Comstock Homebuilding Companies, Inc.
Form S-1/A
December 09, 2004

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As filed with the Securities and Exchange Commission on December 9, 2004

Registration No. 333-118193

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 6
to
FORM S-1

REGISTRATION STATEMENT
Under the Securities Act of 1933

COMSTOCK HOMEBUILDING COMPANIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**1531**	**20-1164345**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

11465 Sunset Hills Road, Suite 510
Reston, Virginia 20190
(703) 883-1700
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Christopher Clemente
Chief Executive Officer
Comstock Homebuilding Companies, Inc.
11465 Sunset Hills Road, Suite 510
Reston, Virginia 20190
(703) 883-1700
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Stephen A. Riddick, Esq. **Jason T. Simon, Esq.** **Greenberg Traurig, LLP** **800 Connecticut Avenue, N.W.** **Suite 500** **Washington, D.C. 20006** **(202) 331-3100**	**Randall S. Parks, Esq.** **Gerald P. McCartin, Esq.** **Hunton & Williams LLP** **Riverfront Plaza, East Tower** **951 East Byrd Street** **Richmond, Virginia 23219** **(804) 788-8200**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. o

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee(3)**
Class A common stock, par value $.01 per share	4,140,000	$16	$66,240,000	$8,393

(1) Includes 540,000 shares that the underwriters have the option to purchase from the registrant to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) promulgated under the Securities Act of 1933.

(3) The registrant has previously paid $9,502.50.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated December 9, 2004.

3,600,000 Shares

Comstock Homebuilding Companies, Inc.

Class A Common Stock

This is an initial public offering of shares of our Class A common stock. All of the 3,600,000 shares of Class A common stock to be sold are being sold by us.

Each share of our Class A common stock has one vote and each share of our Class B common stock has 15 votes. Following this offering, Christopher Clemente, our Chairman and Chief Executive Officer, and Gregory Benson, our President and Chief Operating Officer, will hold Class A and Class B common stock representing 89.4% of the combined voting power of our Class A and Class B common stock. Prior to this offering, no public market existed for our Class A common stock. We estimate that the initial public offering price per share will be between $14 and $16. We have applied for quotation of our Class A common stock on the Nasdaq National Market under the symbol "CHCI" upon completion of this offering.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds before expenses, to us	$	$

To the extent that the underwriters sell more than 3,600,000 shares of Class A common stock, the underwriters have the option to purchase up to an additional 540,000 shares from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares on or about , 2004.

BB&T Capital Markets

Robert W. Baird & Co.

Ferris, Baker Watts
Incorporated

Prospectus dated , 2004.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should read the following summary together with the more detailed information regarding us, the common stock being sold in this offering and our combined consolidated financial statements, including the notes to those statements, appearing elsewhere in this prospectus. In this summary and elsewhere in this prospectus, the narrative description of our business and our pro forma financial information incorporates the business and operations of Comstock Service Corp., Inc., also referred to in this prospectus as Comstock Service, which has not been otherwise combined and consolidated in our financial statements and related notes. Discussion of our historical financial statements and results of operations does not include Comstock Service unless otherwise indicated. As part of this offering, we intend to substantially restructure our current corporate organization. We refer to this restructuring as the "Consolidation." This restructuring will include the merger of Comstock Service with and into one of our subsidiaries, which will be accounted for as an acquisition. See "Corporate Consolidation" on page 25. For information on how we derive our pro forma information, please see "Unaudited Pro Forma Combined Consolidated Financial Information" on page 30.

When we refer to

the "Company," "we," "us" or "our," for periods prior to the completion of the Consolidation, we are referring to Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc., and as of the completion of the Consolidation and thereafter, we are referring to Comstock Homebuilding Companies, Inc., together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise;

"The Comstock Companies," we are referring to Comstock Holding Company, Inc., Comstock Homes, Inc. and Sunset Investment Corp., Inc., in each case together with their respective subsidiaries;

"homes," we are referring to single-family homes, townhouses and condominium units;

the "Washington, D.C. market," we are referring to the Washington, D.C. Primary Metropolitan Statistical Area, as defined by the U.S. Census Bureau, which includes the District of Columbia, 17 counties and cities in northern Virginia, five counties in Maryland and Berkeley and Jefferson counties in the eastern panhandle of West Virginia;

the "Raleigh, North Carolina market," we are referring to the six counties included in the Raleigh-Durham-Chapel Hill, North Carolina Metropolitan Statistical Area, as defined by the U.S. Census Bureau;

"orders" or "sales," we are referring to fully executed contracts with buyers of our homes, excluding contracts that were executed and cancelled;

"settlements" or "deliveries," we are referring to the transfer of title of a home to a buyer; and

"backlog," we are referring to orders for homes for which there has not yet been a settlement. Our backlog equals total orders less total deliveries.

Our Business

We are a production home builder that develops, builds and markets single-family homes, townhouses and condominiums. We focus on geographic areas, products and price points where we believe there is significant demand and high profit potential. We currently operate in the Washington, D.C. and Raleigh, North Carolina markets where we target a diverse range of buyers, including first-time, early move-up, secondary move-up, empty nester move-down and active adult home buyers. We believe that these demographics represent a significant and stable segment of home buyers in our

markets. Since our founding in 1985, we have built and delivered over 2,500 homes valued at over $565 million.

Over the past several years we have expanded our business model to include the development of land for our home building operations as a complement to the purchase of finished building lots developed by others. We are currently experiencing the benefits of this expansion. For the year ended December 31, 2003, our revenue and operating income increased over 2002 by 59.7% and 91.4%, respectively. For the nine months ended September 30, 2004, our revenue and operating income increased by $51.4 million and $12.6 million, respectively, to $74.6 million and $15.2 million, respectively, as compared to the nine months ended September 30, 2003. The book value of our real estate held for development and sale has increased by $71.8 million from $20.2 million at December 31, 2002 to $92.0 million at September 30, 2004. On October 31, 2004 our backlog, including Comstock Service, was $142.0 million.

Our Markets

We operate in the Washington, D.C. and Raleigh, North Carolina markets. We believe that in the home building industry, local economic trends and influences have a more significant impact on supply and demand, and therefore on profitability, than national economic trends and influences. While national economic indicators are influential, they may not show a direct correlation to the performance of a home builder in a particular market. According to the National Association of Home Builders, the Washington, D.C. and Raleigh, North Carolina metropolitan areas are both ranked in the top 20 housing markets in the country, based upon total residential building permits issued in 2003.

Greater Washington, D.C. Metropolitan Market. Our current and anticipated projects for the Washington, D.C. market are in Arlington, Culpeper, Fairfax, Fauquier, Loudoun, Prince William and Stafford counties in Virginia, and Anne Arundel, Frederick, Howard, Montgomery and Prince Georges counties in Maryland and in the District of Columbia. The Washington, D.C. metropolitan area has typically experienced strong population and economic growth. The strength of this employment market and the stability and resilience of the local economy result in part from the size of the federal government workforce. The presence of the federal government historically has served as a buffer for the local economy against market downturns in the private sector. According to the Bureau of Labor Statistics, the Washington, D.C. market is also characterized by a large professional and business services sector, such as legal, consulting and lobbying services, that employs about 21% of the metropolitan workforce. According to the U.S. Department of Commerce, the Washington, D.C. market enjoyed the fourth highest per capita income among metropolitan areas in the country in 2002   138% of the national per capita income.

Raleigh, North Carolina Market. Our current and anticipated projects for the Raleigh, North Carolina market are in Durham, Franklin, Johnston and Wake counties, which includes the city of Raleigh. From 1990 to 2000, the Raleigh, North Carolina market was the 12th fastest growing metropolitan area in the United States and was the second fastest growing area in the Southeast in terms of population growth, according to the U.S. Census Bureau. The area experienced population growth of 38.9% during that period, according to the U.S. Census Bureau. Similar to the Washington, D.C. market, the local economy in the Raleigh, North Carolina market is relatively stable and less sensitive to national economic trends because of large public sector employment. Raleigh is the state capital of North Carolina. According to the Bureau of Labor Statistics, the state and local governments constitute 18.7% of the area's aggregate employment. The area is home to Research Triangle Park, a public/private, planned research park containing over nine million square feet of office space, and the headquarters of many technology and research companies. Duke University, the University of North Carolina-Chapel Hill and North Carolina State University are also located in the Raleigh, North Carolina market. According to the U.S. Department of Commerce, the Raleigh, North Carolina market

ranked 41st among 361 metropolitan areas in 2002 in terms of per capita income, or 108% of the national per capita income.

Our Strategy

Our business strategy is to focus on geographic areas, products and price points where we believe there is significant demand for new housing and high profit potential. Our strategy has the following key elements:

Build in and expand within the strong growth markets in which we currently operate. We plan to maintain and expand our business in the Washington, D.C. and Raleigh, North Carolina markets to capitalize on their robust economies and continued population growth.

Expand into selected new geographic markets within our region. We intend to expand into selected new geographic markets in the eastern United States through both start-up operations and acquisitions of other home builders that have strategic land positions, strong local management teams and sound operating principles.

Acquire and develop a high-margin land inventory. We believe that our market knowledge and experience in land entitlement and development enable us to successfully identify attractive land acquisition opportunities, efficiently manage the process of obtaining development rights and maximize land value.

Create opportunities in areas overlooked by our competitors. We believe that our townhouse and condominium products, along with our substantial experience in dealing with both the market and regulatory requirements of urban mixed-use developments, enable us to identify and create value in land parcels often overlooked by larger production home builders.

Focus on a broad segment of the home buying market. Our single-family homes, townhouses and condominiums are designed and priced to appeal to a wide segment of the home buying market, including first-time, early move-up, secondary move-up, empty nester move-down and active adult home buyers.

Expand into the growing active adult market. We expect the large and aging baby boom population in the United States to fuel growth in the active adult market of the home building industry, and we believe that we are well positioned to take advantage of this growing market.

Maximize our economies of scale. As a production home builder, we are able to realize economies of scale in the purchase of raw materials, supplies, manufactured inputs and labor.

Our Company

We were incorporated in May 2004. Our business was started in 1985 by Christopher Clemente, our Chief Executive Officer, as a residential land developer and home builder focused on the upscale home market in the northern Virginia suburbs of Washington, D.C. Immediately prior to this offering, we operated our business through four primary holding companies. As part of this offering, we intend to substantially consolidate our current corporate structure. Please see "Corporate Consolidation" on page 25.

Our principal executive offices are located at 11465 Sunset Hills Road, Suite 510, Reston, Virginia 20190, and our telephone number is (703) 883-1700. Our Web site is *www.comstockhomebuilding.com*. Information contained on our Web site does not constitute a part of this prospectus.

The Offering

Class A common stock offered	3,600,000 shares
Class A common stock to be outstanding after this offering	7,933,167 shares
Class B common stock to be outstanding after this offering	2,733,500 shares
Voting and conversion rights	Our Class A and Class B common stock generally have identical rights, except for voting and conversion rights. The holders of Class A common stock are entitled to one vote per share and the holders of Class B common stock are entitled to 15 votes per share. Holders of Class A common stock have no conversion rights. Holders of Class B common stock may convert some or all of their shares into the same number of shares of Class A common stock at any time. Under certain circumstances, a share of Class B common stock may automatically convert into a share of Class A common stock. For more information, please see "Description of Capital Stock" on page 92.
Use of proceeds	Approximately $7.3 million to purchase outstanding minority membership interests in certain of our subsidiaries; approximately $3.0 million to repay certain indebtedness; approximately $8.5 million to fund the payment of all or a portion of certain S corporation distributions, undistributed tax partnership profits and other amounts owed to our current stockholders by certain of our subsidiaries in connection with our Consolidation; for general corporate purposes, including working capital; and to fund new projects and acquisitions of assets and/or companies.
Proposed Nasdaq National Market symbol for Class A common stock	CHCI

Except as otherwise noted, the number of shares to be outstanding after this offering excludes:

- *1,550,000 shares of Class A common stock reserved for future issuance under our equity incentive plan; and*
- *200,000 shares of Class A common stock reserved for future issuance under our employee stock purchase plan.*

Except as otherwise noted, all information in this prospectus is based on the following assumptions:

- *the underwriters do not exercise their over-allotment option; and*
- *the completion of our Consolidation immediately prior to the closing of this offering.*

**SUMMARY HISTORICAL AND PRO FORMA
FINANCIAL AND OTHER DATA**

We derived the selected historical financial data shown below for 1999, 2000, 2001, 2002 and 2003 and for the interim periods in 2003 and 2004 from our audited and unaudited financial statements. You should read the following financial information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our combined consolidated financial statements and the related notes, included elsewhere in this prospectus.

