced under the Loan until such time as the Construction Budget has been approved by the Lender in its sole discretion. The Borrower may, from time to time, request reallocation of amounts in the Construction Budget based upon such reasonable supporting documentation justifying such reallocation as may be approved by the Lender; any such reallocation shall be subject to the Lender's approval in its sole discretion.

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

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

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

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

### 3.3 Provisions Governing Disbursements. Disbursements of the Loan shall be governed by the following provisions:

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

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

(c) Loan proceeds will be advanced in installments as the Construction progresses in accordance with the terms of this Agreement to finance the Construction of Units in accordance with the Plans and Specifications, but no more often than once monthly, provided that the Lender is satisfied that the amounts available under the Loan will be sufficient to complete the work and pay or provide for all reasonably anticipated Construction costs through the required Construction completion date under the Construction Schedule. In the event the Lender determines that the amounts available under the Loan, together with any additional cash provided by the Borrower to the Lender, if any, is insufficient to complete the Construction in such manner as the Lender may require, the Borrower shall provide such funds necessary to complete Construction. Advances shall be subject to withholding of retainage in the amount of ten percent (10%) of direct Construction costs approved by the Lender or the Lender's Inspector, and at the Lender's discretion of labor and materials brought into the Construction site and eligible for payment on a trade payable basis.

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

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

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

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

(h) No advances will be made for building materials or furnishings that have not yet been incorporated into the Unit(s) ("Stored Materials") unless (a) the Borrower has good title to the Stored Materials and has furnished satisfactory evidence of such title to the Lender, (b) the Stored Materials are components in a form ready for incorporation into the applicable Unit(s) and will be so incorporated within a period of forty-five (45) days from the date of the advance for the Stored Materials, (c) the Stored Materials are in the Borrower's possession and are satisfactorily stored on the Property or at such other location as the Lender may approve, in each case with adequate safeguards to prevent commingling with materials for other projects, (d) the Stored Materials are protected and insured against loss, theft and damage in a manner and amount satisfactory to the Lender and the Lender has received Certificates of Insurance reflecting Borrower as an additional insured and owner of the Stored Materials, (e) the Stored Materials have been paid for in full or will be paid for in full from the funds to be advanced, (f) the Lender has or will have upon the payment for the Stored Materials from the advanced funds a perfected, first priority security interest in the Stored Materials, (g) all lien rights and claims of the supplier have been released or will be released upon payment with the advanced funds, and (h) following the advance for the Stored Materials, the aggregate amount of advances for Stored Materials that have not yet been incorporated into the Construction will not exceed Ten Thousand Dollars (\$10,000.00) per Unit that is then under Construction.

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

(j) The Lender shall not be obligated to make any advances of Loan proceeds hereunder unless, in the reasonable judgment of the Lender, all work completed at the time of the application for advance has been performed in a good and workmanlike manner, and all materials and fixtures usually furnished and installed at that stage of the development have been furnished and installed, and no default which has not been cured has occurred under this Agreement or any of the documents evidencing, securing or guaranteeing the Loan.

(k) During default after expiration of any applicable cure period hereunder, the Lender, at its option, may make any and all advances, or any part thereof, directly to the general contractor or subcontractors against requisitions for payment under the general contractor's contract or the respective contracts or subcontracts, as the case may be; the execution of this Agreement by the Borrower shall and does constitute an irrevocable direction and authorization to so advance funds, and such funds shall be added to the principal balance of the Loan, shall bear interest as set forth in the Note and shall be secured by the Deed of Trust. All payments made pursuant to the foregoing shall be made within the scope of the respective contracts.

#### SECTION FOUR REPRESENTATIONS AND WARRANTIES

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

4.1 Organization. The Borrower and each entity comprising the Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is duly qualified as a foreign limited liability company and in good standing under the laws of each other jurisdiction in which such qualification is required.

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

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

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

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

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

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

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

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

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

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

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

## SECTION FIVE COVENANTS OF BORROWER

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

5.1 Financial Information. The Borrower shall deliver to the Lender each year within ninety (90) days after the close of its fiscal year, financial statements prepared in accordance with standard accounting principles consistently applied, certified as true and correct by an officer of each such entity; and (ii) each year within thirty (30) days after filing, a copy of each such entity's federal income tax return and all schedules thereto, provided that in the event of such extension such entity shall provide the Lender with a copy of the federal income tax return and all schedules thereto within thirty (30) days of the filing of same with the Internal Revenue Services, and (iii) promptly upon the Lender's request, such financial and other information as the Lender reasonably may require from time to time. All financial statements shall be in such reasonable detail and shall be accompanied by such certificates of the Borrower as may reasonably be required by the Lender.

