

# COMSTOCK HOMEBUILDING COMPANIES, INC.

## FORM 10-Q (Quarterly Report)

Filed 5/15/2006 For Period Ending 3/31/2006

|             |                                                             |
|-------------|-------------------------------------------------------------|
| Address     | 11465 SUNSET HILLS ROAD SUITE 510<br>RESTON, Virginia 20190 |
| Telephone   | 703-883-1700                                                |
| CIK         | 0001299969                                                  |
| Industry    | Construction Services                                       |
| Sector      | Capital Goods                                               |
| Fiscal Year | 12/31                                                       |

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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2006

☐ **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 Homebuilding Companies, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-1164345**

(I.R.S. Employer Identification No.)

**11465 Sunset Hills Road  
5<sup>th</sup> Floor  
Reston, Virginia 20190  
(703) 883-1700**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

As of May 10, 2006, 11,263,151 shares of the Class A common stock, par value \$.01 per share, and 2,733,500 shares of Class B common stock, par value \$0.01, of the Registrant were outstanding.

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**COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
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**COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except share data)

|                                                                                                            | <u>March 31, 2006</u>    | <u>December 31, 2005</u> |
|------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>ASSETS</b>                                                                                              |                          |                          |
| Cash and cash equivalents                                                                                  | \$ 18,175                | \$ 42,167                |
| Restricted cash                                                                                            | 12,841                   | 10,800                   |
| Receivables                                                                                                | 4,656                    | 6,365                    |
| Note receivables                                                                                           | —                        | 1,250                    |
| Due from related parties                                                                                   | 3,138                    | 2,899                    |
| Real estate held for development and sale                                                                  | 412,514                  | 263,802                  |
| Inventory not owned — variable interest entities                                                           | 78,787                   | 89,890                   |
| Property, plant and equipment                                                                              | 1,347                    | 605                      |
| Investment in real estate partnerships                                                                     | (62)                     | (35)                     |
| Deferred income tax                                                                                        | —                        | 2,545                    |
| Other assets                                                                                               | 9,993                    | 11,031                   |
| <b>TOTAL ASSETS</b>                                                                                        | <u><u>\$ 541,389</u></u> | <u><u>\$ 431,319</u></u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                |                          |                          |
| Accounts payable and accrued liabilities                                                                   | 49,197                   | 59,131                   |
| Due to related parties                                                                                     | 40                       | 40                       |
| Obligations related to inventory not owned                                                                 | 75,147                   | 83,015                   |
| Notes payable                                                                                              | 262,844                  | 142,994                  |
| Notes payable — related parties                                                                            | 663                      | 663                      |
| Deferred income tax                                                                                        | 6,889                    | —                        |
| <b>TOTAL LIABILITIES</b>                                                                                   | <u><u>394,781</u></u>    | <u><u>285,843</u></u>    |
| Commitments and contingencies (Note 12)                                                                    |                          |                          |
| Minority interest                                                                                          | <u>393</u>               | <u>400</u>               |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                |                          |                          |
| Class A common stock, \$0.01 par value, 77,266,500 shares authorized,<br>11,478,218 issued and outstanding | 117                      | 115                      |
| Class B common stock, \$0.01 par value, 2,733,500 shares authorized,<br>2,733,500 issued and outstanding   | 27                       | 27                       |
| Additional paid-in capital                                                                                 | 127,037                  | 126,461                  |
| Treasury Stock, at cost (70,300 Class A Common Stock)                                                      | (678)                    | —                        |
| Retained earnings (accumulated deficit)                                                                    | 19,713                   | 18,473                   |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                                                          | <u>146,216</u>           | <u>145,076</u>           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>                                                | <u><u>\$ 541,389</u></u> | <u><u>\$ 431,319</u></u> |

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

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

|                                                                                    | <b>Three Months Ended<br/>March 31,</b> |                    |
|------------------------------------------------------------------------------------|-----------------------------------------|--------------------|
|                                                                                    | <b><u>2006</u></b>                      | <b><u>2005</u></b> |
| <b>Revenues</b>                                                                    |                                         |                    |
| Sale of real estate — Homes                                                        | \$ 36,365                               | \$ 28,465          |
| Other revenue                                                                      | 230                                     | 264                |
| Total revenue                                                                      | 36,595                                  | 28,729             |
| <b>Expenses</b>                                                                    |                                         |                    |
| Cost of sales of real estate                                                       | 27,161                                  | 17,591             |
| Cost of sales of other                                                             | 10                                      | 11                 |
| Selling, general and administrative                                                | 7,646                                   | 5,052              |
| Operating income                                                                   | 1,778                                   | 6,075              |
| Other (income) expense, net                                                        | (233)                                   | (36)               |
| Income before minority interest and equity in earnings of real estate partnerships | 2,011                                   | 6,111              |
| Minority interest                                                                  | (7)                                     | 1                  |
| Income before equity in earnings of real estate partnerships                       | 2,018                                   | 6,110              |
| Equity in earnings of real estate partnerships                                     | (27)                                    | 30                 |
| Total pre tax income                                                               | 1,991                                   | 6,140              |
| Income tax provision                                                               | 751                                     | 2,331              |
| Net Income                                                                         | <u>\$ 1,240</u>                         | <u>\$ 3,809</u>    |
| Basic earnings per share                                                           | <u>0.09</u>                             | <u>0.33</u>        |
| Basic weighted average shares outstanding                                          | <u>13,981</u>                           | <u>11,621</u>      |
| Diluted earnings per share                                                         | <u>0.09</u>                             | <u>0.32</u>        |
| Diluted weighted average shares outstanding                                        | <u>14,071</u>                           | <u>11,769</u>      |

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

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

|                                                                                 | Three Months Ended March 31,<br>2006 | 2005      |
|---------------------------------------------------------------------------------|--------------------------------------|-----------|
| Cash flows from operating activities:                                           |                                      |           |
| Net income                                                                      | \$ 1,240                             | \$ 3,809  |
| Adjustment to reconcile net income to net cash provided by operating activities |                                      |           |
| Depreciation                                                                    | 73                                   | 39        |
| Loss on disposal of assets                                                      | —                                    | 8         |
| Minority interest                                                               | (7)                                  | 1         |
| Equity in earnings of real estate partnerships                                  | 27                                   | (30)      |
| Amortization of stock compensation                                              | 540                                  | 535       |
| Deferred income tax                                                             | (170)                                | (188)     |
| Changes in operating assets and liabilities:                                    |                                      |           |
| Restricted cash                                                                 | (2,041)                              | (3,120)   |
| Receivables                                                                     | 1,935                                | 165       |
| Note receivables                                                                | 1,250                                | —         |
| Due from related parties                                                        | (239)                                | (156)     |
| Real estate held for development and sale                                       | (66,589)                             | (106,884) |
| Other assets                                                                    | 5,256                                | 4,145     |
| Accounts payable and accrued liabilities                                        | (15,095)                             | (706)     |
| Income tax payable                                                              | —                                    | 2,172     |
| Due to related parties                                                          | —                                    | 1         |
| Net cash (used in) provided by operating activities                             | (73,820)                             | (100,209) |
| Cash flows from investing activities:                                           |                                      |           |
| Purchase of property, plant, and equipment                                      | (747)                                | (55)      |
| Distributions of capital from investments in real estate partnerships           | —                                    | 30        |
| Acquisition of Parker Chandler Homes, net of cash acquired                      | (9,937)                              | —         |
| Net cash (used in) provided by investing activities                             | (10,684)                             | (25)      |
| Cash flows from financing activities:                                           |                                      |           |
| Proceeds from notes payable                                                     | 95,607                               | 93,458    |
| Proceeds from related party notes payable                                       | —                                    | 200       |
| Payments on notes payable                                                       | (34,455)                             | (16,336)  |
| Payments on related party notes payable                                         | —                                    | (2,002)   |
| Contribution from minority shareholders                                         | —                                    | 79        |
| Distributions paid to minority shareholders                                     | —                                    | (2,409)   |
| Distributions paid to shareholders                                              | —                                    | (2,978)   |
| Proceeds from shares issued under employee stock purchase plan                  | 38                                   | —         |
| Purchase of treasury stock                                                      | (678)                                | —         |
| Net cash provided by (used in) financing activities                             | 60,512                               | 70,012    |
| Net increase (decrease) in cash and cash equivalents                            | (23,992)                             | (30,222)  |
| Cash and cash equivalents, beginning of period                                  | 42,167                               | 67,559    |
| Cash and cash equivalents, end of period                                        | \$ 18,175                            | \$ 37,337 |

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

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

**1. ORGANIZATION AND BASIS OF PRESENTATION**

Comstock Homebuilding Companies, Inc. (the “Company”) was incorporated on May 24, 2004 as a Delaware corporation.