We have derived the summary pro forma financial data shown below from our unaudited pro forma combined consolidated financial information included elsewhere in this prospectus. The summary unaudited pro forma combined consolidated financial data is not necessarily indicative of either future results of operations or the results that would have occurred if the events we describe had occurred on the indicated dates. You should read the summary historical and pro forma financial data in conjunction with our audited combined consolidated financial statements, the unaudited pro forma combined consolidated financial information and, in each case, the related notes included elsewhere in this prospectus.

The unaudited pro forma combined consolidated financial statements as adjusted give pro forma effect to a number of factors, including the following:

- the Consolidation;
- the deemed acquisition of Comstock Service;
- the acquisition of certain minority membership interests in certain of our subsidiaries;
- the repayment of certain indebtedness;
- funding of the payment of certain S corporation distributions owed to our current stockholders by our four primary holding companies in conjunction with our Consolidation; and
- this offering.

The unaudited pro forma combined consolidated statements of operations as adjusted were prepared as if the foregoing transactions had occurred on January 1, 2003. The unaudited pro forma combined consolidated balance sheet as adjusted was prepared as if the foregoing transactions had occurred on September 30, 2004.

	Years Ended December 31,						Nine Months Ended September 30,		
	Actual					Pro Forma as Adjusted(d)	Actual		Pro Forma as Adjusted(d)
	1999	2000	2001	2002	2003	2003	2003	2004	2004
	(in thousands, except share data)								
Operating Data:									
Revenues	$ 44,898	$ 49,439	$ 50,929	$ 34,752	$ 55,521	$ 65,864	$ 23,173	$ 74,567	$ 85,881
Cost of sales	39,296	43,199	40,853	26,820	41,756	48,419	17,648	50,084	59,735
Selling, general and administrative	3,821	1,603	3,900	3,725	5,712	8,996	2,958	9,317	11,766
Operating income	1,781	4,637	6,176	4,207	8,053	8,449	2,567	15,166	14,380
Other (income) expense, net	(217)	(62)	(302)	10	(44)	(70)	(70)	283	434
Income before minority interests and equity in earnings of real estate partnerships	1,998	4,699	6,478	4,197	8,097	8,519	2,637	14,883	13,946
Minority interest	1,167	1,861	1,965	664	2,297	(61)	907	4,360	67
Income before equity in earnings of real estate partnerships	831	2,838	4,513	3,533	5,800	8,580	1,730	10,523	13,879
Equity in earnings of real estate partnerships			6	51	139	19	98	93	60
Net income (a)	$ 831	$ 2,838	$ 4,519	$ 3,584	5,939	8,599	$ 1,828	10,616	13,939
Pro forma provision for income taxes, net of minority interests					2,373(b)	3,354		2,287(b)	3,966
Pro forma net income					$ 3,566(b)	$ 5,245(d)		$ 8,329(b)	$ 9,973(d)
Historical earnings per share:									
Historical basic and diluted earnings per share	$ 325	$ 1,109	$ 1,767	$ 1,172	$ 1,669		$ 514	$ 2,984	
Historical weighted-average common shares outstanding	2,558	2,558	2,558	3,058	3,558		3,558	3,558	
Pro forma earnings per share:									
Pro forma basic and diluted earnings per share					$ 2.87(b)	$ 0.65(d)		$ 6.70(b)	$ 1.24(d)
Pro forma weighted-average common shares					1,243,558(c)	8,024,424(e)		1,243,558(c)	8,024,424(e)

	Years Ended December 31,		Nine Months Ended September 30,	
outstanding				

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	Years Ended December 31,						Nine Months Ended September 30,		
	Actual					Pro Forma	Actual		Pro Forma
	1999	2000	2001	2002	2003	2003(f)	2003	2004	2004(f)
	(in thousands, except homes)								
Supplemental Data:									
New sales contracts, net of cancellations (homes)	192	305	161	101	216	258	166	490	540
New sales contracts, value net of cancellations	$ 37,471	$ 57,161	$ 36,251	$ 28,918	$ 69,086	$ 81,278	$ 51,931	$ 170,644	$ 185,280
Average sales price per home ordered	$ 195	$ 187	$ 225	$ 286	$ 320	$ 315	$ 313	$ 348	$ 343
Homes delivered (homes)	223	234	220	124	162	211	64	208	256
Homes delivered, settlement revenue	$ 44,898	$ 41,009	$ 48,058	$ 29,397	$ 49,081	$ 62,359	$ 19,295	$ 67,649	$ 79,584
Average settlement revenue of homes delivered	$ 201	$ 175	$ 218	$ 237	$ 303	$ 296	$ 301	$ 325	$ 311
Backlog at end of period, contract value (homes)	$ 10,177	$ 23,680	$ 12,259	$ 11,480	$ 31,526	$ 36,401	$ 43,929	$ 135,442	$ 141,959

	December 31,					September 30,	
	Actual					Actual	Pro Forma as Adjusted(d)
	1999	2000	2001	2002	2003	2004	2004
	(in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 2,544	$ 6,664	$ 7,086	$ 8,695	$ 17,160	$ 15,349	$ 37,519
Real estate held for development and sale	10,779	12,889	8,573	20,192	65,272	92,067	112,843
Total assets	15,946	20,959	18,402	33,971	90,184	117,780	162,312
Notes payable	9,087	11,855	9,439	17,203	61,062	72,180	80,679
Total liabilities	12,884	17,033	13,035	21,574	71,746	88,146	99,330
Minority interest	2,433	1,318	2,390	8,790	11,413	17,526	14,789
Stockholders' equity	629	2,608	2,937	3,607	7,025	12,108	48,193

(a) Historical data does not reflect any provision for income taxes. The Comstock Companies were S corporations during the periods indicated and therefore were not subject to income tax. See "Corporate Consolidation."

(b) Pro forma net income and earnings per share reflect the application of statutory corporate income tax rates to net income as if the termination of the S corporation status of The Comstock Companies had occurred on January 1, 2003 (excluding the deemed acquisition of Comstock Service). The effective derived income tax rates for the year ended December 31, 2003 and the nine months ended September 30, 2004 were 40.0% and 38.9%, respectively.

(c) The historical shares outstanding have been adjusted to reflect the additional number of shares, on an equivalent basis, which are necessary to pay the $18.6 million S corporation distributions.

(d) Gives effect to (i) the Consolidation, (ii) the deemed acquisition of Comstock Service, (iii) the acquisition of certain minority membership interests in certain of our subsidiaries, (iv) the repayment of certain indebtedness, (v) funding of the payment of certain S corporation distributions and other amounts owed to our current stockholders by certain of our subsidiaries in conjunction with the Consolidation and (vi) this offering. See "Unaudited Pro Forma Combined Consolidated Financial Information."

(e)

Represents the number of (i) shares of Class A common stock to be issued to existing shareholders in connection with the Consolidation, (ii) shares of Class B common stock to be issued to certain existing shareholders and (iii) shares of Class A common stock to be issued in connection with this offering to the extent the proceeds from which will be used to acquire certain minority membership interests of certain of our subsidiaries, repay certain indebtedness existing as of September 30, 2004 and pay certain S corporation distributions and other amounts in conjunction with our Consolidation. See "Unaudited Pro Forma Combined Consolidated Financial Information."

(f) Includes both The Comstock Companies and Comstock Service.

RISK FACTORS

This offering and an investment in our Class A common stock involve a high degree of risk. You should carefully consider the following risks and all other information contained in this prospectus before purchasing our Class A common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected, the value of our stock could decline, and you may lose all or part of your investment. The risks and uncertainties described below are those that we currently believe may materially affect us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Risks Relating to Our Business

We engage in construction and real estate activities which are speculative and involve a high degree of risk.

The home building industry is speculative and is significantly affected by changes in economic and other conditions, such as:

- employment levels;
- availability of financing;
- interest rates; and
- consumer confidence.

These factors can negatively affect the demand for and pricing of our homes and our margin on sale. We are also subject to a number of risks, many of which are beyond our control, including:

- delays in construction schedules;
- costs overruns;
- changes in governmental regulations (such as slow- or no-growth initiatives);
- increases in real estate taxes and other local government fees;
- labor strikes;
- transportation costs for delivery of materials; and
- increases and/or shortages in raw materials and labor costs.

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

We are subject to the potential for significant fluctuations in the market value of our land and home inventories. We must constantly locate and acquire new tracts of undeveloped and developed land to support our home building operations. There is a lag between the time we acquire control of undeveloped land or developed home sites and the time that we can bring the communities built on that land to market and deliver our homes. This lag time varies from site to site as it is impossible to determine in advance the length of time it will take to obtain governmental approvals and building permits. The risk of owning undeveloped land, developed land and homes can be substantial. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions. Inventory carrying costs can be significant and can result in losses in a poorly performing development or market. Material write-downs of the estimated value of our land and home inventories could occur if market conditions deteriorate or if we purchase land or build home inventories at higher prices during stronger economic periods and the value of those land or home inventories subsequently declines during weaker economic periods. We could also

be forced to sell homes, land or lots for prices that generate lower profit than we anticipate, or at a loss, and may not be able to dispose of an investment in a timely manner when we find dispositions advantageous or necessary. Furthermore, a decline in the market value of our land or home inventories may give rise to a breach of financial covenants contained in one or more of our credit facilities, which could cause a default under those credit facilities.

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

Due to increased demand for new homes, we have experienced an increase in competition for available land and developed home sites in the Washington, D.C. and Raleigh, North Carolina markets. In these markets, we have experienced competition for home sites from other, sometimes better capitalized, home builders. In the Raleigh, North Carolina market, we have recently experienced competition from large, national home builders entering the market. Our ability to continue our home building activities over the long term depends upon our ability to locate and acquire suitable parcels of land or developed home sites to support our home building operations. As competition for land increases, the cost of acquiring it may rise, and the availability of suitable parcels at acceptable prices may decline. The increased cost of land requires us to increase the prices of our homes. This increased pricing could reduce demand for our homes and, consequently, reduce the number of homes we sell and lead to a decrease in our revenues and earnings.

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

We are subject to extensive and complex laws and regulations that affect the land development and home building process, including laws and regulations related to zoning, permitted land uses, levels of density (number of dwelling units per acre), building design, access to water and other utilities, water and waste disposal and use of open spaces. In addition, we and our subcontractors are subject to laws and regulations relating to worker health and safety. We also are subject to a variety of local, state and federal laws and regulations concerning the protection of health and the environment. In some of our markets, we are required to pay environmental impact fees, use energy saving construction materials and give commitments to provide certain infrastructure such as roads and sewage systems. We must also obtain permits and approvals from local authorities to complete residential development or home construction. The laws and regulations under which we and our subcontractors operate, and our and their obligations to comply with them, may result in delays in construction and development, cause us to incur substantial compliance and other increased costs, and prohibit or severely restrict development and home building activity in certain areas in which we operate. If we are unable to continue to develop communities and build and deliver homes as a result of these restrictions or if our compliance costs increase substantially, our revenues and earnings may be reduced and we may not be able to continue our current level of growth.

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

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

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

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

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

Most home buyers finance their purchases through third-party mortgage financing. Real estate demand is generally adversely affected by:

- increases in interest rates and/or related fees;
- increases in real estate transaction closing costs;
- decreases in the availability of mortgage financing;
- increasing housing costs;
- unemployment; and
- changes in federally sponsored financing programs.

Increases in interest rates or decreases in the availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs or the unavailability of financing to potential home buyers. Even if potential home buyers do not need financing, increases in interest rates and decreased mortgage availability could make it harder for them to sell their homes. This could adversely affect our operating results and financial condition.

The competitive conditions in the home building industry could increase our costs, reduce our revenues and earnings and otherwise adversely affect our results of operations or limit our growth.

The home building industry is highly competitive and fragmented. We compete in each of our markets with a number of national, regional and local builders for customers, undeveloped land and home sites, raw materials and labor. In the Washington, D.C. market, we compete against approximately 15 to 20 publicly-traded national home builders, approximately 10 to 15 privately-owned regional home builders, and many local home builders, some of whom are very small and may build as few as five to 25 homes per year. In the Raleigh, North Carolina market, we compete against approximately 10 to 15 publicly-traded national home builders, approximately 10 to 15 privately-owned regional home builders, and a large number of small, local home builders. We do not compete against all of the builders in our geographic markets in all of our product types or submarkets, as some builders focus on particular types of projects within those markets, such as large estate homes, that are not in competition with our projects.