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

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

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

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

5.6 Books and Records. The Borrower shall maintain complete and accurate books of account and records. The principal books of account and records shall be kept and maintained at 1886 Metro Center Drive, 4<sup>th</sup> Floor, Reston, VA 10190. The Borrower shall not remove such books of account and records without giving the Lender at least thirty (30) days prior written notice. The Borrower, upon reasonable notice from the Lender, shall permit the Lender, or any officer, employee or agent designated by the Lender, to examine the books of account and records maintained by the Borrower, and agree that the Lender or such officer, employee or agent may audit and verify the books and records. The Borrower shall reimburse the Lender for any reasonable expenses incurred by the Lender in connection with any such audits. All accounting records and financial reports furnished to the Lender by the Borrower pursuant to this Agreement shall be maintained and prepared in accordance with GAAP.

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

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

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

5.9 Contingent Liabilities. Without the prior written consent of the Lender, Borrower shall not guarantee, endorse, become contingently liable upon or assume the obligation of any person, or permit any such contingent liability to exist, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

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

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

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

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

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

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

5.16 Marijuana Prohibition. The Borrower shall not cause, permit or suffer any portion of the Property to be used or occupied in connection with the possession, sale or distribution of marijuana or products containing marijuana.

SECTION SIX  
DEFAULT AND REMEDIES

6.1 Default. Each of the following shall constitute an “Event of Default” under this Agreement if not cured within the timeframes provided herein:

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

(b) Failure to Give Notices. If the Borrower fails to give the Lender any notice required by Section 5.5 of this Agreement within thirty (30) days after it has actual knowledge of the event giving rise to the obligation to give such notice.

(c) Failure to Permit Inspections. If the Borrower refuses to permit the Lender to inspect its books and records in accordance with the provisions of Section 5.6 or failure to permit the Lender to inspect the Property upon reasonable advance notice.

(d) Failure to Observe Covenants. If the Borrower fails to perform or observe any term, covenant, warranty or agreement contained in this Agreement or in the other Loan Documents and such failure shall continue for a period of thirty (30) days after written notice of such failure has been given to the Borrower by the Lender; provided, however, if such default is not in the payment of any sum due to the Lender hereunder, or was not the subject of an Event of Default for which notice was previously provided, and provided the Borrower is diligently pursuing the cure of such default , then the Borrower shall have an additional sixty (60) days within which to cure such default prior to the Lender exercising any right or remedy available hereunder, or at law or in equity.

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

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

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

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

(i) Intentionally Deleted.



(j) **Material Adverse Change.** A material adverse change occurs in the financial or business condition of the Borrower or Guarantor (and, as to Guarantor, as material adverse change is defined in the Guaranty).

(k) **Judgment.** If a judgment, attachment, garnishment or other process is entered against the Borrower or Guarantor and is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure).

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

(m) **Death of Individual Guarantor.** The death of Individual Guarantor (or any other individual Guarantor) and the failure of Borrower to provide a substitute guarantor acceptable to the Lender in all respects in its sole discretion within ninety (90) days after the date of death of such deceased Guarantor.

(n) **Change in Management/Control.** A change in the management of or controlling interest in the Borrower or Entity Guarantor without the prior written consent of the Lender, which consent will not be unreasonably withheld, delayed or conditioned.

6.2 **Remedies.** Upon the occurrence of an Event of Default (it being understood that an Event of Default shall not be deemed to have occurred until the expiration of any applicable notice and/or cure periods), (a) the Lender, at its option, by written notice to the Borrower, may declare all Indebtedness to the Lender to be immediately due and payable, whether such Indebtedness was incurred prior to, contemporaneous with or subsequent to the date of this Agreement and whether represented in writing or otherwise, without presentment, demand, protest or further notice of any kind, and (b) the Lender may exercise all rights and remedies available to it under the Loan Documents and applicable law. The Borrower agrees to pay all costs and expenses incurred by the Lender in enforcing any obligation under this Agreement or the other Loan Documents, including, without limitation, attorneys' fees. No failure or delay by the Lender in exercising any power or right will operate as a waiver of such power or right, nor will any single or partial exercise of any power or right preclude any other future exercise of such power or right, or the exercise of any other power or right.

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

## SECTION SEVEN GENERAL PROVISIONS

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

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

If to the Lender, to:

EAGLEBANK  
7815 Woodmont Avenue  
Bethesda, MD 20814  
Attn: Kenneth L. Gray, Senior Vice President

With a copy to:

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

If to the Borrower, to:

Comstock Sixth Street, LLC  
c/o Comstock Holding Companies, Inc.  
1886 Metro Center Drive, 4<sup>th</sup> Floor  
Reston, VA 20190  
Attn: Christopher Clemente

With a copy to:

Comstock Sixth Street, LLC  
c/o Comstock Holding Companies, Inc.  
1886 Metro Center Drive, 4<sup>th</sup> Floor  
Reston, VA 20190  
Attn: Jubal Thompson, Esq.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit A: Legal Description of the Property

Exhibit B: Construction Budget

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the Borrower and the Lender have caused this Agreement to be executed in their respective names by duly authorized representatives as of the day and year first above written.