Our common stock is traded on the NASDAQ National Market under the symbol “CHCI”. We have no public trading history prior to December 17, 2004.

The consolidated financial statements and notes of the Company as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 have been prepared by management without audit, pursuant to rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the December 31, 2005 audited financial statements contained in the Company’s Annual Report on Form 10-K for the year then ended. In the opinion of management, all normal, recurring adjustments necessary for the fair presentation of such financial information have been included. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

The Company historically has experienced and expects to continue to experience variability in quarterly results. The consolidated statement of operations for the three months ended March 31, 2006 is not necessarily indicative of the results to be expected for the full year.

The Company develops, builds and markets single-family homes, townhouses and condominiums in the greater Washington D.C., Raleigh, North Carolina and Atlanta, Georgia metropolitan markets. The Company also provides certain management and administrative support services to certain related parties.

For purposes of identification and description, we are referred to as the “Predecessor” for the period prior to the IPO in December 2004, the Company for the period subsequent to the IPO, and “we,” “us,” and “our” for both periods.

**2. REAL ESTATE HELD FOR DEVELOPMENT AND SALE**

Real estate held for development and sale includes land, land development costs, interest and other construction costs and is stated at cost or, when circumstances or events indicate that the real estate held for development or sale is impaired, at estimated fair value.

Land, land development and indirect land development costs are accumulated by specific area and allocated to various lots or housing units using specific identification and allocation based upon the relative sales value, unit or area methods. Direct construction costs are assigned to housing units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of prepaid local government fees and capitalized interest and real estate taxes. Selling costs are expensed as incurred.

Estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances which may affect fair value including management’s plans for the property. Due to the large acreage of certain land holdings, disposition in the normal course of business is expected to extend over a number of years. A write-down to estimated fair value is recorded when the carrying value of the property exceeds its estimated fair value. These evaluations are made on a property-



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

by-property basis. The Company assesses the impairment of real estate assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. For the three months ended March 31, 2006, the Company determined there was no impairment.

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

|                                                                             | March 31,<br>2006 | December 31,<br>2005 |
|-----------------------------------------------------------------------------|-------------------|----------------------|
| Land and land development costs                                             | \$239,861         | \$ 119,530           |
| Cost of construction (including capitalized interest and real estate taxes) | 172,653           | 144,272              |
|                                                                             | <u>\$412,514</u>  | <u>\$ 263,802</u>    |

### 3. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

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

The Company has concluded that whenever it options land or lots from an entity and pays a significant non-refundable deposit as described above, a variable interest entity is created under the provisions of FIN 46-R, Consolidation of Variable Interest Entities. This is because the Company has been deemed to have provided subordinated financial support, which refers to variable interest that will absorb some or all of an entity's expected theoretical losses if they occur. The Company, therefore, examines the entities with which the Company enters into fixed price purchase agreements for possible consolidation by the Company under FIN 46-R. This requires the Company to compute expected losses and expected residual returns based on the probability of future cash flows as outlined in FIN 46-R. This calculation requires substantial management judgments and estimates. In addition, because the Company does not have any contractual or ownership interests in the entities with which it contracts to buy the land, the Company does not have the ability to compel these development entities to provide financial or other data to assist the Company in the performance of the primary beneficiary evaluation.

The Company has evaluated all of its fixed price purchase agreements and has determined that it is the primary beneficiary of some of those entities. As a result, at December 31, 2005, the Company has consolidated five entities in the accompanying consolidated balance sheet. The effect of the consolidation at December 31, 2005 was the inclusion of \$89,890 in "Inventory not owned—variable interest entities" with a corresponding inclusion of \$83,015 (net of land deposits paid of \$6,875) to "Obligations related to inventory not owned." During the three months ended March 31, 2006, the Company consolidated ten entities in the accompanying consolidated balance sheet. The effect of the consolidation at March 31, 2006 was the inclusion of \$78,787 in "Inventory not owned—variable interest entities" with a corresponding inclusion of \$75,147 (net of land deposits paid of \$3,640) to "Obligations related to inventory not owned." Creditors, if any, of these variable interest entities have no recourse against the Company.

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

**4. WARRANTY RESERVE**

Warranty reserves for houses sold are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the one-year warranty period provided by the Company or within the five-year statutorily mandated structural warranty period. Since the Company subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to the reserve as they arise. The following table is a summary of warranty reserve activity which is included in accounts payable and accrued liabilities for the three months ending March 31, 2006 and 2005:

|                                  | <b>Three Months Ended March 31,</b> |               |
|----------------------------------|-------------------------------------|---------------|
|                                  | <b>2006</b>                         | <b>2005</b>   |
| Balance at beginning of period   | \$ 1,206                            | \$ 916        |
| Additions                        | 300                                 | 156           |
| Releases and/or charges incurred | (196)                               | (118)         |
| Balance at end of period         | <u>\$ 1,310</u>                     | <u>\$ 954</u> |

**5. CAPITALIZED INTEREST AND REAL ESTATE TAXES**

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate held for development and sale during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate held for development and sale are expensed as a component of cost of sales as related units are sold.

The following table is a summary of interest incurred and capitalized:

|                                                         | <b>Three Months Ended March 31,</b> |                 |
|---------------------------------------------------------|-------------------------------------|-----------------|
|                                                         | <b>2006</b>                         | <b>2005</b>     |
| Total interest incurred                                 | <u>\$ 4,769</u>                     | <u>\$ 2,551</u> |
| Beginning interest capitalized                          | 11,590                              | \$ 4,524        |
| Plus: Interest incurred on notes payable                | 4,749                               | 2,103           |
| Plus: Interest incurred on related party notes payable  | 20                                  | 81              |
| Less: Interest expensed as a component of cost of sales | (797)                               | (721)           |
| Ending interest capitalized                             | <u>\$ 15,562</u>                    | <u>\$ 5,987</u> |

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

**6. EARNINGS PER SHARE**

The following weighted average shares and share equivalents, using the treasury stock method, are used to calculate basic and diluted earnings per share for the three months ended March 31, 2006 and 2005:

|                                              | <b>Three Months Ended March 31,</b> |             |
|----------------------------------------------|-------------------------------------|-------------|
|                                              | <b>2006</b>                         | <b>2005</b> |
| Basic earnings per share                     |                                     |             |
| Net income                                   | \$ 1,240                            | \$ 3,809    |
| Basic weighted-average shares outstanding    | 13,981                              | 11,621      |
| Per share amounts                            | \$ 0.09                             | \$ 0.33     |
| Dilutive earnings per share                  |                                     |             |
| Net income                                   | \$ 1,240                            | \$ 3,809    |
| Basic weighted-average shares outstanding    | 13,981                              | 11,621      |
| Stock options and restricted stock grants    | 90                                  | 148         |
| Dilutive weighted-average shares outstanding | 14,071                              | 11,769      |
| Per share amounts                            | \$ 0.09                             | \$ 0.32     |

**Comprehensive income**

For the three months ended March 31, 2006 and 2005, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying combined consolidated financial statements.

**7. INVESTMENT IN REAL ESTATE PARTNERSHIPS**

Prior to the Company's acquisition of Comstock Service in December of 2004, Comstock Service in 2001 had invested \$41 in North Shore Investors, LLC ("North Shore") for a 50% ownership interest. North Shore was formed to acquire and develop residential lots and construct single family and townhouse units. In 2002, as a result of recognizing its share of net losses incurred by North Shore, Comstock Service reduced its investment in North Shore, to \$0. The Company, as part of the acquisition of Comstock Service, recorded this investment in North Shore at \$0.