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

- make it difficult for us to acquire suitable land or home sites in desirable locations at acceptable prices and terms, which could adversely affect our ability to build homes;

- require us to increase selling commissions and other incentives, which could reduce our profit margins;
- result in delays in construction if we experience delays in procuring materials or hiring trades people or laborers;
- result in lower sales volume and revenues; and
- increase our costs and reduce our earnings.

We also compete with resales of existing homes and condominiums and available rental housing. An oversupply of competitively priced resale or rental homes in our markets could adversely affect our ability to sell homes profitably.

Our business is concentrated in two geographic areas which increases our exposure to localized risks.

We currently develop and sell homes principally in the Washington, D.C. and Raleigh, North Carolina markets. Our limited geographic diversity means that adverse general economic, weather or other conditions in either of these markets could adversely affect our results of operations or our ability to grow our business.

Our growth strategy to expand into new geographic areas poses risks.

We may expand our business to new geographic areas outside of the Washington, D.C. and Raleigh-Durham, North Carolina metropolitan areas. We will face additional risks if we develop communities in geographic areas or climates in which we do not have experience or if we develop a different size or style of community than those currently being developed, including:

- adjusting our construction methods to different geographies and climates;
- obtaining the necessary construction materials and labor in sufficient amounts and on acceptable terms;
- obtaining necessary entitlements and permits under unfamiliar regulatory regimes;
- attracting potential customers in a market in which we do not have significant experience; and
- the cost of hiring new employees and increased infrastructure costs.

We may not be able to successfully manage the risks of such an expansion, which could have a material adverse effect on our revenues, earnings and financial condition.

We may not be able to successfully identify, complete or integrate acquisitions.

As part of our business strategy, we expect to review acquisition prospects in our existing markets and in new markets in the Mid-Atlantic region or elsewhere that would complement our existing business, or that might otherwise offer growth opportunities. We have not currently identified any acquisition targets, and we may not be successful in identifying suitable acquisition targets or in completing acquisitions. Further, to the extent we complete acquisitions, we may be unable to realize the anticipated benefits because of operational factors or difficulties in integrating the acquisitions with our existing business. Acquisitions entail numerous risks, including, but not limited to:

- difficulties in assimilating acquired management and operations;
- risks associated with investing the necessary resources in order to achieve profitability;

the incurrence of significant due diligence expenses relating to acquisitions that are not completed;

- unforeseen expenses and liabilities;
- risks associated with entering new markets or sub-markets in which we have limited or no prior experience;
- the diversion of our management's attention from our current business;
- the potential loss of key employees of acquired organizations; and
- risks associated with transferred assets and liabilities.

We may not be able to acquire or manage profitably additional businesses, or to integrate successfully any acquired businesses, properties or personnel into our business, without substantial costs, delays or other operational or financial difficulties. Our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

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

Our success largely depends on the continuing services of certain key employees, including our Chairman and Chief Executive Officer, Christopher Clemente, Gregory Benson, our President and Chief Operating Officer, and Bruce Labovitz, our Chief Financial Officer. Our continued success also depends on our ability to attract and retain qualified personnel. We believe that Messrs. Clemente, Benson and Labovitz each possesses valuable industry knowledge, experience and leadership abilities that would be difficult in the short term to replicate. The loss of these or other key employees could harm our operations and business plans.

Mr. Clemente may devote a portion of his time to his personal business interests, which may reduce the amount of time he devotes to the Company.

Following the completion of this offering, Mr. Clemente will retain certain personal business interests. The Company may be disadvantaged to the extent that Mr. Clemente does not devote substantially all of his time to the business of the Company.

Our significant level of debt could adversely affect our financial condition and prevent us from fulfilling our debt service obligations.

We currently have a significant amount of debt, and our ability to meet our debt service obligations will depend on our future performance. Numerous factors outside of our control, including changes in economic or other business conditions generally, such as employment levels, population growth and consumer confidence, or in the markets or industry in which we do business, may adversely affect our operating results and cash flows, which in turn may affect our ability to meet our debt service obligations. As of September 30, 2004, on an unaudited pro forma as adjusted basis, we had $80.7 million aggregate principal amount of total debt outstanding, or 167% of our total pro forma as adjusted shareholders' equity as of that date. We may incur additional debt to fund our operations.

For the nine months ended September 30, 2004, our interest payments on account of outstanding indebtedness totaled $3.0 million or 4.0% of our total revenues for that period. Our total anticipated interest payment obligations for the 12 months beginning January 1, 2004 are $5.0 million on a pro forma basis, after giving effect to the consummation of this offering, including the anticipated repayment of approximately $3.0 million of indebtedness from the net proceeds of this offering. If we are unable to meet our debt service obligations, we may need to restructure or refinance our debt, seek additional equity financing or sell assets. We may be unable to restructure or refinance our debt, obtain additional equity financing or sell assets on satisfactory terms or at all. In addition, a substantial portion of our cash flow from operations must be dedicated to the repayment of debt, including

interest, thereby reducing the funds available to us for other purposes. Our level of debt may limit our flexibility to adjust to changing economic or market conditions, reduce our ability to withstand competitive pressures and make us more vulnerable to a downturn in general economic conditions.

Our growth requires additional capital, which may not be available.

The real estate development industry is capital intensive and requires significant expenditures for land purchases, land development and construction. We intend to pursue a strategy of continued investment in additional real estate related projects. We anticipate that we will need to obtain additional financing as we expand our operations. These funds may be obtained through public or private debt or equity financings, additional bank borrowings or from strategic alliances or joint ventures. We may not be successful in obtaining additional funds in a timely manner, on favorable terms or at all. Moreover, certain of our bank financing agreements contain provisions that limit the type and amount of debt we may incur in the future without our lenders' consent. In addition, the availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced, and lenders may require us to invest increased amounts of equity in a project in connection with both new loans and the extension of existing loans. If we do not have access to additional capital, we may be required to delay, scale back or abandon some or all of our acquisition plans or growth strategies or reduce capital expenditures and the size of our operations.

Our growth depends on the availability of construction, acquisition and development loans.

Currently, we have multiple construction, acquisition and development loans. We plan to replace these credit facilities with one or more larger facilities, which is expected to reduce our aggregate debt financing costs. If we are unable to obtain a larger facility, we will need to continue to rely on our smaller credit facilities. These smaller credit facilities generally have higher costs and require significant management time to administer them. Additionally, if financial institutions decide to discontinue providing these facilities to us, we would lose our primary source of financing our operations or the cost of retaining or replacing these credit facilities could increase dramatically. Further, this type of financing is typically characterized by short-term loans which are subject to call. If our primary financing becomes unavailable or accelerated repayment is demanded, we may not be able to meet our obligations.

Our bank credit facilities impose restrictions on our operations, which, if violated, could result in our indebtedness being immediately due and payable and the loss of our assets.

Our bank credit facilities impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, lien incurrence, sales of significant assets and cash distributions and require us to comply with certain financial covenants. If we fail to comply with any of these restrictions or covenants, the banks could cause our debt to become payable immediately. In addition, some of our debt instruments contain cross-default provisions, which could cause a default under a number of debt instruments if we default on only one debt instrument. Most of our credit facilities are secured by the land, improvements and fixtures owned by the entity that is party to the facility. If we were unable to repay indebtedness owed to our secured creditors, they could foreclose on the collateral securing that indebtedness.

A significant portion of our business plan involves construction of mixed-use developments and high-rise projects with which we have less experience.

We expect to increase our construction and development of mixed-use and high-rise residential projects. Our experience is largely based on smaller wood-framed structures that are less complex than high-rise construction or the development of mixed-use projects. A mixed-use project is one that integrates residential and non-residential uses in the same structure or in close proximity to each other,

on the same land. As we expand into these new product types, we expect to encounter operating, marketing, customer service, warranty and management challenges with which we have less familiarity. Although we have expanded our management team to include individuals with significant experience in this type of real estate development, we have not completed any projects managed by these persons. If we are unable to successfully manage the challenges of this portion of our business, we may incur additional costs and our results of operations could be adversely affected.

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

We and the home building industry from time to time may be affected by circumstances beyond our control, including:

- work stoppages, labor disputes and shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers;

- lack of availability of adequate utility infrastructure and services;

- transportation cost increases;

- our need to rely on local subcontractors who may not be adequately capitalized or insured; and

- shortages or fluctuations in prices of building materials.

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

We depend on the availability and skill of subcontractors.

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

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

Our home building business is subject to construction defect and product liability claims arising in the ordinary course of business. These claims are common in the home building industry and can be costly. Among the claims for which developers and builders have financial exposure are property damage, environmental claims and bodily injury claims. Damages awarded under these suits may include the costs of remediation, loss of property and health-related bodily injury. In response to increased litigation, insurance underwriters have attempted to limit their risk by excluding coverage for

certain claims associated with environmental conditions, pollution and product and workmanship defects. As a developer and a home builder, we may be at risk of loss for mold-related property, bodily injury and other claims in amounts that exceed available limits on our comprehensive general liability policies. In addition, the costs of insuring against construction defect and product liability claims are high and the amount of coverage offered by insurance companies is limited. Uninsured product liability and similar claims, claims in excess of the limits under our insurance policies and the costs of obtaining insurance to cover such claims could have a material adverse effect on our revenues and earnings.

Increased insurance risk could negatively affect our business.

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

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

We provide service warranties on our homes for a period of one year or more post closing and a structural warranty for five years post closing. We self-insure all of our warranties and reserve an amount we believe will be sufficient to satisfy any warranty claims on homes we sell. We also attempt to pass much of the risk associated with potential defects in materials and workmanship on to the subcontractors performing the work and the suppliers and manufacturers of the materials. In such cases, we still may incur unanticipated costs if a subcontractor, supplier or manufacturer fails to honor its obligations regarding the work or materials it supplies to our projects. If the amount of actual claims materially exceeds our aggregate warranty reserves and/or the amounts we can recover from our subcontractors and suppliers, our operating results would be adversely affected.

Our business, revenues and earnings may be adversely affected by adverse weather conditions or natural disasters.

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

We are subject to certain environmental laws and the cost of compliance could adversely affect our business.

As a current or previous owner or operator of real property, we may be liable under federal, state, and local environmental laws, ordinances and regulations for the costs of removal or remediation of hazardous or toxic substances on, under or in the properties or in the proximity of the properties we

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

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

If we are not able to develop our communities successfully, our earnings could be diminished.

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

Our operating results may vary.

We expect to experience variability in our revenues and net income. Factors expected to contribute to this variability include, among other things:

- the uncertain timing of real estate closings;
- our ability to continue to acquire additional land or options thereon on acceptable terms and the timing of all necessary regulatory approvals required for development;
- the condition of the real estate market and the general economy in the Washington D.C. and Raleigh, North Carolina markets, and other markets we may enter;
- the cyclical nature of the home building industry;
- the changing regulatory environment concerning real estate development and home building;
- changes in prevailing interests rates and the availability of mortgage financing; and
- costs of material and labor and delays in construction schedules.

The volume of sales contracts and closings typically varies from month to month and from quarter to quarter depending on several factors, including the stages of development of our projects, weather and other factors beyond our control. In the early stages of a project's development, we incur

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significant start-up costs associated with, among other things, project design, land acquisition and development, construction and marketing expenses. Since revenues from sales of properties are generally recognized only upon the transfer of title at the closing of a sale, no revenue is recognized during the early stages of a project unless land parcels or residential homesites are sold to other developers. Periodic sales of properties may be insufficient to fund operating expenses. Further, if sales and other revenues are not adequate to cover operating expenses, we will be required to seek sources of additional operating funds. Accordingly, our financial results will vary from community to community and from time to time.

Acts of war or terrorism may seriously harm our business.

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

Being a public company will increase our administrative costs.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, have required changes in corporate governance practices of public companies. In addition to final rules and rule proposals already made by the Securities and Exchange Commission, the National Association of Securities Dealers, or NASD, has adopted revisions to its requirements for companies that are listed on the Nasdaq National Market. We expect these new rules and regulations to increase our legal and financial compliance costs, and to make some activities more time consuming and/or costly. For example, in anticipation of becoming a public company we will add personnel, particularly accounting staff, add independent directors, create board committees, adopt additional internal controls and disclosure controls and procedures, retain a transfer agent and a financial printer, adopt an insider trading policy and other corporate governance policies, and will have all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

Being a public company will require us to significantly enhance our controls over the preparation of financial statements in order to ensure the detection, in a timely manner, of misstatements that could occur in our financial statements in amounts that may be material.