WITNESS: \_\_\_\_\_ BORROWER:  
COMSTOCK SIXTH STREET, LLC, a Virginia limited liability company  
By: Comstock Holding Companies, Inc., Manager

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

By: \_\_\_\_\_  
Christopher D. Clemente, Manager

[SEAL]  
COMMONWEALTH OF VIRGINIA  
COUNTY OF \_\_\_\_\_, ss:

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

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this 15th day of February, 2017.

[SEAL] \_\_\_\_\_  
Notary Public  
My Commission expires: \_\_\_\_\_.  
Notary Registration No. \_\_\_\_\_.

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

Print Name: \_\_\_\_\_  
By: \_\_\_\_\_  
Kenneth L. Gray  
Senior Vice President

[SEAL]  
COMMONWEALTH OF VIRGINIA  
COUNTY OF \_\_\_\_\_, ss:

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

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this

day of February, 2017.

[SEAL]

---

Notary Public

My Commission expires: \_\_\_\_\_.

Notary Registration No. \_\_\_\_\_.

**SHARE REPURCHASE AGREEMENT**

**THIS SHARE REPURCHASE AGREEMENT** (this "Agreement") is made and entered into as of March 24, 2017 (the "Effective Date") by Comstock Holding Companies, Inc., a Delaware corporation (the "Company"), and Investor Management, LC (the "Shareholder"). The Company and the Shareholder are sometimes referred to herein individually as a "Party" or collectively as the "Parties."

**ARTICLE I  
SALE OF SHARES**

1.01 Repurchase. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), the Shareholder shall sell, assign, transfer, convey and deliver to the Company, and the Company shall purchase, acquire and accept from the Shareholder, 193,052.50 shares of the Company's Series C Non-Convertible Preferred Stock (the "Shares") for \$88,619.33 (the "Purchase Price").

1.02 Closing. The closing of the purchase of the Shares shall occur within ten (10) days of the Shareholder's delivery of the Shares to Stewart Title & Escrow, Inc., the escrow agent for this transaction, together with all documentation reasonably necessary to transfer to the Company the Shares, or pursuant to any other terms agreed to by the Parties in writing (the "Closing"). At the Closing, (i) the Shareholder shall deliver the Shares free and clear of all Liens (as defined below), and (ii) the Company shall pay to the Shareholder the Purchase Price by wire transfer in immediately available funds in accordance with the written instructions provided by the Shareholder to Company at least 1 business day prior to the Closing.

1.03 Conditions of the Repurchase.

(a) The obligations of the Company to consummate the repurchase hereunder and to effect the Closing are subject to the condition that the representations and warranties of the Shareholder set forth in this Agreement shall be true and correct in all material respects on and as of the Closing as though made on and as of the Closing.

(b) The obligations of the Shareholder to consummate the repurchase hereunder and to effect the Closing are subject to the condition that the representations and warranties of the Company set forth in this Agreement shall be true and correct in all material respects on and as of the Closing as though made on and as of the Closing.

**ARTICLE II  
REPRESENTATIONS, WARRANTIES AND UNDERSTANDINGS OF THE SHAREHOLDER**

The Shareholder hereby represents and warrants to the Company as follows:

2.01 Ownership. The Shareholder is the sole record holder and beneficial owner of the Shares. The Shareholder owns the Shares free and clear of all liens, pledges, mortgages, charges, security interests or encumbrances of any kind whatsoever ("Liens"). There are no outstanding rights, options, warrants, conversion rights, repurchase rights, agreements, arrangements, calls, commitments or rights of any kind that obligate the Shareholder to sell the Shares or any securities or obligations convertible or exchangeable into or exercisable for, or giving any person a right to subscribe for or acquire the Shares.

2.02 Power and Authority; Enforceability. The Shareholder has the power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement constitutes a legal, valid, and binding obligation of the Shareholder, and is enforceable against the Shareholder in accordance with its terms.

2.03 Approvals. No consent, approval, authorization or order of any person, entity, court, administrative agency or governmental authority is required for the execution, delivery or performance of this Agreement by the Shareholder.

2.04 Conflicts. The execution, delivery and performance of this Agreement by the Shareholder will not (a) conflict with, or result in a breach of, or constitute a default under, or result in violation of, any agreement or instrument to which the Shareholder is a party or by which the property of the Shareholder is bound or (b) result in the violation of any applicable law or order, judgment, writ, injunction, decree or award of any court, administrative agency or governmental authority.