On June 28, 2005 the Company received a capital call from North Shore in the amount of \$719 so that North Shore may comply with certain debt repayments. Because the Company may be obligated to provide future financial support to cover certain debt repayments, the Company, is recording its share of losses incurred by North Shore in the accompanying financial statements in the amount of \$(27) and \$0, for the three months ended March 31, 2006 and 2005 respectively.

During the third quarter of 2005, the Company, as manager of an affiliated entity, exercised its option rights to purchase the project acquisition, development and construction loan made for the benefit of North Shore. The Company finalized the purchase of the loans on or about September 8, 2005, issued a notice of default under the acquisition and development loan at maturity on September 30, 2005 and subsequently filed suit for collection of the

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

loans against one of the individual guarantors under the loan on or about October 21, 2005 and initiated foreclosure proceedings on or about November 18, 2005. On or about December 22, 2005, the individual guarantor subject to the earlier suit filed a countersuit against two of the officers of the Company who were also individual guarantors under the acquisition and development loan. The Company, as manager of an affiliated entity, set and held a foreclosure sale on March 24, 2006 in which it was the high bidder. However, transfer of title to the property has been delayed pending judicial resolution of a suit filed on March 24, 2006 by the non-affiliated 50% owner of North Shore.

As of March 31, 2006 the Company carried the following amounts in its financial statements related to North Shore:

|                                              |          |
|----------------------------------------------|----------|
| Investment in real estate partnerships       | \$ (62)  |
| Development and construction loan receivable | \$ 3,073 |

The Company has evaluated the carrying value of its investment in and receivables from North Shore. At this time the Company does not believe an impairment reserve is warranted. However, it is possible this may change in future periods. In addition, based on results of negotiations, the Company may, in the future be required to consolidate the North Shore entity.

## 8. ACQUISITIONS

On January 19, 2006, the Company acquired all of the issued and outstanding capital stock of Parker Chandler Homes, Inc., a homebuilder in the Atlanta, Georgia metropolitan market, for cash purchase price of \$10 million and the assumption of \$59.9 in liabilities. The results of Parker Chandler Homes are included in the accompanying financial statements from the period January 19, 2006 to March 31, 2006.

The Company accounted for this transaction in accordance with SFAS No. 141, "Business Combinations" Approximately \$700,000 of the purchase price was allocated to intangibles with a weighted average life of 4.6 years. The intangibles are related to the Parker Chandler trade name and employment agreements entered into with certain selling shareholders. The remainder of the purchase price was allocated to real estate held for development for sale and land option agreements. There was no goodwill recorded.

In February 2006 the Company closed on Carter Lake, a 258 unit condominium conversion project in Reston, Virginia for \$36 million and entered into a secured \$26 million credit facility.

## 9. INCOME TAX

Income Tax provision consists of the following as of March 31:

|                          | 2006          | 2005            |
|--------------------------|---------------|-----------------|
| Current:                 |               |                 |
| Federal                  | \$ 802        | \$ 2,021        |
| State                    | 150           | 405             |
|                          | 952           | 2,426           |
| Deferred:                |               |                 |
| Federal                  | (170)         | (85)            |
| State                    | (31)          | (10)            |
|                          | (201)         | (95)            |
| Total income tax expense | <u>\$ 751</u> | <u>\$ 2,331</u> |

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax assets and liabilities at March 31, 2006 and December 31, 2005 were as follows:

|                                       | 2006       | 2005     |
|---------------------------------------|------------|----------|
| Deferred tax assets:                  |            |          |
| Inventory                             | —          | \$ 2,245 |
| Warranty                              | 458        | 417      |
| Deferred rent                         | 36         | 27       |
| Accrued expenses                      | 78         | 73       |
| Stock based compensation              | 989        | 790      |
|                                       | 1,561      | 3,552    |
| Less—valuation allowance              | (721)      | (840)    |
| Net deferred tax assets               | 840        | 2,712    |
| Deferred tax liabilities:             |            |          |
| Inventory                             | \$ (7,596) | \$ —     |
| Investment in Affiliates              | (8)        | (8)      |
| Depreciation and amortization         | (124)      | (159)    |
| Net deferred tax liabilities          | (7,728)    | (167)    |
| Net deferred tax assets (liabilities) | \$ (6,888) | \$ 2,545 |

The decrease in deferred tax assets and increase in deferred tax liabilities is due to the recording of a deferred tax liability in conjunction with the acquisition of Parker Chandler Homes.

The Company has adequately provided for contingencies related to income taxes in accordance with SFAS No. 5, Accounting for Contingencies. At March 31, 2006 and 2005, the Company recorded \$927 and \$93, respectively in income tax reserves. This tax reserve relates predominately to a potential dispute by taxing authorities over tax benefits resulting from additional income tax basis in certain residential housing development projects. The Company has also determined that a valuation allowance of approximately \$721 and \$1,484 as of March 31, 2006 and 2005, respectively, related to a deferred tax asset of approximately \$721 and \$1,484 resulting from additional tax basis in residential real estate development projects. In analyzing the need for the provision of tax contingency reserves and the valuation allowance, management reviewed applicable statutes, rules, regulations and interpretations and established these reserves based on past experiences and judgments about potential actions by taxing jurisdictions.

#### **10. RESTRICTED STOCK, STOCK OPTIONS, AND OTHER STOCK PLANS**

Effective January 1, 2004, the Company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment. Prior to December 14, 2004 the Company did not sponsor any stock based plans. Accordingly, no stock based compensation was included for the year ended December 2003.

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

The Plan provided for an initial authorization of 1,550 shares of Class A Common stock for issuance thereunder, plus an additional annual authorization effective January 1, 2006 equal to the lesser of (i) 3% of the Class A Common Stock outstanding on the date of determination, (ii) 500,000 shares or (iii) such lesser amount as may be determined by the Company's Board of Directors.

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The following equity awards were outstanding at March 31, 2006

|                                 |         |
|---------------------------------|---------|
| Stock options                   | 213,993 |
| Restricted stock grants         | 700,796 |
| Total outstanding equity awards | 914,789 |

On March 31, 2006 the following amounts were available for issuance under the plan:

|                                                  |       |
|--------------------------------------------------|-------|
| Shares available for issuance at January 1, 2006 | 1,050 |
| Adjustments:                                     | 0     |
| Additional shares added to plan                  | 338   |
| Restricted stock grants — issued                 | (437) |
| Shares issued under employee stock purchase plan | (3)   |
| Restricted stock grants — forfeitures            | 10    |
| Shares available for issuance at March 31, 2006  | 958   |

At March 31, 2006 the Company had 213,913 options outstanding with a weighted average exercise price of \$19.94. There was no stock option activity for the three months ended March 31, 2006 and there were no options which were fully vested as of March 31, 2006.

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

|                                                    | Shares   | Weighted average<br>fair value at date<br>of grant |
|----------------------------------------------------|----------|----------------------------------------------------|
| Restricted shares outstanding at December 31, 2005 | 273,891  | 16.46                                              |
| Granted                                            | 437,035  | 12.48                                              |
| Vested                                             | —        | —                                                  |
| Forfeited                                          | (10,130) | 16.00                                              |
| Restricted shares outstanding at March 31, 2006    | 700,796  | \$ 13.96                                           |

As of March 31, 2006, there was \$7,394 of total unrecognized compensation cost related to nonvested restricted stock issuances granted under the Plan. Of this cost, \$4,394 is expected to be recognized over a weighted-average period of 1.93 years and \$3,000 may vest over a 3 year period if certain performance and service conditions are met.

Total compensation expense for share based payment arrangements for the three months ended March 31, 2006 and 2005 was \$539 and \$536 respectively, of which \$71 and \$69 was capitalized to real estate held for development and sale. The total deferred tax benefit related to stock compensation, recorded on the balance sheet as of March 31, 2006 and December 31, 2005 amounted to \$990 and \$790, respectively.

The Company intends to issue new shares of its common stock upon vesting of restricted stock grants or the exercise of stock options.