Our independent auditors have reported material weaknesses in our internal controls that, if not remedied, could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our stock. In connection with the audit of the combined consolidated financial statements of our three holding companies for the three years ended December 31, 2003, in July 2004 our independent auditors reported to our Board of Directors several matters that are "reportable conditions" and "material weaknesses" in our internal controls as defined in standards established by the American Institute of Certified Public Accountants. In general, the reportable conditions are significant deficiencies in our internal controls that, if not addressed, could adversely affect our ability to record, process, summarize

and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which internal controls do not reduce to a low level the risk that undetected misstatements caused by error or fraud may occur in amounts that are material to audited financial statements.

The conditions resulting in the material weaknesses gave rise to a number of adjustments under generally acceptable accounting principles, and adjustments relating to the completeness and accuracy of certain underlying data, which materially changed our financial statements between initial presentation and issued audit. The material weaknesses reported in July 2004 to our Board of Directors in connection with their audit of our financial statements for the three years ended December 31, 2003, are summarized below:

Our accounting software system had significant limitations with respect to the process of preparing combined consolidated financial statements.

Our policies and procedures with respect to record retention were deemed inadequate. In addition, we needed to enhance our policies and procedures with respect to the formal review and documentation by management of business performance.

We needed to improve our in-house accounting staff in preparation for the requirements of financial reporting as a public company.

Our policies and procedures with respect to the capitalization of selling, general and administrative costs as real estate held for development and sale and released into cost of sales at settlement were deemed to be inaccurate. The result of the inaccurate capitalization of selling, general and administrative expenses was that accurate reporting of expenses was delayed. This change in policy affected the timing of reported profits, not cumulative project profits. Since the three-year audit presented herein is the first combined consolidated audit of the Comstock Companies there was no restatement associated with this change in policy and procedure.

Our policies and procedures for period end cut-off were deemed to be insufficient to properly present the financial position of the company with respect to accrued expenses. The result of the inaccurate accrual and release of completion expenses was that accurate reporting of profits was delayed. This change in policy affected the timing of reported profits, not cumulative project profits. Since the three-year audit presented herein is the first combined consolidated audit of the Comstock Companies there was no restatement associated with this change in policy and procedure.

Our policies and procedures with respect to the approval and documentation of related party transactions needed to be formalized so that we could ensure the fairness of these transactions and proper disclosure of these transactions in our financial statements.

As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations Internal Control over Financial Reporting," we have employed additional qualified personnel and adopted and implemented policies and procedures to address the material weaknesses which include the promotion of our Vice President of Finance to the position of Chief Financial Officer and the hiring of a Chief Accounting Officer. However, the process of designing and implementing effective internal controls and procedures is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company.

Upon completion of this offering, we will have had only limited operating experience with the remedial measures we have made to date and we cannot be certain that the measures we have taken to

date or any future measures will adequately remediate the material weaknesses reported by our independent auditors or that the measures we implement will enable us to maintain adequate controls over our financial processes and reporting in the future. Our independent auditors have not formally evaluated the measures we have taken to address the material weaknesses described above. In addition, we cannot be certain that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future. Any failure to remediate the material weaknesses reported by our independent auditors or to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations, subject us to increased risk of errors and fraud related to our financial statements or result in material misstatements in our financial statements. Any such failure also could adversely affect the results of the periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our "internal control over financial reporting" that will be required when the Securities and Exchange Commission's rules under Section 404 of the Sarbanes-Oxley Act of 2002 become applicable to us beginning with our Annual Report on Form 10-K for the year ending December 31, 2005 to be filed in early 2006. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

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

Our Chief Executive Officer and Chairman of the Board, Christopher Clemente, has licensed the "Comstock" brand and trademark to us in perpetuity and free of charge. We do not own the brand or the trademark and may be unable to protect it against infringement from third parties. However, Mr. Clemente retains the right to continue using the "Comstock" brand and trademark individually and through affiliates, including in real estate development projects in our current or future markets. We will be unable to control the quality of projects undertaken by Mr. Clemente or others using the "Comstock" brand and trademark and therefore will be unable to prevent any damage to its goodwill that may occur. We will further be unable to preclude Mr. Clemente from licensing or transferring the ownership of the "Comstock" trademark to third parties, some of whom may compete against us. Consequently, we are at risk that our brand could be damaged which could have a material adverse effect on our business and operations.

Risks Related to this Offering

There has been no public market, and it is possible that no trading market will develop or be maintained, for our Class A common stock, and you may not be able to resell shares of our Class A common stock for an amount equal to or more than your purchase price.

Prior to this offering there has not been a public market for our Class A common stock. Although it is anticipated that the Class A common stock will be approved for quotation on the Nasdaq National Market, there can be no assurance that a trading market will develop or, if such a market does develop, how liquid that market might become, or whether it will be maintained. The initial public offering price will be determined by negotiation between the representatives of the underwriters and us and may not be indicative of prices that will prevail in the trading market. If an active trading market fails to develop or be maintained you may be unable to sell the shares of Class A common stock purchased in this offering at an acceptable price or at all.

Volatility of our stock price could adversely affect stockholders.

The market price of our Class A common stock could fluctuate significantly as a result of:

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

Fluctuations in the price of our Class A common stock could contribute to the loss of all or part of your investment. Furthermore, any of the factors listed above could have a material adverse effect on your investment in our Class A common stock and our Class A common stock may trade at prices significantly below the offering price.

You will experience immediate and significant dilution in the book value per share and will experience further dilution with the future exercise of stock options and the grant of restricted stock.

If you purchase Class A common stock in this offering, you will incur immediate dilution, which means that:

- you will pay a price per share that exceeds by $10.47 the per share net tangible book value of our assets immediately following the offering (on a pro forma basis as of September 30, 2004); and

the investors in the offering will have contributed 100% of the total amount to fund us (before deducting the estimated underwriting discounts and commissions and offering expenses) but will own only 33.8% of our outstanding shares of our common stock.

From time to time, we may issue stock options or restricted stock grants to employees and non-employee directors pursuant to our equity incentive plan. We expect that these options or restricted stock grants will generally vest commencing one year from the date of grant and continue vesting over a three-year period. You will experience further dilution as the options vest and are exercised by their holders and the restrictions lapse on the restricted stock grants.

Future sales, or the availability for sale, of our common stock may cause our stock price to decline.

In connection with this offering, we, along with our officers, directors and stockholders, will have agreed prior to the commencement of this offering, subject to limited exceptions, not to sell or transfer any shares of common stock for 180 days after the date of this prospectus without the underwriters' consent. However, the underwriters may release these shares from these restrictions at any time. In evaluating whether to grant such a request, the underwriters may consider a number of factors with a view toward maintaining an orderly market for, and minimizing volatility in the market price of, our Class A common stock. These factors include, among others, the number of shares involved, recent trading volume and prices of the stock, the length of time before the lock-up expires and the reasons for, and the timing of, the request. We cannot predict what effect, if any, market sales of shares held by any stockholder or the availability of these shares for future sale will have on the market price of our Class A common stock.

Commencing one year after the date of this prospectus, existing stockholders may begin selling a portion of their shares of Class A common stock in the public market in accordance with the provisions of Rule 144 under the Securities Act. Sales of substantial amounts of our Class A common stock in the public market after the completion of this offering, or the perception that such sales could occur, could adversely affect the market price of our Class A common stock and could materially impair our future ability to raise capital through offerings of our common stock. See "Shares Eligible for Future Sale" on page 96 for a more detailed description of the restrictions on selling shares of our common stock after this offering.

There may be conflicts of interest arising out of relationships and transactions between us and third-party entities in which certain of our directors and officers have interests.

We have entered into a number of transactions with related parties, including with entities in which certain of our directors and executive officers have interests. For example, effective October 1, 2004 we lease our corporate headquarters facility from an entity in which Christopher Clemente, our Chairman and Chief Executive Officer, owns a 100% interest. We have also entered into other transactions with related parties. These related party transactions could cause conflicts of interest between us and the other parties to the transaction, which could lead to less favorable results than if the transactions had been with unrelated parties. See "Certain Relationships and Related Transactions."

The holders of our Class B common stock will continue to control us after this offering, which will limit your ability to influence corporate matters.

After this offering, Messrs. Clemente and Benson will own 100% of our outstanding Class B common stock, which will represent 89.4% of the combined voting power of all classes of our voting stock, or 88.3% of the combined voting power of all classes of our voting stock if the underwriters exercise their over-allotment option in full. As a result, Messrs. Clemente and Benson, acting together, will have control over us, the election of our board of directors and our management and policies. Messrs. Clemente and Benson, acting together, will also have control over all matters requiring stockholder approval, including the amendment of certain provisions of our certificate of incorporation and bylaws, the approval of any equity-based employee compensation plans and the approval of fundamental corporate transactions, including mergers. In light of this control, other companies could be discouraged from initiating a potential merger, takeover or any other transaction resulting in a change of control. Such a transaction potentially could be beneficial to our business or to our stockholders. This may in turn reduce the price that investors are willing to pay in the future for shares of our Class A common stock.

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

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

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

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

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

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

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

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 20,000,000 shares of preferred stock, par value $.01 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders, even where stockholders are offered a premium for their shares. The issuance of shares of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of Class A common stock, including the loss of voting control. We have no present plans to issue any shares of preferred stock.

We have broad discretion in how we use the net proceeds from this offering and ultimately may not use them effectively.

We expect to use the net proceeds received from this offering to acquire minority membership interests in certain of our subsidiaries, to repay certain indebtedness, to fund the payment of all or a portion of certain S corporation distributions and other amounts owed to our current stockholders by certain of our subsidiaries in conjunction with our Consolidation, to fund future acquisitions and for general corporate purposes. We could use these proceeds in ways which our stockholders may not desire and the failure of our management to use such funds effectively could result in unfavorable returns. This could have a material adverse effect on our financial condition, results of operations and stock price.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus include forward-looking statements. 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 including certain risks described in this prospectus. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this prospectus. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include:

- general economic and market conditions, including interest rate levels;
- our ability to service our 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;
- our continuing relationship with affiliates; and
- the other risks described under the heading "Risk Factors."

Many of these factors are beyond our control. For a discussion of factors that could cause actual results to differ, please see the discussion in the section of this prospectus entitled "Risk Factors."

USE OF PROCEEDS

We expect to receive approximately $48.3 million in net proceeds from the sale of the 3,600,000 shares of Class A common stock in this offering, assuming that the initial public offering price is $15 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We expect to receive approximately $55.9 million in net proceeds if the underwriters' over-allotment option is exercised in full.

We intend to use the net proceeds of this offering as follows:

- approximately $7.3 million to purchase certain outstanding minority membership interests of certain of our subsidiaries, of which approximately $150,000 will be paid to Gary Martin, one of our director-nominees, approximately $120,000 will be paid to the mother-in-law of Christopher Clemente, our Chairman and Chief Executive Officer, and approximately $60,000 will be paid to Lawrence Golub, one of our four current shareholders;

- approximately $8.5 million to fund payment of all or a portion of certain S corporation distributions and other amounts owed to our current shareholders by our four primary holding companies in conjunction with our Consolidation, as more fully discussed under "S Corporation Distributions" on page 27;

- approximately $3.0 million to repay indebtedness and premium interest to an unsecured lender consisting of $2.5 million of principal of a $5.0 million loan incurred on April 30, 2004 for the purpose of providing us working capital, accruing interest at 12% per annum and due upon the earlier of April 30, 2007 or, at the option of the lender, at the closing of our Consolidation with a 10% early retirement premium, or $500,000, if our Consolidation occurs within 12 months of the date of the loan;

- to fund existing projects and to acquire new land for development and home building purposes; and

- general corporate purposes, including working capital, and capital expenditures made in the ordinary course of business.

We may also use a portion of the net proceeds of this offering to acquire companies or to establish joint ventures that we believe will complement our current or future business. However, we have no specific plans, agreements or commitments, oral or written, to do so. We are not currently engaged in any substantive negotiations for any acquisition or joint venture. The amounts that we actually expend for working capital purposes will vary significantly depending on a number of factors, including future revenue growth, if any, and the amount of cash we generate from operations. As a result, we will retain broad discretion in the allocation of the net proceeds of this offering.

Pending the uses described above, we will invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

We are a recently organized entity and have never paid cash dividends on our Class A common stock. We intend to retain any future earnings to fund the development and growth of our business, and we do not anticipate paying any cash dividends in the future.