2.05 Securities Laws. Reserved.

2.06 Access to Information; Advice. The Shareholder (either alone or together with its advisors) has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the transactions contemplated hereby. The Shareholder has had the opportunity to discuss the transactions contemplated hereby with the management of the Company and has had the opportunity to obtain such information pertaining to the Company as has been requested. The Shareholder has received all information that it believes is necessary or appropriate in connection the transactions contemplated hereby. The Shareholder is an informed and sophisticated party and has engaged, to the extent the Shareholder deems appropriate, expert advisors experienced in the evaluation of transactions of the type contemplated hereby. The Shareholder acknowledges that it has not relied upon any express or implied representations or warranties of any nature made by or on behalf of the Company, whether or not any such representations, warranties or statements were made in writing or orally, except as expressly set forth for the benefit of the Shareholder in this Agreement. The Shareholder is relying solely upon the advice of its own legal, tax and financial advisers with respect to the tax and other legal aspects of this Agreement.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

The Company hereby represents and warrants to the Shareholder as follows:

3.01 Organization. The Company is duly formed and validly existing under the laws of the State of Delaware, with full power and authority to conduct its business as it is currently being conducted and to own its assets; and has secured any other authorizations, approvals, permits and orders required by law for the conduct by the Company of its business as it is currently being conducted.

3.02 Power and Authority; Enforceability. The Company has the power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement constitutes a legal, valid, and binding obligation of the Company, and is enforceable against the Company in accordance with its terms.

3.03 Approvals. Subject to the accuracy of the Shareholder's representations and warranties herein, no consent, approval, authorization or order of, or filing or registration with, any governmental authority or other person is required to be obtained or made by the Company for the execution, delivery and performance of this Agreement or the consummation of any of the transactions contemplated hereby.

3.04 No Default. The Company and its subsidiaries are not, and, immediately after the consummation of the transactions contemplated hereby, none will be, in material default of (whether upon the passage of time, the giving of notice or both) any term of its certificate of incorporation or its bylaws or any provision of any equity security issued by the Company.

3.05 Securities Laws. All notices, filings, registrations, or qualifications under state securities or "blue sky" laws, that are required in connection with the offer, issuance, sale and delivery of Shares pursuant to this Agreement, have been, or will be, completed by the Company.

### **ARTICLE IV MISCELLANEOUS PROVISIONS**

4.01 Survival of Representations; Entire Agreement. All representations and warranties made by the Parties pursuant to this Agreement shall survive the execution and delivery of this Agreement. This Agreement and the related documents referred to herein constitute the entire understanding between the Parties with respect to the subject matter contained herein and therein and supersede any prior or contemporaneous understandings and agreements among them respecting such subject matter. Except as specifically set forth herein or therein, neither the Company nor the Shareholder makes any representation, warranty, covenant or undertaking with respect to such matters.



4.02 Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, without regard to its conflict of laws principles. Any suit brought hereunder shall be brought in the state or federal courts sitting in Fairfax County, Virginia, and the Parties hereby waive any claim or defense that such forum is not convenient or proper.

4.03 Amendments; Counterparts. This Agreement may be amended only by a written instrument duly executed by each of the Parties. This Agreement may be executed in counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. In order to facilitate execution of this Agreement, this Agreement may be duly executed and delivered by facsimile or other electronic transmission.

4.04 Further Assurances. The Parties agree to (a) furnish upon request to each other such further information, (b) execute and deliver to each other such other documents, and (c) do such other acts and things, all as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the transactions contemplated by this Agreement.

4.05 Notices. All notices or other communications given or made hereunder shall be in writing and shall be delivered or mailed by registered or certified mail, return receipt requested, postage prepaid, to the Parties at their respective addresses set forth below:

If to the Company:

Comstock Holding Companies, Inc.  
1886 Metro Center Drive, 4th Floor  
Reston, Virginia 20190  
Attn: Christopher Conover

With a copy to:

Comstock Holding Companies, Inc.  
1886 Metro Center Drive, 4th Floor  
Reston, Virginia 20190  
Attn: General Counsel

If to the Shareholder:

Investor Management, LC  
c/o Gregory V. Benson  
12357 Clareth Drive  
Oakhill, Virginia 20171

4.06 Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

4.07 Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

***(Signature Page Follows)***

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the Effective Date.

**COMPANY:**

Comstock Holding Companies, Inc.

---

Christopher Clemente, Chief Executive Officer

**SHAREHOLDER:**

Investor Management, LC

---

By: Gregory V. Benson, Manager

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

I, Christopher Clemente, certify that:

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

Date: May 15, 2017

/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, Christopher L. Conover, certify that:

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

Date: May 15, 2017

/s/ Christopher L. Conover

Christopher L. Conover  
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 Quarterly Report on Form 10-Q of Comstock Holding Companies, Inc. (the "Company") for the quarter ended March 31, 2017, 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 Christopher L. Conover, 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: May 15, 2017

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

Date: May 15, 2017

/s/ Christopher L. Conover  
Christopher L. Conover  
Chief Financial Officer