#### **11. STOCK REPURCHASE PROGRAM**

In February 2006 the Company's Board of Directors authorized the Company to purchase up to 1 million shares of the Company's Class A Common stock in the open market or in privately negotiated transactions. During the

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three months ended March 31, 2006, the Company repurchased 70,300 shares for an aggregate purchase price of \$678,103 or \$9.65 per share.

## **12. COMMITMENTS AND CONTINGENCIES**

### **Litigation**

The Company, as manager of an affiliated entity, exercised its option rights to purchase the project acquisition, development and construction loans made for the benefit of North Shore. The Company subsequently issued a notice of default under the acquisition and development loan at maturity on September 30, 2005, thereafter filed suit for collection of the loans against one of the individual guarantors under the loan on or about October 21, 2005. The Company, as manager of an affiliated entity, set and held a foreclosure sale on March 24, 2006 in which it was the high bidder. However, transfer of title to the property has been delayed pending judicial resolution of a suit filed on March 24, 2006 by the non-affiliated 50% owner of North Shore.

On August 11, 2005, the Company was served with a motion to compel arbitration resulting from an allegation of a loan brokerage fee being owed for placement of a \$147.0 million project loan for the Potomac Yard project. The claim in the base amount of \$2.0 million plus interest and costs is based on breach of contract and equitable remedies of unjust enrichment and quantum meruit. The claims have been denied by the Company.

Other than the foregoing, we are not currently 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 currently pending against us, we do not expect that any such liability will have a material adverse effect on our financial position, operating results or cash flows.

We believe that we have obtained adequate insurance coverage or rights to indemnification, or where appropriate, have established reserves in connection with these legal proceedings.

In the normal course of its business, the Company and/or its subsidiaries are named as defendants in certain legal actions arising from its normal business activities. Management believes that none of these litigation matters in which the Company or any subsidiary is involved would have a material adverse effect on the consolidated financial condition or operations of the Company.

### **Letters of credit and performance bonds**

The Company has commitments as a result of contracts entered into with certain third parties to meet certain performance criteria as outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that such commitments entered into are met by the Company. At March 31, 2006 the Company has outstanding \$5,042 in letters of credit and \$18,126 in performance and payment bonds to these third parties. No amounts have been drawn against these letters of credit and performance bonds.

### **Operating leases**

The Company leases office space under non-cancelable operating leases. Minimum annual lease payments under these leases at March 31, 2006 approximate:

| <b>Year Ended: Amount</b> |       |
|---------------------------|-------|
| 2006                      | 871   |
| 2007                      | 1,181 |
| 2008                      | 1,069 |
| 2009                      | 850   |
| 2010                      | 110   |
| Thereafter                | —     |

Operating lease rental expense aggregated \$248 and \$138, respectively, for three months ended March 31, 2006 and 2005.

## **13. RELATED PARTY TRANSACTIONS**

In June 2002, the Predecessor entered into a promissory note agreement with TCG Fund I, LC to fund development projects. TCG Fund I, LC, is a related party in which the Company has an equity investment. The promissory note agreement allows for the Company to borrow up to \$4 million. The note which had interest at 12% per annum was paid in full during June 2005.

In September 2004, the Predecessor entered into a promissory note agreement with TCG Fund II, LC to fund development projects. TCG Fund II, LC is a affiliate which the company manages as a non-member. The promissory note agreement allows the Company to borrow up to \$10 million. The note which had interest at 12% per annum was paid in full during November 2005.

In April 2002 and January 2004, the Predecessor entered into lease agreements for approximately 7.7 and 8.8 square feet, respectively, for its corporate headquarters at 11465 Sunset Hills Road, Reston, Virginia from Comstock Partners, L.C., an affiliate of our Predecessor in which executive officers of the Company Christopher Clemente,





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Gregory Benson, and others are principals. Christopher Clemente owns a 45% interest, Gregory Benson owns a 5% interest, an entity which is owned or controlled by Christopher Clemente's father-in-law, Dwight Schar, owns a 45% interest, and an unrelated third party owns a 5% interest in Comstock Partners. For nine months ended September 30, 2004, total payments made under this lease agreement were \$231. On September 30, 2004 the lease agreements were canceled and replaced with new leases for a total of 20.6 square feet with Comstock Asset Management, L.C., an entity wholly owned by Christopher Clemente. Total payments made under this lease agreement were \$142 as of December 31, 2004. On August 1, 2005 the lease agreement was amended for an additional 8.4 square feet. For three months ended March 31, 2006 and 2005 total payments made under this lease agreement were \$185 and \$135, respectively.

In May 2003, the Predecessor hired a construction company, in which Christopher Clemente's brother, Louis Clemente, serves as the President and is a significant shareholder, to provide construction services and act as a general contractor at two of the Company's developments. The Company paid \$748 and \$3.4 million to this construction company during the three months ended March 31, 2006 and 2005, respectively.

Christopher Clemente's mother-in-law, Janice Schar, and Gary Martin each invested \$100 as minority shareholders in one of our subsidiaries, respectively, and Judah and Deborah Labovitz, the parents of Bruce Labovitz, loaned approximately \$300 to another of our subsidiaries. During the first quarter 2005, the Company repurchased the minority shareholders interests referenced above for a approximate purchase price of \$136. In April 2005, the Company paid the \$300 loan in full.

During 2003, the Predecessor entered into agreements with I-Connect, L.C., a company in which Investors Management, LLC, an entity wholly owned by Gregory Benson, holds a 25% interest, for information technology consulting services and the right to use certain customized enterprise software developed with input from the Company. The intellectual property rights associated with the software solution that was developed by I-Connect along with any improvements made thereto by the Company remained the property of I-Connect. During the three months ended March 31, 2006 and 2005, the Company paid \$86 and \$105, respectively, to I-Connect.

For the three months ended March 31, 2006 and 2005, the Predecessor received revenue of approximately \$0 and \$215, respectively, by providing administrative and sales support to other related parties in which Christopher Clemente, Gregory Benson, Jim Keena, Lawrence Golub and Christopher Clemente's father-in-law, Dwight Schar, are shareholders.

In October 2004, the Predecessor entered into an agreement with Comstock Asset Management Inc. (CAM), where CAM assigned the Company first refusal rights to purchase a portion of their Loudoun Station Properties. In partial consideration for the performance in which the Company would provide management services for a fee of \$20 a month. For the three months ended March 31, 2006 and 2005 the Company recorded \$60 in revenue. At March 31, 2006 and 2005 the Predecessor recorded a receivable for \$40 and \$0, respectively, from this entity. In addition, the Company in November 2004, entered into an agreement with Comstock Asset Management to sell certain retail condominium units at Potomac Yard for a total purchase price of \$14,500. In connection with this sale, the Company received a deposit of \$8,000 upon execution of the agreement. The agreement was modified in 2005, which reduced the deposit amount to \$6,000.

During the three months ended March 31, 2006 and 2005, the Company provided bookkeeping services to related party entities at no charge.

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In August 2004, the Predecessor entered into a \$2,400 promissory note agreement with Belmont Models I, L.C., an affiliate managed by Investors Management. The note bears an interest rate of 12%, which is payable monthly and matures in July 2005. In March 2004, the Company sold four condominium units to Belmont Models I, L.C. under a sale and leaseback arrangement. The four condominium units were delivered for a total purchase price of \$2,000 and leased back at a rate of \$20 per month. The Company expects the lease to continue for a period of twenty-four months. As a result of the deliveries, the promissory note was reduced by the total purchase price. For the three months ended March 31, 2006 and year ended December 31, 2005 the Company owed \$663. Accrued interest on this note totaled \$7, \$23 and \$6, respectively, as of three months ended March 31, 2006 and 2005 and year ended December 31, 2005.

During three months ended March 31, 2006 and 2005, the Company entered into sales contracts to sell homes to certain employees of the Company. The Company, in order to attract, retain, and motivate employees maintains a home ownership benefit program. Under the home ownership benefits, an employee receives certain cost benefits provided by us when purchasing a home or having one built by us. Sales of homes to employees for investment purposes are conducted at market prices.