CORPORATE CONSOLIDATION

Current operations. Immediately prior to this offering, we operated our business through four primary holding companies, each of which has been taxed as a Subchapter S corporation since its formation. Each of these companies is owned by our four current stockholders in unequal percentages that are substantially similar in the case of each of the four companies. Our primary holding companies immediately prior to this offering were:

Comstock Holding Company, Inc.,

Comstock Homes, Inc.,

Sunset Investment Corp., Inc., and

Comstock Service Corp., Inc.

Each of these primary holding companies is a Virginia corporation. As of September 30, 2004, these companies owned, directly or indirectly, either all or a majority of the outstanding membership interests in 18 active project level limited liability companies (LLCs) which in turn operated one or more projects. Immediately prior to this offering, seven of these LLCs were wholly owned by one of our primary holding companies and 11 were majority owned by one of our primary holding companies. The owners of the minority interests, directly or indirectly, in the applicable LLCs are individuals or financial institutions that have invested in one or more of our real estate projects. Proceeds raised from these investors have represented an important part of our working capital funding to date. Pursuant to the terms of the operating agreements of the parent entities of the applicable LLCs, we intend to purchase all of the minority interests in four of the eleven majority-owned LLCs at purchase prices set forth in the operating agreements. We intend to use approximately $7.3 million of the net proceeds of this offering to fund the purchases of the minority interests. Of this amount, approximately $150,000 will be paid to Gary Martin, one of our director-nominees, approximately $120,000 will be paid to Christopher Clemente's mother-in-law, and approximately $60,000 will be paid to Lawrence Golub, one of our four current shareholders.

Consolidation. Prior to the closing of this offering, Comstock Homebuilding Companies, Inc., a Delaware corporation, which is selling shares of Class A common stock to the public in this offering, will acquire Comstock Holding Company, Inc. by merger following the Consolidation. The Consolidation will be effected through the mergers of Comstock Service Corp., Inc., Sunset Investment Corp., Inc. and Comstock Homes, Inc. with and into Comstock Holding Company, Inc. As a result of the Consolidation, the number of our primary holding companies will be reduced from four to one. The Consolidation will not materially affect our operations, which we will continue to conduct through LLCs and holding companies, as applicable, wholly owned by us. In connection with the Consolidation, each of the four primary holding companies will distribute promissory notes to its shareholders in an amount equal to its S corporation accumulated adjustments account and undistributed tax basis in affiliated entities, if any, as of the date on which the notes are issued and certain other amounts advanced by the shareholders to these companies relating to costs incurred by the companies in connection with this offering. We intend to use a portion of the net proceeds of this offering to fund distributions to the shareholders of the primary holding companies in payment of all or a portion of the amounts that are due and payable under the promissory notes. If we were to pay the entire outstanding balance of the promissory notes, the aggregate payment would be approximately $18.6 million. See "S Corporation Distributions." The Subchapter S tax elections of the four primary holding companies will automatically be terminated as a result of the Consolidation.

Accounting. Statement of Financial Accounting Standards No. 141, "Business Combinations," or SFAS No. 141, and common practice exclude transfers of net assets or exchanges of shares between entities under common control and situations where transfers lack substance. Comstock Holding Company, Inc., Comstock Homes, Inc., and Sunset Investment Corp., Inc. are wholly owned by our common stockholders with identical ownership interests and accordingly, we will account for the net assets received at the historical carrying amounts at the date of transfer.

Although Comstock Service is also wholly owned by our common stockholders, the individual ownership percentages are different from those in Comstock Holding Company, Inc., Comstock Homes, Inc. and Sunset Investment Corp., Inc., as follows:

	Comstock Holding Company, Inc. Comstock Homes, Inc. Sunset Investment Corp., Inc.	Comstock Service Corp., Inc.
Christopher Clemente	37.5%	40.0%
Gregory Benson	37.5%	40.0%
Lawrence Golub	15.0%	15.0%
James Keena	10.0%	5.0%

Because of the disparity between the individual ownership percentages, we believe the merger of Comstock Service Corp., Inc. to be a substantive exchange, which would be more appropriately accounted for as a purchase under SFAS No. 141, rather than at historical carrying amounts.

The following charts illustrate our organizational structure immediately before and after the Consolidation:

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S CORPORATION DISTRIBUTIONS

Our four primary holding companies prior to this offering have elected to be treated for U.S. federal and certain state income tax purposes as S corporations under Subchapter S of the Internal Revenue Code of 1986 and comparable state laws. As a result, our earnings have been taxed for U.S. federal and, in the case of certain states, state income tax purposes directly to the shareholders of these companies rather than to the companies, leaving the shareholders responsible for paying income taxes on these earnings.

In connection with the Consolidation, the four primary holding companies expect to make distributions to their current shareholders representing payment of undistributed S corporation accumulated adjustment accounts and undistributed tax basis in affiliated entities, if any, and certain amounts advanced by the shareholders to the four primary holding companies relating to costs incurred by those companies in connection with this offering. The distributions will be in the form of promissory notes issued by the four primary holding companies to their current shareholders. The notes will be due and payable 12 months from the date of issuance and will accrue interest at the applicable federal rate, as computed for federal income tax purposes. We estimate that the distribution from the proceeds of this offering will be approximately $8.5 million. The actual amount of the distribution will depend on the amount of our earnings through the promissory note issuance date. We intend to use a portion of the net proceeds of this offering to fund distributions to the shareholders of the primary holding companies in payment of all or a portion of the amounts that are due and payable under the promissory notes. If we were to pay the entire outstanding balance of the promissory notes, the aggregate payment would be approximately $18.6 million.

We will also enter into a tax indemnification agreement with the shareholders of the four primary operating subsidiaries, the form of which will be filed as an exhibit to the registration statement of which this prospectus forms a part. Although we believe that the four primary operating subsidiaries have met the requirements for S corporation status, the agreement will provide for, among other things, the shareholders of the four primary operating subsidiaries to indemnify us for any additional U.S. federal and state income taxes, including interest and penalties, incurred by us if for any reason any of the primary operating subsidiaries are deemed to have been a C corporation during any period in which they reported taxable income as an S corporation. The tax indemnification obligation of the shareholders of the four primary operating subsidiaries will be limited to an amount equal to the net tax benefit received by the shareholders resulting from the deemed C corporation status of any of the primary operating subsidiaries plus the following amounts: (i) $750,000 in the aggregate in the case of each of Messrs. Clemente and Benson and (ii) $500,000 in the aggregate in the case of each of Messrs. Golub and Keena. The agreement will also provide for payment by the shareholders of the four primary operating subsidiaries to any of the primary operating subsidiaries and by any of the primary operating subsidiaries to the shareholders of the four primary operating subsidiaries to adjust for any increases or decreases in tax liability arising from a tax audit that affects our tax liability and results in a corresponding adjustment to the tax liability of the shareholders of the four primary operating subsidiaries. The amount of any payment cannot exceed the amount of refund received by any of the primary operating subsidiaries or the shareholders of the four primary operating subsidiaries attributable to the adjustment in tax liability. If we are required to make substantial payments under this tax indemnification agreement, it could adversely affect our financial condition. The indemnification obligations of the shareholders of the four primary operating subsidiaries under the tax indemnification agreement are several and not joint.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2004. We present capitalization:

- On an actual basis;

- On a pro forma basis reflecting adjustments to our historical financial data to give effect to the Consolidation, the deemed acquisition of Comstock Service and recognition of a liability for the estimated amount of previously recognized and undistributed S corporation income accumulated through September 30, 2004 to be paid from the proceeds of the offering, but without giving effect to the offering proceeds, as if each had occurred on September 30, 2004;

- On a pro forma as adjusted basis reflecting additional pro forma adjustments to give effect to the acquisition of certain minority interests, repayment of certain indebtedness, payment of certain S corporation distributions and the consummation of the offering as if each had occurred on September 30, 2004. See "Unaudited Pro Forma Combined Consolidated Financial Information."

	September 30, 2004		
	Actual	Pro Forma	Pro Forma as Adjusted
	(amounts in thousands, except share data)		
Cash and cash equivalents	$ 15,349	$ 17,047	$ 37,519
Minority interest	17,526	19,966	14,789
Notes payable	72,180	103,666	80,679
Stockholders' equity:			
Common stock			
Common stock, $1.00 par value, 5,000 shares authorized (actual), no shares authorized (pro forma) and no shares authorized (pro forma as adjusted); 3,558 shares issued and outstanding (actual), 3,558 shares issued and outstanding (pro forma) and no shares issued and outstanding (pro forma as adjusted)	3	3	
Class A common stock, $.01 par value, no shares authorized (actual), 77,266,500 shares authorized (pro forma) and 77,266,500 shares authorized (pro forma as adjusted); no shares issued and outstanding (actual), 4,333,167 shares issued and outstanding (pro forma) and 7,933,167 shares issued and outstanding (pro forma as adjusted)			79
Class B common stock, $.01 par value, no shares authorized (actual), 2,733,500 shares authorized (pro forma) and 2,733,500 shares authorized (pro forma as adjusted); no shares issued and outstanding (actual), 2,733,500 shares issued and outstanding (pro forma) and 2,733,500 shares issued and outstanding (pro forma as adjusted)			27
Preferred stock, $.01 par value, no shares authorized (actual), 20,000,000 shares authorized (pro forma) and 20,000,000 shares authorized (pro forma as adjusted); no shares issued and outstanding (actual), no shares issued and outstanding (pro forma) and no shares issued and outstanding (pro forma as adjusted)			
Additional paid-in capital	1,493	6,594	54,810
Retained earnings (accumulated deficit)	10,612	(6,723)	(6,723)

	September 30, 2004		
Total stockholders' equity	12,108	(126)	48,193
Total capitalization	$ 101,814	$ 123,506	$ 143,661

Our capitalization information represented above excludes:

1,550,000 shares of Class A common stock available for issuance pursuant to our equity incentive plan, of which no shares are subject to outstanding options as of September 30, 2004; and

200,000 shares of Class A common stock reserved for future issuances under our employee stock purchase plan.

DILUTION

If you invest in our Class A common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our Class A common stock and the pro forma as adjusted net tangible book value per share of Class A common stock after giving effect to this offering.

As of September 30, 2004, our net tangible book value was approximately $12.1 million or $3,403 per share of common stock. Net tangible book value on a pro forma basis as of September 30, 2004 was $(126) or $(0.02) per share of common stock. "Net tangible book value" per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the number of shares of common stock outstanding. As of September 30, 2004, our net tangible book value, on a pro forma as adjusted basis for the sale of 3,600,000 shares of our Class A common stock, based on an assumed initial public offering price of $15 per share and after deducting the underwriting discounts and commissions and other estimated offering expenses, would have been approximately $4.53 per share. This represents an immediate increase of $15.02 per share, from a pro forma to a pro forma as adjusted basis, to existing stockholders and an immediate dilution of $10.47 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 15.00
Pro forma net tangible book value per share at September 30, 2004	$ (0.02)	
Increase per share attributable to new investors	$ 15.02	
Pro forma net tangible book value per share after the offering		$ 4.53
Dilution per share to new investors		$ 10.47

The following summarizes on a pro forma basis as of September 30, 2004, the differences between the total consideration paid and the average price per share paid by the existing stockholders and the new investors with respect to the number of shares of Class A common stock purchased from us based on an assumed initial public offering price of $15 per share.

	Shares Purchased		Pro Forma		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders	7,066,667	66.2%			
New investors	3,600,000	33.8%	54,000,000	100%	15.00
Total	10,666,667	100%	54,000,000	100%	5.06

The preceding table excludes:

1,550,000 shares of Class A common stock available for issuance pursuant to our equity incentive plan, none of which are subject to outstanding options as of November 22, 2004; and

200,000 shares of Class A common stock reserved for future issuances under our employee stock purchase plan.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION

We have derived the unaudited pro forma combined consolidated financial information from the audited and unaudited combined consolidated financial statements of Comstock Holding Company, Inc. and Subsidiaries ("Comstock Holdings"), Comstock Homes, Inc. and Subsidiary ("Comstock Homes") and Sunset Investment Corporation, Inc. and Subsidiary ("Sunset") (collectively, "The Comstock Companies"), and the audited and unaudited consolidated financial statements of Comstock Service Corp., Inc. and Subsidiary ("Comstock Service"). You should read the unaudited pro forma combined consolidated financial information and accompanying notes in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements described above, all appearing elsewhere in this prospectus.

As described more fully in "Corporate Consolidation," we will consolidate with The Comstock Companies and Comstock Service immediately prior to the closing of this offering. SFAS No. 141 excludes transfers of net assets or exchanges of shares between entities under common control. Comstock Holdings, Comstock Homes and Sunset are all wholly owned by our common stockholders with identical ownership interests and accordingly, we will account for the net assets received at the carrying amounts of The Comstock Companies at the date of transfer.

Although Comstock Service is also wholly owned by our four common stockholders, the individual ownership percentages are different from those in The Comstock Companies, as follows:

(as of September 30, 2004)	The Comstock Companies	Comstock Service
Christopher Clemente	37.5%	40.0%
Gregory Benson	37.5%	40.0%
Lawrence Golub	15.0%	15.0%
James Keena	10.0%	5.0%
	100.0%	100.0%

Because of the disparity between the individual ownership percentages of The Comstock Companies and Comstock Service, we believe the merger of Comstock Service to be a substantive exchange, which would be more appropriately accounted for as a purchase under SFAS No. 141, rather than at the historical carrying amounts.

The unaudited pro forma combined consolidated financial statements as adjusted give pro forma effect to a number of events, including the following:

- the Consolidation;
- the deemed acquisition of Comstock Service;
- the acquisition of certain minority membership interests of certain of our subsidiaries;
- the repayment of certain indebtedness;
- funding of the payment of certain S corporation distributions and other amounts owed to our current stockholders by our four primary holding companies in conjunction with our Consolidation; and
- this offering.

The unaudited pro forma combined consolidated statements of operations as adjusted were prepared as if the foregoing transactions had occurred on January 1, 2003. The unaudited pro forma combined

consolidated balance sheet as adjusted was prepared as if the foregoing transactions had occurred on September 30, 2004.

We have based the unaudited pro forma adjustments upon available information and assumptions that we consider reasonable. The unaudited pro forma combined consolidated financial information is illustrative only and not indicative of, nor does it purport to present, either future results of operations or the results that might have been achieved if these transactions had been consummated on the indicated dates.

We have used the purchase method of accounting to account for acquisitions. Under the purchase method, the aggregate purchase price of the acquisition is allocated to the tangible and intangible assets and liabilities acquired based upon their respective fair values. The allocation of the aggregate purchase price reflected in the unaudited pro forma combined consolidated financial information is preliminary for transactions to be closed subsequent to September 30, 2004. The final allocation of the purchase price is contingent upon finalization of estimates including receipt of appraisals; however, we do not expect the final allocation to differ materially from the preliminary allocation.

COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

Unaudited Pro Forma Combined Consolidated Balance Sheet as of September 30, 2004

(in thousands)

	Historical for The Comstock Companies(1)	Historical for Comstock Service(2)	Acquisition of Comstock Service	Pro Forma	Offering Adjustments	Pro Forma as Adjusted
Assets						
Cash and cash equivalents	$ 15,349	$ 1,698	$	$ 17,047	$ 20,472 (13)	$ 37,519
Receivables	868	404		1,272		1,272
Due from related parties	3,897	851	(2,429)(3)	2,319		2,319
Real estate held for development and sale	92,067	18,022	1,676 (4)	111,765	1,078 (13)	112,843
Property, plant and equipment, net	335			335		335
Notes receivable			1,395 (8)	1,395	(1,395)(14)	
Investment in real estate partnerships	1,142		(144)(5)	998		998
Deferred income tax			3,223 (6)	3,223	(369)(6)	2,854
Other assets	4,122	50	(3)	4,172		4,172
Total assets	$ 117,780	$ 21,025	$ 3,721	$ 142,526	$ 19,786	$ 162,312
Liabilities and Stockholders' Equity						
Accounts payable and accrued liabilities	$ 15,760	$ 2,065	$ (92)(3)	$ 17,733	$	$ 17,733
Due to related parties	206	2,585	(1,873)(3)	918		918
Notes payable	54,196	11,499	19,987 (8)	85,682	(22,987)(14)	62,695
Notes payable to related parties	17,984	464	(464)(3)	17,984		17,984
Deferred income tax			369 (6)	369	(369) (6)	
Total liabilities	88,146	16,613	17,927	122,686	(23,356)	99,330
Minority interest	17,526	3,017	(577)(9)	19,966	(5,177)(15)	14,789
Stockholders' equity:						
Common stock	3	1	(1)(10)	3	(3)(16)	
Class A common stock					79 (17)	79
Class B common stock					27 (16)	27
Additional paid-in capital	1,493	3,024	2,077 (11)	6,594	48,216 (18)	54,810
Retained earnings (note (27))	10,612	(1,630)	(15,705)(12)	(6,723)		(6,723)
Total stockholders' equity	12,108	1,395	(13,629)	(126)	48,320	48,193
Total liabilities and stockholders' equity	$ 117,780	$ 21,025	$ 3,721	$ 142,526	$ 19,786	$ 162,312

See Notes to the Unaudited Pro Forma Combined Consolidated Financial Information.

COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

Unaudited Pro Forma Combined Consolidated Statement of Operations
For the Year Ended December 31, 2003

(in thousands, except per share amounts)

	Historical for The Comstock Companies(19)	Historical for Comstock Service(20)	Acquisition of Comstock Service	Pro Forma	Offering Adjustments	Pro Forma as Adjusted
Revenues	$ 55,521	$ 13,390	$ (3,047)(21)	$ 65,864	$	$ 65,864
Expenses:						
Cost of sales	41,756	9,464	(3,047)(21) 246 (22)	48,419		48,419
Selling, general and administrative	5,712	3,284	(21)	8,996		8,996
Operating income	8,053	642	(246)	8,449		8,449
Other (income) expense, net	(44)	(26)		(70)		(70)
Income before income taxes, minority interest and equity in earnings of real estate partnerships	8,097	668	(246)	8,519		8,519
Provision for income taxes			3,354 (6)	3,354		3,354
Income before minority interest and equity in earnings of real estate partnerships	8,097	668	(3,600)	5,165		5,165
Minority interest	2,297	1,416	(1,540)(23)	2,173	(2,234)(24)	(61)
Income (loss) before equity in earnings of real estate partnerships	5,800	(748)	(2,060)	2,992		5,226
Equity in earnings of real estate partnerships	139		(120)(5)	19		19
Net income (loss)	$ 5,939	$ (748)	$ (2,180)	$ 3,011	$ 2,234	$ 5,245
Earnings per share:						
Basic and diluted	$ 1,669.20(25)					$ 0.65(25)
Weighted average number of shares:						
Basic and diluted	3,558(25)					8,024,424(25)

See Notes to the Unaudited Pro Forma Combined Consolidated Financial Information.

COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

Unaudited Pro Forma Combined Consolidated Statement of Operations
For the Nine Months Ended September 30, 2004

(in thousands, except per share amounts)

	Historical for The Comstock Companies(19)	Historical for Comstock Service(20)	Acquisition of Comstock Service	Pro Forma	Offering Adjustments	Pro Forma as Adjusted
Revenues	$ 74,567	$ 12,114	$ (800)(21)	$ 85,881	$	$ 85,881
Expenses:						
Cost of sales	50,084	10,161	(800)(21) 290 (22)	59,735		59,735
Selling, general and administrative	9,317	2,449		11,766		11,766
Operating income	15,166	(496)	(290)	14,380		14,380
Other (income) expense, net	283	151		434		434
Income (loss) before income taxes, minority interest and equity in earnings of real estate partnerships	14,883	(647)	(290)	13,946		13,946
Provision for income taxes			3,966 (6)	3,966		3,966
Income before minority interest and equity in earnings of real estate partnerships	14,883	(647)	(4,256)	9,980		9,980
Minority interest	4,360	197	(1,788)(23)	2,769	(2,702)(24)	67
Income (loss) before equity in earnings of real estate partnerships	10,523	(844)	(2,468)	7,211	2,702	9,913
Equity in earnings of real estate partnerships	93		(33)(5)	60		60
Net income (loss)	$ 10,616	$ (844)	$ (2,501)	$ 7,271	$ 2,702	$ 9,973
Earnings per share:						
Basic and diluted	$ 2,983.70(25)					$ 1.24(25)
Weighted average number of shares:						
Basic and diluted	3,558(25)					8,024,424(25)

See Notes to the Unaudited Pro Forma Combined Consolidated Financial Information.

COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

Notes to Unaudited Pro Forma Combined Consolidated Financial Information

(in thousands, except per share data)

(1)

Represents the historical combined consolidated balance sheet of The Comstock Companies.

(2)

Represents the historical consolidated balance sheet of Comstock Service.

(3)

Represents the elimination of inter-company balances between The Comstock Companies and Comstock Service.

(4)

Reflects the purchase accounting adjustment to step-up Comstock Service's historical carrying amount of real estate held for development and sale to their estimated fair value.

(5)

The Comstock Companies has a 1.36% membership interest in Comstock North Carolina, LLC ("Comstock North Carolina"). The remaining 98.64% membership interest is held by 18 individual investors, including Comstock Service acting as general partner and owning a 75% membership interest. Comstock Service consolidates its investment in Comstock North Carolina and, accordingly, this pro forma adjustment eliminates the equity investment in Comstock North Carolina, as well as the equity in earnings of Comstock North Carolina, recorded by The Comstock Companies against minority interest recorded by Comstock Service.

(6)

The historical financial statements of The Comstock Companies and Comstock Service do not include a provision for income taxes because the taxable income of the companies were included in the income tax returns of the stockholders, pursuant to elections to be treated as S corporations.

In connection with the formation of Comstock Homebuilding Companies, Inc. and the transactions described above, The Comstock Companies will no longer be treated as S corporations for income tax purposes. Instead, we will be subject to federal and state corporate income taxes and will recognize deferred taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," or SFAS No. 109. SFAS No. 109 requires us to adjust our deferred tax assets and liabilities based on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse. Based on our temporary differences existing as of September 30, 2004, the net deferred income taxes are as follows:

	The Comstock Companies	Comstock Service	Pro Forma
Deferred tax assets:			
Real estate held for development and sale	$ 3,491	$	$ 3,491
Warranty reserve	263	59	322
Accrued expenses and other	148		148
Net operating loss		887	887
Less valuation allowance	(1,625)		(1,625)
Total deferred tax assets	$ 2,277	$ 946	$ 3,223
Deferred tax liabilities:			
Real estate held for development and sale	$ 58	$ 311	$ 369
Total deferred tax liabilities	$ 58	$ 311	$ 369

	The Comstock Companies	Comstock Service	Pro Forma
Net deferred tax assets	$ 2,219	$ 635	$ 2,854

The components of the pro forma income tax provisions are as follows:

	Year Ended December 31, 2003			Nine Months Ended September 30, 2004		
	The Comstock Companies	Comstock Service	Pro Forma	The Comstock Companies	Comstock Service	Pro Forma
Current						
Federal	$ 3,439	$	$ 3,439	$ 4,327	$ (63)	$ 4,264
State	700		700	877	(13)	864
Deferred	(887)	102	(785)	(1,063)	(99)	(1,162)
	$ 3,252	$ 102	$ 3,354	$ 4,141	$ (175)	$ 3,966

The effective pro forma income tax rate differs from the 34% statutory federal rate principally as a result of state income taxes.

(7)

The pro forma adjustment reflects the estimated adjustment to goodwill as a result of the following assumed purchase price allocation related to the acquisition of Comstock Service. Under purchase accounting, the estimated purchase price is allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their relative fair values, with the excess, if any, allocated to goodwill. The pro forma adjustments are based upon our initial assessment of the fair values of identifiable tangible and intangible assets acquired and liabilities assumed. The amount ultimately allocated to these assets and liabilities, including the excess allocated to goodwill, may differ from this preliminary allocation.

Estimated purchase consideration (a)	$ 5,101
Historical equity of Comstock Service	1,395
Initial purchase allocation adjustment	3,706
Less amounts allocated to:	
Real estate held for development and sale (note (4))	1,676
Promissory note receivable from our existing stockholders (note (8))	1,395
Deferred income tax liability (note (6))	635
Excess of cost over the fair value of acquired net assets allocated to goodwill	$

(a)

Represents the estimated fair value of Comstock Service.