In September 2005, Comstock Foundation, Inc., was created. Comstock Foundation is a not-for-profit organization organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code and is an affiliate of the Company. The affairs of Comstock Foundation are managed by a five person board of directors with Christopher Clemente, Gregory Benson, Bruce Labovitz and Tracy Schar (employee of the Company and spouse of Christopher Clemente) being four of the five. The Company also provides bookkeeping services to the affiliate. In October 2005 the Company donated \$100 in cash and the right to use 27 units at our Penderbrook condominium conversion project in Fairfax, VA. The Foundation is providing these units to the victims of Hurricane Katrina. The fair market value of the rental units donated is \$237. During the three months ended March 31, 2006 the Company donated \$25 to Comstock Foundation.

#### **14. SUBSEQUENT EVENTS**

In May 2006, we acquired all of the capital stock of Capitol Homes, Inc. and its affiliates in the Raleigh, North Carolina area. This acquisition added approximately 1,300 lots to our inventory of land controlled and approximately 20 employees. We paid approximately \$34 million for the acquisition inclusive of the retirement at closing of approximately \$2 million of shareholder debt. In connection with the acquisition we entered into employment agreements with two of the selling principals, Pablo Reiter and Glenn Hartman.

In May 2006, the Company executed a \$30 million junior subordinated note offering with Kodiak Warehouse, LLC. The note has a 30-year term with a five year fixed rate of 9.72% and a floating rate of Libor + 420 bps thereafter.

In May 2006, the Company completed a Private Investment in Public Equity (PIPE) transaction placed exclusively by J.P Morgan Securities Inc. whereby the Company sold 2,121,048 shares of unregistered Class A common stock at a price of \$9.43 and concurrently issued 636,316 five-year warrants to purchase Class A common stock at an exercise price of \$11.32 per share.

Subsequent to March 31, 2006, we have settled on the following construction and development projects:

- Post Road II, a 85 unit single family home subdivision in Atlanta, Georgia for \$1.3 million
- East Capitol Street, a 120 unit condominium project in Washington, D.C. for \$9.0 million
- Settingdown Creek, a 162 unit single family home subdivision in Atlanta, Georgia for \$6.0 million
- Station View, a 47 unit town home development in Washington, D.C. for \$4.7 million
- Holland Road, a 81 unit single family home subdivision in Raleigh, North Carolina for \$1.6 million

In connection with these closings we have incurred additional senior secured borrowings.

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

### FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT RESULTS

The following discussion of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated interim financial statements and the notes thereto appearing elsewhere in the this report and our audited consolidated and combined financial statements and the notes thereto for the year ended December 31, 2005, appearing in our Annual Report on Form 10-K for the year then ended (the “2005 Form 10-K”).

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “estimate,” “may,” “intend,” “expect,” “will,” “should,” “seeks” or other similar expressions. Forward-looking statements are based largely on our expectations and involve inherent risks and uncertainties, many of which are beyond our control. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, without limitation: general economic and market conditions, including interest rate levels; our ability to service our substantial debt; inherent risks in investment in real estate; our ability to compete in the Washington, D.C. and Raleigh, North Carolina real estate and home building markets; regulatory actions; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates. Additional information concerning these and other important risk and uncertainties can be found under the heading “Risk Factors” in the 2005 Form 10-K. Our actual results could differ materially from these projected or suggested by the forward-looking statements.

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**MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**  
**RESULTS OF OPERATIONS**

**Overview**

We engage in the business of residential land development, production home building, high-rise condominium development, condominium conversion and land sales in the greater Washington, D.C. and Raleigh, North Carolina, Myrtle Beach, South Carolina and Atlanta, Georgia markets. Our business was founded in 1985 by Christopher Clemente, our Chief Executive Officer, as a residential land developer and home builder focused on land development and semi-custom homebuilding in the northern Virginia suburbs of Washington, D.C. In 1992, we repositioned ourselves as a finished-lot-option production home builder focused on moderately priced homes in areas where we could more readily purchase finished building lots through option contracts. In 1997, we entered the Raleigh, North Carolina market. In the late 1990s we began entitling and developing land once again and in the early 2000s we became active in development and construction of mixed-use and urban in-fill projects in the greater Washington, DC area. In all of our markets we focus on middle-market products for first time, early move-up and first move-down home buyers. In January 2006, we completed the acquisition of Parker Chandler Homes, Inc. and expanded into the Atlanta, Georgia area.

The following table summarizes certain information related to new orders, settlements, and backlog for the three month period ended March 31, 2006 and 2005:

|                          | 2006                   |                     |           | 2005                   |                     |           |
|--------------------------|------------------------|---------------------|-----------|------------------------|---------------------|-----------|
|                          | Mid Atlantic<br>Region | Mid South<br>Region | Total     | Mid Atlantic<br>Region | Mid South<br>Region | Total     |
| New orders               | 111                    | 68                  | 179       | 246                    | —                   | 246       |
| New order revenues       | \$ 40,371              | \$ 18,459           | \$ 58,830 | \$ 103,300             | \$ —                | \$103,300 |
| Average new order price  | \$ 364                 | \$ 271              | \$ 329    | \$ 420                 | \$ —                | \$ 420    |
| Settlements              | 91                     | 21                  | 112       | 78                     | —                   | 78        |
| Settlement revenue       | \$ 31,679              | \$ 4,673            | \$ 36,352 | \$ 28,500              | \$ —                | \$ 28,500 |
| Average settlement price | \$ 348                 | \$ 223              | \$ 325    | \$ 365                 | \$ —                | \$ 365    |
| Backlog units            | 493                    | 47                  | 540       | 615                    | —                   | 615       |
| Backlog                  | \$ 198,185             | \$ 13,786           | \$211,971 | \$ 248,300             | \$ —                | \$248,300 |
| Average backlog price    | 402                    | 293                 | 393       | 404                    | —                   | 404       |

At March 31, 2006, we either owned or controlled under option agreements or non-binding letters of intent over 6,500 building lots including non-consolidating joint ventures in which we are the manager. We currently have communities under development in multiple counties throughout the markets we serve. The following chart summarizes certain information for our current and planned communities as of March 31, 2006:

| As of March 31, 2006                             |             |                                  |               |            |                   |                                       |                     |
|--------------------------------------------------|-------------|----------------------------------|---------------|------------|-------------------|---------------------------------------|---------------------|
| Project                                          | Status (1)  | Estimated Units at<br>Completion | Units Settled | Backlog(2) | Lots Owned Unsold | Lots under Option<br>Agreement Unsold | Average Sales Price |
| <b>Virginia</b>                                  |             |                                  |               |            |                   |                                       |                     |
| Barrington Park                                  | Active      | 148                              | -             | 3          | 145               | -                                     | \$286,567           |
| Beacon Park at Belmont Bay 8&9                   | Active      | 600                              | -             | -          | 112               | 488                                   | n/a                 |
| Commons at Bellemeade                            | Active      | 316                              | 32            | 5          | 279               | -                                     | \$215,942           |
| Blooms Mill TH 22'                               | Active      | 113                              | 105           | 7          | 1                 | -                                     | \$415,978           |
| Blooms Mill Carriage                             | Active      | 91                               | 84            | 5          | 2                 | -                                     | \$454,055           |
| Carter Lake                                      | Active      | 258                              | -             | -          | 258               | -                                     | n/a                 |
| Commons on Potomac Sq                            | Active      | 192                              | -             | 25         | 167               | -                                     | \$249,343           |
| Commons on Williams Sq                           | Active      | 180                              | 67            | 8          | 105               | -                                     | \$351,752           |
| Countryside                                      | Active      | 102                              | 61            | 5          | 36                | -                                     | \$287,718           |
| The Eclipse on Center Park                       | Active      | 465                              | -             | 399        | 66                | -                                     | \$406,791           |
| Penderbrook                                      | Active      | 424                              | 197           | 7          | 220               | -                                     | \$255,155           |
| River Club at Belmont Bay 5                      | Active      | 84                               | 73            | 1          | 10                | -                                     | \$460,365           |
| Woodlands at Round Hill                          | Active      | 46                               | 19            | 6          | 21                | -                                     | \$750,139           |
| Total VA Active and Completed                    |             | 3,019                            | 638           | 471        | 1,422             | 488                                   | \$375,800           |
| Total VA Active and Completed<br>Weighted Avg(3) |             |                                  |               |            |                   |                                       | \$328,566           |
| Alkie Singles                                    | Development | 15                               | -             | -          | -                 | 15                                    | n/a                 |
| Blakes Crossing                                  | Development | 130                              | -             | -          | 130               | -                                     | n/a                 |
| Brandy Station                                   | Development | 350                              | -             | -          | -                 | 350                                   | n/a                 |
| Lake Pelham                                      | Development | 185                              | -             | -          | -                 | 185                                   | n/a                 |
| Loudoun Station Condominiums                     | Development | 484                              | -             | -          | -                 | 484                                   | n/a                 |
| Total VA Development                             |             | 1,164                            | -             | -          | 130               | 1,034                                 |                     |
| <b>Total Virginia</b>                            |             | <b>4,183</b>                     | <b>638</b>    | <b>471</b> | <b>1,552</b>      | <b>1,522</b>                          |                     |
| <b>Maryland</b>                                  |             |                                  |               |            |                   |                                       |                     |
| Emerald Farm                                     | Active      | 84                               | 67            | 6          | 11                | -                                     | \$452,799           |