(8)

Represents the promissory notes that will be issued to our existing stockholders in connection with the Consolidation. The promissory notes will be in an amount equal to the sum of (i) the primary holding companies' S corporation accumulated adjustments account and undistributed tax basis in affiliated entities, and (ii) certain other amounts owed to existing shareholders:

Promissory note payable to existing shareholders in respect of The Comstock Companies	$ 19,987

Promissory note receivable from existing shareholders in respect of Comstock Service	$	1,395

(9) Represents the pro forma adjustment to minority interest, as follows:

Adjustment in respect of equity in Comstock North Carolina described in note (5) above	$ (144)
Minority interest in deferred tax adjustments described in note (6) above	(433)
	$ (577)

(10) Represents the elimination of the historical common stock of Comstock Service.

(11) Represents the adjustment to additional paid-in capital, as follows:

Assumed purchase price of Comstock Service (note (7))	$ 5,101
Elimination of historical additional paid-in capital of Comstock Service (note (7))	(3,024)
	$ 2,077

(12) Represents the adjustment to retained earnings, as follows:

Elimination of historical retained deficit of Comstock Service (note (7))	$ 1,630
Promissory notes issued in respect of The Comstock Companies (note (8))	(19,987)
Adjustment for deferred taxes in The Comstock Companies, net of minority interest (notes (6) and (9))	2,652
	$ (15,705)

(13) Reflects the estimated sources and uses of cash for the transactions, as follows:

Sources	
Net proceeds from the offering (a)	$ 50,220
Proceeds from promissory notes receivable (note (8))	1,395
Uses	
Repayment of certain indebtedness to our debtholders (b)	(3,000)
Purchase of certain outstanding minority membership interests (note (15))	(5,177)
Payment of promissory notes payable (note (8))	(19,987)
Buyout premium on purchase of minority interests	(1,078)
Estimated expenses	(1,900)
Net adjustment to cash	$ 20,472

(a) Represents the estimated proceeds from the issuance of Class A common stock, after underwriter's fees of $3,780,000.

(b) Represents subordinated second trust loans.

(14) Represents the adjustment to notes payable and notes receivable, as follows:

Repayment of promissory notes receivable (note (8))	$	(1,395)
Repayment of certain indebtedness to one of our debtholders (note (13))		(3,000)
Payment of promissory notes payable (note (8))		(19,987)
	$	(22,987)

(15)

Represents the pro forma adjustment to minority interest as a result of the acquisition of certain minority membership interests of certain of our subsidiaries. The operating agreements for these subsidiaries generally provide us with the right to purchase the minority membership interests. We estimate the amounts to be paid under the operating agreements to approximate the underlying net book values and fair values at the date of acquisitions. The purchase price allocation is preliminary and finalization is contingent on the finalization of estimates including receipt of appraisals.

(16)

Represents the issuance of Class B common stock to our existing stockholders.

(17)

Represents the issuance of approximately shares of our Class A common stock as part of this offering, at par or stated value.

(18)

Represents the pro forma adjustment to additional paid-in capital as a result of the offering, as follows:

Excess of proceeds from the offering of our Class A common stock over par value (note (13))	$	50,113
Estimated expenses relating to the offering		(1,900)
Elimination of historical par value of common stock converted to Class A common stock		3
	$	48,216

(19)

Represents the historical combined consolidated statement of operations of The Comstock Companies.

(20)

Represents the historical consolidated statement of operations of Comstock Service.

(21)

Represents the elimination of inter-company transactions between The Comstock Companies and Comstock Service. In particular, Comstock Homes provides general and administrative services, construction management, marketing, and sales services for homebuilding projects owned by Comstock Service. The adjustment eliminates the revenue and costs generated by Comstock Homes for services provided to Comstock Service.

(22)

Represents the adjustment to cost of sales as a result of the step-up to fair value of Comstock Service's real estate held for development and sale described in note (4) above.

(23)

Represents the pro forma adjustment to minority interest, as follows:

	Year Ended December 31, 2003		Nine Months Ended September 30, 2004	
Minority membership interests in the tax adjustments in note (6) above	$	(1,420)	$	(1,755)
Elimination of The Comstock Companies' equity in earnings of Comstock North Carolina (note (5))		(120)		(33)
	$	(1,540)	$	(1,788)

(24) Represents the pro forma adjustment to minority interest and other expenses associated with the buyout of minority interest as a result of the acquisition of certain minority membership interests of certain of our subsidiaries described in note (9) above.

(25)

Basic and diluted earnings per share are calculated as follows:

	Actual		Pro Forma, as Adjusted	
	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
Net income	$ 5,939	$ 10,616	$ 5,245	$ 9,973
Weighted average number of shares outstanding	3,558	3,558	8,024,424	8,024,424
Basic and diluted earning per share	$ 1,669.20	$ 2,983.70	0.65	1.24

For the purposes of the pro forma earnings per share calculation, the weighted average shares outstanding, basic and diluted, were calculated as set forth below:

	Pro Forma, as Adjusted	
	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
Shares of Class A common stock issued pursuant to this offering (a)	5,290,924	5,290,924
Shares of Class B common stock (note (16))	2,733,500	2,733,500
	8,024,424	8,024,424

(a)

Represents the number of shares of Class A common stock issued, the proceeds of which will be used to acquire certain minority membership interests of certain of our subsidiaries (refer to note (15) above), repay certain indebtedness existing as of September 30, 2004 (note (14) above) to certain of our debtholders, and payment of the promissory notes that will be issued to our existing stockholders in connection with the Consolidation (notes (8) and (14) above). The balance of the proceeds from the offering will be used for general corporate purposes, including capital expenditures in the ordinary course of business. The unaudited pro forma combined consolidated statement of operations does not give effect to these transactions and, as such, the Class A common stock relating to such proceeds are not taken into account in the determination of unaudited pro forma basic and diluted earnings per share.

(26)

Reclassification upon consolidation.

(27)

A reconciliation of historical retained earnings of The Comstock Companies at September 30, 2004 to pro forma as adjusted accumulated deficit follows:

Historical retained earnings of The Comstock Companies	$	10,612
Distribution payable to the shareholders of The Comstock Companies (note (8))		(19,987)
Deferred income taxes recorded, net of minority interest (note (12))		2,652
Pro forma accumulated deficit	$	(6,723)

SELECTED FINANCIAL AND OTHER DATA

We derived the selected historical financial data shown below for 1999, 2000, 2001, 2002 and 2003 and for the interim periods in 2003 and 2004 from our audited and unaudited financial statements. You should read the following financial information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our combined consolidated financial statements and the related notes, included elsewhere in this prospectus. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of operating results to be expected for the full year.

	Years Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands, except homes and share data)						
Operating Data:							
Revenues	$ 44,898	$ 49,439	$ 50,929	$ 34,752	$ 55,521	$ 23,173	$ 74,567
Cost of sales	39,296	43,199	40,853	26,820	41,756	17,648	50,084
Selling, general and administrative	3,821	1,603	3,900	3,725	5,712	2,958	9,317
Operating income	1,781	4,637	6,176	4,207	8,053	2,567	15,166
Other (income) expense, net	(217)	(62)	(302)	10	(44)	(70)	283
Income before minority interests and equity in earnings of affiliates	1,998	4,699	6,478	4,197	8,097	2,637	14,883
Minority interest	1,167	1,861	1,965	664	2,297	907	4,360
Income before equity in earnings of affiliates	831	2,838	4,513	3,533	5,800	1,730	10,523
Equity in earnings of affiliates			6	51	139	98	93
Net income (a)	$ 831	$ 2,838	$ 4,519	$ 3,584	5,939	$ 1,828	10,616
Pro forma provision for income taxes					2,373(b)		2,287(b)
Pro forma net income					$ 3,566		$ 8,329
Historical earnings per share:							
Historical basic and diluted earnings per share	$ 325	$ 1,109	$ 1,767	$ 1,172	$ 1,669	$ 514	$ 2,984
Historical weighted average common shares outstanding	2,558	2,558	2,558	3,058	3,558	3,558	3,558
Pro forma earnings per share:							
Pro forma basic and diluted earnings per share					$ 2.87(b)		$ 6.70(b)
Pro forma weighted average common shares outstanding					1,243,558(c)		1,243,558(c)

	Years Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands except homes)						
Supplemental Data:							
New sales contracts, net of cancellations (homes)	192	305	161	101	216	166	490
New sales contracts, value net of cancellations	$ 37,471	$ 57,161	$ 36,251	$ 28,918	$ 69,086	$ 51,931	$ 170,644
Average sales price per home ordered	$ 195	$ 187	$ 225	$ 286	$ 320	$ 313	$ 348
Homes delivered (homes)	223	234	220	124	162	64	208
Homes delivered, settlement revenue	$ 44,898	$ 41,009	$ 48,058	$ 29,397	$ 49,081	$ 19,295	$ 67,649
Average settlement revenue of homes delivered	$ 201	$ 175	$ 218	$ 237	$ 303	$ 301	$ 325
Backlog at end of period, contract value (homes)	$ 10,177	$ 23,680	$ 12,259	$ 11,480	$ 31,526	$ 43,929	$ 135,442

	December 31,					September 30,	
	Actual					Actual	Pro Forma
	1999	2000	2001	2002	2003	2004	2004(d)
	(in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 2,544	$ 6,664	$ 7,086	$ 8,695	$ 17,160	$ 15,349	$ 17,047
Real estate held for development and sale	10,779	12,889	8,573	20,192	65,272	92,067	111,765
Total assets	15,946	20,959	18,402	33,971	90,184	117,780	142,526
Notes payable	9,087	11,855	9,439	17,203	61,062	72,180	103,666
Total liabilities	12,884	17,033	13,035	21,574	71,746	88,146	122,686
Minority interest	2,433	1,318	2,390	8,790	11,413	17,526	19,966
Stockholders' equity (deficit)	629	2,608	2,937	3,607	7,025	12,108	(126)

(a) Historical data does not reflect any provision for income taxes. The Comstock Companies were S corporations during the periods indicated and therefore were not subject to income tax. See "Corporate Consolidation."

(b) Pro forma net income and earnings per share reflects the application of statutory corporate income tax rates to net income as if the termination of the S corporation status of The Comstock Companies had occurred on January 1, 2003 (excluding the deemed acquisition of Comstock Service). The effective derived income tax rates for the year ended December 31, 2003 and the nine months ended September 30, 2004 were 40.0% and 38.9%, respectively.

(c) The historical shares outstanding have been adjusted to reflect the additional number of shares, on an equivalent basis, which are necessary to pay the $18.6 million S corporation distributions.

(d) Reflects an adjustment for (i) recognition of a liability for the estimated amount of previously recognized and undistributed S corporation income accumulated through September 30, 2004 of $18.6 million to be paid from proceeds of the offering, but without giving effect to the offering proceeds and (ii) the recognition of net deferred tax assets, upon the automatic termination of the Subchapter S tax elections of our four primary holding companies, as if these terminations had occurred on September 30, 2004. See "S Corporation Distributions" on page 27.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Financial and Other Data" and our combined consolidated financial statements and related notes appearing elsewhere in this prospectus. Other than in the "Overview" below, this discussion and analysis does not incorporate the financial condition and results of operations of Comstock Service. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see "Special Note Regarding Forward-looking Statements" for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed below and elsewhere in this prospectus, particularly under the headings "Risk Factors" and "Special Note Regarding Forward-looking Statements."

Overview

We engage in the business of residential land development, production home building and high-rise condominium development in the greater Washington, D.C. and Raleigh, North Carolina markets. Our business was started in 1985 by Christopher Clemente, our Chief Executive Officer, as a residential land developer and home builder focused on the luxury home market in the northern Virginia suburbs of Washington, D.C. In 1992, we repositioned ourselves as a 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, in response to increasing competition for finished lots, we diversified our product base to include multiple product types and home designs, and we rebuilt our in-house land development department to include significant experience in both land development operations and land entitlement expertise. Our strategic goal was to secure and control a pipeline of diversified land inventory at various stages of entitlement, thus reducing our dependence on other land developers for finished building lots and improving our ability to control our growth.

In recent years, our financial results have been influenced significantly by the availability of building lots, the timing of entitlement processes, the mix of products available for sale and the timing of settlements.

The amount of time that it takes to bring a new development to market varies greatly depending on, among other things, the location and jurisdiction, governmental zoning and permitting processes, site development conditions, weather conditions, and the type of product to be constructed on the subject site. There can be a six- to 36-month lag time between the time we contract to purchase a site and the time we begin developing and/or delivering homes on the site. For example, a site that requires entitlement processing takes longer than a site where we purchase finished building lots. Additionally, condominium homes take longer to construct than townhouses and single-family homes and high-rise developments take longer to construct than low-rise developments. As a result of this lag, it has been our recent experience that an increasing lot inventory in one period does not necessarily correlate to increasing sales in the immediately following periods. Thus, there are both market risks and benefits associated with the lag time between controlling a property and realizing revenue from the property.