|                                                 |             |              |            |            |              |              |           |
|-------------------------------------------------|-------------|--------------|------------|------------|--------------|--------------|-----------|
| <b>Total Maryland</b>                           |             | <b>84</b>    | <b>67</b>  | <b>6</b>   | <b>11</b>    | <b>-</b>     |           |
| <b>North Carolina</b>                           |             |              |            |            |              |              |           |
| Allyn's Landing                                 | Active      | 117          | 18         | 2          | 97           | -            | \$218,991 |
| Kelton at Preston                               | Active      | 56           | 30         | 5          | 21           | -            | \$307,994 |
| Wakefield Plantation                            | Active      | 77           | 31         | 9          | 37           | -            | \$492,552 |
| Total North Carolina Active                     |             | 250          | 79         | 16         | 155          | -            | \$339,846 |
| Total North Carolina Active Weighted Average(3) |             |              |            |            |              |              | \$323,184 |
| Holland Road                                    | Development | 81           | -          | -          | 81           | -            | n/a       |
| Total North Carolina Development                |             | 81           | -          | -          | 81           | -            |           |
| <b>Total North Carolina</b>                     |             | <b>331</b>   | <b>79</b>  | <b>16</b>  | <b>236</b>   | <b>-</b>     |           |
| <b>Georgia</b>                                  |             |              |            |            |              |              |           |
| Allen Creek                                     | Active      | 26           | 7          | 4          | 15           | -            | \$211,668 |
| Arcanum                                         | Active      | 34           | 3          | 5          | 26           | -            | \$397,543 |
| Brentwood Estates                               | Active      | 32           | 4          | 4          | 9            | 15           | \$131,407 |
| Falling Water                                   | Active      | 22           | -          | 4          | 18           | -            | \$421,306 |
| Gates of Luberon                                | Active      | 32           | -          | 2          | 30           | -            | \$392,000 |
| Glenn Ivey                                      | Active      | 107          | -          | 3          | 22           | 82           | \$241,824 |
| Highland Station                                | Active      | 105          | -          | 22         | 83           | -            | \$285,525 |
| Maristone                                       | Active      | 40           | -          | -          | 40           | -            | n/a       |
| Senators Ridge                                  | Active      | 92           | 7          | 3          | 82           | -            | \$242,295 |
| Traditions                                      | Active      | 22           | -          | -          | 22           | -            | n/a       |
| Total Georgia Active                            |             | 512          | 21         | 47         | 347          | 97           | \$290,446 |
| Total Georgia Active Weighted Average(3)        |             |              |            |            |              |              | \$273,742 |
| Highland Avenue                                 | Development | 30           | -          | -          | 30           | -            | n/a       |
| James Road                                      | Development | 54           | -          | -          | 54           | -            | n/a       |
| Kelly Mill Road                                 | Development | 28           | -          | -          | -            | 28           | n/a       |
| McGinnis Ferry SF                               | Development | 48           | -          | -          | -            | 48           | n/a       |
| McGinnis Ferry TH                               | Development | 88           | -          | -          | -            | 88           | n/a       |
| Post Road                                       | Development | 59           | -          | -          | 59           | -            | n/a       |
| Post Road II                                    | Development | 54           | -          | -          | -            | 54           | n/a       |
| Shiloh Road                                     | Development | 61           | -          | -          | 61           | -            | n/a       |
| Stowe Road                                      | Development | 110          | -          | -          | -            | 110          | n/a       |
| Tribble Lakes                                   | Development | 200          | -          | -          | 200          | -            | n/a       |
| Wyngate                                         | Development | 31           | -          | -          | -            | 31           | n/a       |
| Total Georgia Development                       |             | 763          | -          | -          | 404          | 359          |           |
| <b>Total Georgia</b>                            |             | <b>1,275</b> | <b>21</b>  | <b>47</b>  | <b>751</b>   | <b>456</b>   |           |
| <b>South Carolina</b>                           |             |              |            |            |              |              |           |
| Carolina Waterway                               | Active      | 15           | -          | -          | 15           | -            | n/a       |
| Total South Carolina Active                     |             | 15           | -          | -          | 15           | -            |           |
| <b>Total South Carolina</b>                     |             | <b>15</b>    | <b>-</b>   | <b>-</b>   | <b>15</b>    | <b>-</b>     |           |
| TOTAL ACTIVE AND COMPLETED                      |             | 3,880        | 805        | 540        | 1,950        | 585          |           |
| TOTAL DEVELOPMENT                               |             | 2,008        | -          | -          | 615          | 1,393        |           |
| <b>TOTAL</b>                                    |             | <b>5,888</b> | <b>805</b> | <b>540</b> | <b>2,565</b> | <b>1,978</b> |           |
| <b>Joint Ventures</b>                           |             |              |            |            |              |              |           |
| North Shore Condominiums                        | Active      | 196          | -          | 7          | 189          | -            | \$286,361 |
| North Shore Townhomes                           | Active      | 163          | 33         | 7          | 123          | -            | \$239,107 |
| Total Joint Ventures                            |             | 359          | 33         | 14         | 312          | -            |           |
| <b>GRAND TOTAL</b>                              |             | <b>6,247</b> | <b>838</b> | <b>554</b> | <b>2,877</b> | <b>1,978</b> |           |

- (1) "Active" communities are open for sales or expected to open in the next 90 days. "Development" communities are in the development process and are not expected to open for sales in the next 90 days. "Completed" communities have settled all units during the three months ended March 31, 2006.
- (2) "Backlog" means we have an executed order with a buyer, inclusive of lot sales, but the settlement has not yet taken place.
- (3) Weighted average is calculated as total estimated homes at completion for projects with average sales prices multiplied by Average sales price divided by total of estimated homes at completion (i.e.:  $\sum (\text{estimated homes at completion} \times \text{average sales price}) \div \sum \text{estimated homes at completion}$ ).



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**Results of Operations**

***Three months ended March 31, 2006 compared to three months ended March 31, 2005***

*Orders and Backlog*

New orders for the three months ended March 31, 2006 decreased \$47.5 million, or 43.0%, to \$58.3 million on 179 homes, as compared to \$103.3 million on 246 homes for the three months ended March 31, 2005. This decrease in new orders was attributable to several factors including our strategic decision to limit inventory for sale at our Eclipse at Center Park and Commons at Potomac Square condominium projects until buildings are closer to completion, reduced inventory available for sale due to the near completion of our Blooms Mill projects and generally slower market conditions in our core market of the greater Washington, DC metropolitan area. For the three months ended March 31, 2006, new orders included 68 units totaling \$18.5 million from our acquisition of Parker Chandler Homes in Atlanta, Georgia.

The average sale price per new order for the three months ended March 31, 2006 decreased by \$91,000 to \$329,000 as compared to \$420,000. The decrease is attributable to the shift in product mix from what had been predominantly single family and town homes to a mixture which this quarter included lower priced condominiums and homes in our Mid-South region, which includes Atlanta, Georgia, which are on average lower priced as compared to our Mid-Atlantic region, which includes the Washington, DC and Raleigh, North Carolina areas. Average new order prices in our Mid-Atlantic region for the three months ended March 31, 2006 was \$364,000 as compared to our Mid-South average new order price for the three months ended March 31, 2006 of \$271,000.

Our backlog at March 31, 2006 decreased \$36.3 million, or 14.6%, to \$211.9 million on 540 homes as compared to our backlog at March 31, 2005 of \$248.3 million on 615 homes. Our backlog at March 31, 2006 includes 399 units totaling \$162.3 million at our Eclipse at Center Park and 47 units totaling \$13,786 at our recently acquired Parker Chandler Homes division.

*Revenues.*

The number of homes delivered for the three months ended March 31, 2006 increased by 43.6% to 112 from 78 homes for the three months ended March 31, 2005. For the three months ended March 31, 2006, we delivered 21 homes in our Mid-South region as compared to zero for the three months ended March 31, 2005, as result of our recently acquired Parker Chandler Homes division.

Average revenue per home delivered decreased by approximately \$40,000 to \$325,000 for the three months ended March 31, 2006 as compared to \$365,000 for the three months ended March 31, 2005. The decrease is due to lower selling prices at our condominium conversion projects and lower priced product offerings in our Mid-South division as compared to our Mid-Atlantic division.

Home building revenues increased by \$7.9 million, or 27.8%, to \$36.4 million for the three months ended March 31, 2006 as compared to \$28.5 million for the three months ended March 31, 2005. The increase in deliveries and revenues for the three months ended March 31, 2006 is primarily attributable to increased settlements at our condominium conversion projects and 21 deliveries totaling \$4.6 million from our recently acquired Parker Chandler Homes division.

*Other Revenue*

Other revenue for the three months ended March 31, 2006 decreased by \$34,000 from the comparable period in 2005. Other revenue for the three months ended March 31, 2005 includes revenue associated with the Company's Settlement Title Services division and management fees received from Comstock Asset Management Inc. (as discussed in Note 13 to the accompanying financial statements). During the three months ended March 31, 2005 other revenue also included revenue from a mortgage marketing alliance. During January 2006 we terminated our current mortgage marketing alliance in the Mid-Atlantic region and are in the process of implementing an alternative primary alliance with another mortgage

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company.

*Cost of sales*

Cost of sales for the three months ended March 31, 2005 increased \$9.6 million, or 54.4%, to \$27.2 million, or 74.7% of homebuilding revenue, as compared to \$17.6 million, or 61.8% of revenue, for the three months ended March 31, 2005. The 12.9 percentage point increase in cost of sales as a percentage of revenue for the three months ended March 31, 2006 is primarily the result of pricing concessions and increased costs per unit. Due to current market conditions, we have extended the sales cycle of many of our projects. As a result, we are incurring additional costs which will increase cost of sales as a percentage of revenue. These additional costs include interest, real estate tax, insurance and regional and divisional overhead.

*Selling, general and administrative*

Selling, general and administrative costs for the three months ended March 31, 2006 increased \$2.6 million or 51.3% to \$7.6 million, as compared to \$5.1 million for the three months ended March 31, 2005. Selling, general and administrative expenses represented 20.9% of total revenue for the three months ended March 31, 2006, as compared to 17.6% for the three months ended March 31, 2005. This increase was the result of additional staffing and related costs of \$420,000, media and other marketing related costs of \$450,000, rents paid under our corporate office leases of \$45,000 and the write-off of certain due diligence costs of \$900,000 related to abandoned corporate transactions. In addition, our acquisition of Parker Chandler Homes increased our selling, general and administrative expenses by \$656,000.

*Operating income*

Operating income for the three months ended March 31, 2006 decreased \$4.3 million to \$1.8 million, as compared to \$6.1 million for the three months ended March 31, 2006. Operating margin for the three months ended March 31, 2006 was 4.9%, as compared to 21.1% for the three months ended March 31, 2005. The 16.3 percentage point decrease in operating margin is attributable to lower gross profit margins on the mix of inventory we delivered in the three months ended March 31, 2006 as compared to the three months ended March 31, 2005 and the increases in selling, general and administrative expenses as discussed above.

*Other (income) expense, net*

Other (income) expense, net increased by \$197,000 to net income of \$233,000 for the three months ended March 31, 2006, as compared to \$36,000 for the three months ended March 31, 2005. The increase in other (income) expense is primarily attributable to reduced corporate interest expense as a result of the payoff of a note payable to certain founding shareholders resulting from the Company's restructuring concurrent with its initial public offering in December of 2004.

*Income taxes*

The provision for income taxes for the three months ended March 31, 2006 and 2005 reflects an effective tax rate of approximately 37.8%.

**Liquidity and Capital Resources**

We require capital to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to facilitate sales. These expenditures include engineering, entitlement, architecture, site preparation, roads, water and sewer lines, impact fees and earthwork, as well as the construction costs of the homes and amenities. Our sources of capital include, and



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we anticipate will continue to include, funds derived from various secured and unsecured borrowings, operations which include the sale of constructed homes and finished lots, and the sale of equity securities. Our currently owned and controlled inventory of home sites will require substantial capital to develop and construct.

In production home building, it is common for builders such as us to employ revolving credit facilities whereby the maximum funding available under the facility exceeds the maximum outstanding balance allowed at any given time. Our overall borrowing capacity may be constrained by loan covenants which limit the ratio of our total liabilities to our total equity. This revolving debt will typically provide for funding of an amount up to a pre-determined percentage of the cost of each asset funded. The balance of the funding for that asset is provided for by us as equity. The efficiency of revolving debt in production home building allows us to operate with less overall debt capital than would be required if we built each project with long-term amortizing debt. At March 31, 2006 we had approximately \$262.8 million of debt financing and \$18.2 million of unrestricted cash. We believe that internally generated cash, borrowings available under our credit facilities and access to public debt and equity markets will provide us with sufficient capital to meet our existing and expected capital needs.

***Credit Facilities***

At March 31, 2006, we had approximately \$427.9 million available under existing secured revolving development and construction loans for planned construction and development expenditures. A majority of our debt is variable rate, based on LIBOR or the prime rate plus a specified number of basis points, typically ranging from 190 to 375 basis points over the LIBOR rate and 50 basis points over the prime rate. As a result, we are exposed to market risk in the area of interest rate changes. At March 31, 2006, the one-month LIBOR and prime rates of interest were 4.83% and 7.75%, respectively, and the interest rates in effect under our existing secured revolving development and construction credit facilities ranged from 6.73% to 9.65%. For information regarding risks associated with our level of debt and changes in interest rates, see Item 3 "Quantitative and Qualitative Disclosures about Market Risk."

We have generally financed our development and construction activities on a project basis so that, for each project we develop and build, we have a separate credit facility. Accordingly, we have numerous credit facilities. The Company is subject to certain financial covenants which require the Company to: (1) maintain a minimum tangible net worth, adjusted for certain items, in the amount of \$65.0 million and (2) maintain a debt to tangible net worth below 3.5:1. As of March 31, 2006, we were in compliance with the financial covenants set forth in our loan agreements.

From time to time, we employ subordinated and unsecured credit facilities to supplement our capital resources or a particular project or group of projects. Our lenders under these credit facilities will typically charge interest rates that are substantially higher than those charged by the lenders under our senior and secured credit facilities. These credit facilities will vary with respect to terms and costs. As of March 31, 2006, the annual rate of interest on these facilities ranged from 7.0% to 20%. At March 31, 2006, we had approximately \$30.7 million outstanding under these subordinate and unsecured facilities. We intend to continue to use these types of facilities on a selected basis to supplement our capital resources.

We are considering replacing our credit facilities with one or more larger facilities, which may reduce our aggregate debt financing costs. We would be the borrower and primary obligor under this larger facility or facilities, and we anticipate the indebtedness would be secured, nonrecourse and based on an available borrowing base.

***Cash Flow***

Net cash used in operating activities was \$73.8 million for the three months ended March 31, 2006 as compared to \$100.2 million for the three months ended March 31, 2005. For the three months ended March 31, 2006, the decrease in cash used in operations was primarily attributable to the timing of purchases of real estate held for development and sale. For the three months ended March 31, 2005, the Company used approximately \$93.1 million for its Penderbrook and Villas at Countryside projects.

Net cash used in investing activities was \$10.7 million for the three months ended March 31, 2006 and \$25,000 for

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the three months ended March 31, 2005. The increase in cash used from investing activities was attributable to the acquisition of Parker Chandler Homes.

Net cash provided by financing activities was \$60.5 million for the three months ended March 31, 2006 and \$70.0 million for the three months ended March 31, 2005. The decrease in cash from financing activities was attributable to the payoff of approximately \$12.3 million in obligations acquired as a result of the Parker Chandler Homes acquisition.

***Acquisitions & Subsequent Events***

In May 2006, we acquired all of the capital stock of Capitol Homes, Inc. and its affiliates in the Raleigh, North Carolina area. This acquisition added approximately 1,300 lots to our inventory of land controlled and approximately 20 employees. We paid approximately \$34 million for the acquisition inclusive of the retirement at closing of approximately \$2 million of shareholder debt. In connection with the acquisition we entered into employment agreements with two of the selling principals, Pablo Reiter and Glenn Hartman.

In May 2006, the Company executed a \$30 million junior subordinated note offering with Kodiak Warehouse, LLC. The note has a 30-year term with a five year fixed rate of 9.72% and a floating rate of Libor + 420 bps thereafter.

In May 2006, the Company completed a Private Investment in Public Equity (PIPE) transaction placed exclusively by J.P Morgan Securities Inc. whereby the Company sold 2,121,048 shares of unregistered Class A common stock at a price of \$9.43 and concurrently issued 636,316 five-year warrants to purchase Class A common stock at an exercise price of \$11.32 per share.

Subsequent to March 31, 2006, we have settled on the following construction and development projects:

In connection with these closings we have incurred additional senior secured borrowings.

- Post Road II, a 85 unit single family home subdivision in Atlanta, Georgia for \$1.3 million
- East Capitol Street, a 120 unit condominium project in Washington, D.C. for \$9.0 million
- Settingdown Creek, a 162 unit single family home subdivision in Atlanta, Georgia for \$6.0 million
- Station View, a 47 unit town home development in Washington, D.C. for \$4.7 million
- Holland Road, a 81 unit single family home subdivision in Raleigh, North Carolina for \$1.6 million

***Recent Accounting Pronouncements***

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FAS 154, Accounting Changes and Error replace APB Opinion No. 20, and FASB Statement No. 3. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

**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, 2006 compared with those disclosed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our annual report on Form 10-K for the year ended December 31, 2005.

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

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows, due to adverse changes in financial and commodity market prices and interest rates. We are exposed to market risk in the area of interest rate changes. A majority of our debt is variable rate based on LIBOR and prime rate, and, therefore, affected by changes in market interest rates. Based on current operations, as of March 31, 2006, an increase/decrease in interest rates of 100 basis points on our variable rate debt would have resulted in a corresponding increase/decrease in interest actually incurred by us of approximately \$[ ] million in a fiscal year, a significant portion of which would be capitalized and included in cost of sales as homes are delivered. As a result, the effect on net income would be deferred until the underlying units settled and the interest was released to cost of goods sold. Changes in the prices of commodities that are a significant component of home construction costs, particularly lumber and concrete, may result in unexpected short-term increases in construction costs. Because the sales price of our homes is fixed at the time a buyer enters into a contract to acquire a home and we generally contract to sell our homes before construction begins, any increase in costs in excess of those anticipated at the time of each sale may result in lower consolidated operating income for the homes in our backlog. We attempt to mitigate the market risks of the price fluctuation of commodities by entering into fixed price contracts with our subcontractors and material suppliers for a specified period of time, generally commensurate with the building cycle. These contracts afford us the option to purchase materials at fixed prices but do not obligate us to any specified level of purchasing.

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

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

We have evaluated, with the participation of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2005. Based on this evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer have each concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our quarterly reports filed under the Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms and were effective as of March 31, 2006 to ensure that information required to be disclosed by the Company issuer in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **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 the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

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.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

The Company, as manager of an affiliated entity, exercised its option rights to purchase the project acquisition, development and construction loans made for the benefit of North Shore. The Company subsequently issued a notice of default under the acquisition and development loan at maturity on September 30, 2005, thereafter filed suit for collection of the loans against one of the individual guarantors under the loan on or about October 21, 2005. The Company, as manager of an affiliated entity, set and held a foreclosure sale on March 24, 2006 in which it was the high bidder. However, transfer of title to the property has been delayed pending judicial resolution of a suit filed on March 24, 2006 by the non-affiliated 50% owner of North Shore.

On August 11, 2005, the Company was served with a motion to compel arbitration resulting from an allegation of a loan brokerage fee being owed for placement of a \$147.0 million project loan for the Potomac Yard project. The claim in the base amount of \$2.0 million plus interest and costs is based on breach of contract and equitable remedies of unjust enrichment and quantum meruit. The claims have been denied by the Company.

Other than the foregoing, we are not currently 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 currently pending against us, we do not expect that any such liability will have a material adverse effect on our financial position, operating results or cash flows.

We believe that we have obtained adequate insurance coverage or rights to indemnification, or where appropriate, have established reserves in connection with these legal proceedings.

In the normal course of its business, the Company and/or its subsidiaries are named as defendants in certain legal actions arising from its normal business activities. Management believes that none of these litigation matters in which the Company or any subsidiary is involved would have a material adverse effect on the consolidated financial condition or operations of the Company.

### **ITEM 1A. RISK FACTORS**

The Company previously disclosed risk factors under “Item 1A. Risk Factors” in its Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes these risk factors.

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

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

### **ITEM 5. OTHER INFORMATION.**

None.

## ITEM 6. EXHIBITS

| <u>Exhibit Number</u> | <u>Exhibit</u>                                                                                                                                                                                                                                                         |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                   | Amended and Restated Certificate of Incorporation (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004)                                                                                        |
| 3.2                   | Amended and Restated Bylaws (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004)                                                                                                              |
| 4.1                   | Specimen Stock Certificate (incorporated by reference to an exhibit to the Registrant's Amendment No. 6 to the Registration Statement on Form S-1 filed with the Commission on December 9, 2004 (No. 333-118193)                                                       |
| 10.1                  | Stock Purchase Agreement with Parker-Chandler Homes, Inc. and the Selling Stockholders identified therein, dated as of January 19, 2006 (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005). |
| 10.3                  | Loan Agreement, dated January 31, 2006, by and between Comstock Carter Lake, L.C. and Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).                             |
| 10.4                  | Guaranty Agreement, dated January 31, 2006, by the Registrant in favor of Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).                                         |
| 31.1                  | Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended                                                                                                 |
| 31.2                  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Act of 1934, as amended                                                                                                                       |
| 31.3                  | Certification of Chairman and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                             |

## SIGNATURES

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

COMSTOCK HOMEBUILDING COMPANIES,  
INC.

Date: May 15, 2006

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

By: /s/ Bruce J. Labovitz  
Bruce J. Labovitz  
Chief Financial Officer





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**EXHIBIT 31.1**

**CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

I, Christopher Clemente, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Homebuilding 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 period 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)) for the registrant and we 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, is made known to us by others within that entity, 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 function):
  - 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, 2006

/s/ Christopher Clemente

\_\_\_\_\_  
Christopher Clemente  
Chairman and Chief Executive Officer  
(Principal executive officer)



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**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Bruce J. Labovitz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Homebuilding 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 period 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)) 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, is made known to us by others within that entity, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - 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, 2006

/s/ Bruce J. Labovitz

\_\_\_\_\_  
Bruce J. Labovitz  
Chief Financial Officer  
(Principal financial officer)



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**EXHIBIT 32.1**

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 Homebuilding Companies, Inc. (the "Company") for the quarter ended March 31, 2006 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 Bruce Labovitz, Chief Financial Officer of the Company, certify, to our best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (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, 2006

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

Date: May 15, 2006

/s/ Bruce Labovitz  
\_\_\_\_\_  
Bruce Labovitz  
Chief Financial Officer

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