We can experience significant variance from one period to the next with respect to average price per new order and average settlement revenue. This variance often results from shifts in the mix of products being sold during the period. While it is most typical that single-family homes are priced higher than townhouses or condominiums, it is possible that during a given period, orders and deliveries may include townhouses, based on location, that price higher than single-family homes. Likewise, in any project in any period, condominium units may produce higher average per unit sales

prices and/or settlement revenues. Lower average per unit orders or settlements do not necessarily indicate that margins have been eroded or that profits have been reduced. Average settlement revenue can be both higher and lower than average price per new order in the prior period based on the mix of available product for sale.

For the 12 month periods ended December 31 and the nine months ended September 30, 2004, the average order prices for our market rate homes (which excludes government mandated affordable housing program units sold at a discount) were as follows:

	12 month period ended December 31,			
	2001	2002	2003	Nine months ended September 30, 2004
Townhouse	$ 189,750	$ 226,700	$ 271,430	$ 356,800
Single-family	$ 339,440	$ 415,150	$ 443,400	$ 497,400
Condominium		$ 302,900	$ 343,560	$ 386,800

We have made significant investments over the past three years to become a fully integrated and diversified home building operation with a wide spectrum of skills and a substantial pipeline of building lot inventory. The costs of our expansion and diversification were most evident in 2002 and 2003 as we experienced delays developing our inventory of land due to entitlement delays and extreme weather conditions. In 2002, these delays were principally caused by demand for development and construction entitlements and permitting at a pace that exceeded the ability of the local municipalities to respond. Severe weather exacerbated these delays. The result was a temporary shortage of building lot inventory from which we could sell homes and an increase in our land position and backlog. Consequently, we posted negative growth in 2002 and slower than expected growth in 2003. Towards the end of 2003 we began to realize the benefits of a replenished and diversified building lot inventory. At September 30, 2004, including Comstock Service, we either owned or controlled under option agreements over 3,600 building lots.

Critical Accounting Policies and Estimates

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

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

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities," or FIN 46. FIN 46 requires the primary beneficiary of a variable interest entity to consolidate that entity. A variable interest entity is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the

entity if they occur. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the variable interest entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Expected losses are the expected negative variability of an entity's net assets exclusive of its variable interests, and expected residual returns are the expected positive variability in the fair value of an entity's assets, exclusive of variable interests. Prior to the issuance of FIN 46, an enterprise generally consolidated an entity when the enterprise had a controlling financial interest in the entity through ownership of a majority voting interest.

In December 2003, the FASB issued a revision of FIN 46 ("FIN 46-R"), clarifying certain provisions of FIN 46. We adopted the provisions of FIN 46-R on February 1, 2003 to the extent that they related to variable interest entities created on or after that date. For variable interest entities created before January 31, 2003, FIN 46-R was deferred to the end of the first interim or annual period ending after March 15, 2004. We fully adopted FIN 46-R effective March 31, 2004. Based on the provisions of FIN 46-R, we have concluded that whenever we option land or lots from an entity and pay a significant nonrefundable deposit, a variable interest entity is created under condition (ii) (b) of the previous paragraph. This is because we have been deemed to have provided subordinated financial support, which refers to variable interests that will absorb some or all of an entity's expected theoretical losses if they occur. Therefore, for each variable interest entity created, we compute the expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46 to determine if we are deemed to be the primary beneficiary of the variable interest entity.

The methodology used to evaluate our primary beneficiary status requires substantial management judgement and estimation. These judgments and estimates involve assigning probabilities to various estimated cash flow possibilities relative to the selling entity's expected profits and losses and the cash flows associated with changes in the fair value of the land under contract. Because we do not have any ownership interests in the entities with which we contract to buy land (such as LLCs), we may not have the ability to compel these entities to provide financial or other data to assist us in the performance of the primary beneficiary evaluation. This lack of direct information from the contracting entities may result in our evaluation being conducted solely based on the aforementioned management judgments and estimates. Further, where we deem ourselves to be the primary beneficiary of such an entity created after December 31, 2003 and that entity refuses to provide financial statements, we utilize estimation techniques to perform the consolidation. While management believes that our estimation techniques provide a reasonable basis for determining the financial condition of a entity that refuses to provide financial statements, the actual financial condition of the entity could differ from that reported. In addition, although management believes that our accounting policy is designed to properly assess our primary beneficiary status relative to our involvement with the entities from which we acquire land, changes to the probabilities and the cash flow possibilities used in our evaluation could produce different conclusions regarding our primary beneficiary status.

Revenue Recognition

We primarily derive our earned revenues from the sale of residential property. We recognize residential revenue and all related costs and expenses when full payment has been received, title and possession of the property has been conveyed and risks and rewards of ownership transfer to the buyer and other sale and profit recognition criteria are satisfied. Management estimates of future costs to be incurred after the completion of each sale are included in cost of sales. A change in circumstances that causes these estimates of future costs to increase or revenues to decrease would significantly affect the profit recognized on these sales.

Impairment of 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. Circumstances or events we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trends;
- a significant underperformance relative to historical or projected future operating results;
- a significant change in the manner in which an asset is used; and
- an accumulation of costs significantly in excess of the amount originally expected to construct an asset.

Real estate is stated at the lower of cost or estimated fair value using the methodology described as follows. A write-down to estimated fair value is recorded when we determine that the net book value exceeds the estimated selling prices less cost to sell. These evaluations are made on a property-by-property basis. When we determine that the net book value of an asset may not be recoverable based upon the estimated undiscounted cash flow, an impairment write-down is recorded. The evaluation of future cash flows and fair value of individual properties requires significant judgment and assumptions, including estimates regarding expected sales prices, development absorption and remaining development costs. Significant adverse changes in circumstances affecting these judgments and assumptions in future periods could cause a significant impairment adjustment to be recorded.

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 us or within the five-year statutorily mandated structural warranty period. Since we generally subcontract our home building work, subcontractors are required to provide us 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. Although management considers the warranty reserve to be adequate, there can be no assurance that this reserve will prove to be adequate over time to cover losses due to increased costs for material and labor, the inability or refusal of manufacturers or subcontractors to financially participate in corrective action, unanticipated adverse legal settlements, or other unanticipated changes to the assumptions used to estimate the warranty reserve.

Environmental Liability Exposure

Development and sale of real property creates a potential for environmental liability on our part as owner and developer, for our own acts as well as the acts of prior owners of the subject property or owners or past owners of adjacent parcels. If hazardous substances are discovered on or emanating from any of our properties, we and prior owners may be held liable for costs and liabilities relating to those hazardous substances. We generally undertake environmental studies in connection with our property acquisitions, when warranted. If we incur environmental remediation costs in connection with properties we previously sold, including clean up costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to clean up, litigation defense and the pursuit of responsible third parties, they are expensed. We capitalize costs relating to land under development and undeveloped land as part of development costs. Costs incurred for properties to be sold are

deferred and charged to cost of sales when the properties are sold. Should a previously undetected, substantial environmental hazard be found on our properties, significant liquidity could be consumed by the resulting clean up requirements and a material expense may be recorded. Further, governmental regulation on environmental matters affecting residential development could impose substantial additional expense on us, which could adversely affect our results of operations or the value of properties owned under contract, or purchased by us. For additional information regarding risks associated with environmental hazards and environmental regulation, see "Risk Factors We are Subject to Certain Environmental Laws and the Cost of Compliance Could Adversely Affect our Business."

Internal Control Over Financial Reporting

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, among other material adverse consequences, our operating results could be misstated and our reputation may be harmed. Prior to commencement of our preparations for this offering, we operated four primary independent privately held S-corporations and single purpose limited liability companies ("LLC"). In the past we had produced audited individual S-corporation and a number of LLC financial statements that did not contemplate eliminations for inter-company transactions. Early in the process of preparing for this offering we recognized the need to produce an audited combined consolidated financial statement. After having produced a combined consolidated financial statement for the four S-corporations, including Comstock Service, it was decided that based on lack of common control we would need to treat Comstock Service as an acquired company for accounting purposes and therefore produce a separate audit for that company. We then produced a combined consolidated financial statement for the remaining three S-corporations that now comprise the Comstock Companies as reported herein.

Prior to this offering we had never needed to produce an audited combined consolidated financial statement for the Comstock Companies. As a result, we did not maintain a system of internal controls that was adequate for producing a combined consolidated financial statement such as is needed for a public company. In preparing the financial statements included in this prospectus we modified several of our policies and procedures and created numerous new policies and procedures to remedy problems identified with our internal control structure that existed prior to December 31, 2003. Subsequent to December 31, 2003, we have, among other things, supplemented our accounting staff with, among others, a Chief Financial Officer (promoted from Vice President of Finance), a Chief Accounting Officer, a Corporate Controller and an Assistant Controller, to attempt to establish an infrastructure appropriate for reporting as a combined consolidated public company.

In connection with the audit of the combined consolidated financial statements of our three primary holding companies for the three years ended December 31, 2003, in July 2004 our independent auditors reported to our Board of Directors several matters that are "reportable conditions" and "material weaknesses" in our internal controls as defined in standards established by the American Institute of Certified Public Accountants. In general, reportable conditions are significant deficiencies in our internal controls that, if not addressed, could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which internal controls do not reduce to a low level the risk that undetected misstatements caused by error or fraud may occur in amounts that are material to audited financial statements.

The conditions resulting in the material weaknesses gave rise to a number of adjustments under generally acceptable accounting principles, and adjustments relating to the completeness and accuracy of certain underlying data, which materially changed our financial statements between initial presentation and issued audit. The material weaknesses, as reported in July 2004 to our Board of

Directors in connection with their audit of our financial statements for the three years ended December 31, 2003, are summarized below:

Our accounting system had significant limitations with respect to the process of preparing combined consolidated financial statements. In response to this recommendation, as of September 2004, we have designed a tool to work with our existing accounting system which has the ability to generate more detailed reporting for the purpose of producing combined consolidated financial statements. We have evaluated upgrading our accounting software and have decided that in light of upcoming Sarbanes-Oxley Act systems and procedures documentation requirements, we would be better served to postpone a conversion until the beginning of 2006. In the interim we have initiated a search for and evaluation of new accounting software platforms that will better serve our needs as a public company. This search is being lead by our Chief Accounting Officer with assistance from our Director of Information Technology.

Our policies and procedures with respect to record retention were deemed inadequate. In addition, we needed to enhance our policies and procedures with respect to the formal review and documentation by management of business performance. In response to this recommendation we have initiated a formal policy for records retention and documentation by management of business performance. Subsequent to December 31, 2003 we began producing quarterly fluctuation reports and management discussion of the results of operations. We have formed a Disclosure Committee comprised of senior managers and initiated an internal reporting procedure for senior management that is to be completed prior to the release of financial statements in an effort to assure completeness of information with respect to the analyses prepared. The process of internal and external reporting is overseen by our Chief Financial Officer.

We needed to increase and improve our in-house accounting staff in preparation for the requirements of financial reporting as a public company. Subsequent to December 31, 2003 we promoted our Vice President of Finance to the position of Chief Financial Officer and hired a Chief Accounting Officer with extensive public company reporting experience. We reassigned the responsibility for accounting to our Chief Accounting Officer with day-to-day oversight by our Chief Financial Officer. In addition we created the position of Assistant Controller to work closely with the Corporate Controller who had been hired in late November 2003. We believe this additional staff, along with additional staff level personnel, provides the resources necessary to remedy the deficiencies in our controls identified by our auditors. We have retained internal auditors and consultants to work closely with our Chief Accounting Officer to prepare for compliance under Section 404 of the Sarbanes-Oxley Act. We have a timeline which provides us an opportunity to conduct internal audits of our controls and procedures prior to December 31, 2005 when we will be subject to an audit of our internal controls and procedures.

Our policies and procedures with respect to the capitalization of selling, general and administrative costs as real estate held for development and sale and released into cost of sales at settlement were deemed to be inaccurate. The result of the inaccurate capitalization of selling, general and administrative expenses was that accurate reporting of expenses was delayed. Since the three-year audit presented herein is the first combined consolidated audit of the Comstock Companies, there was no restatement associated with this change in policy and procedure. We have adjusted our policy with respect to the capitalization and recognition of selling, general and administrative expenses. The effect of this change in policy was on timing of profit recognition and resulted in increased gross margins from previously reported non-consolidated financial statements. This change in policy was effected historically throughout our three-year audited combined consolidated financial statements for the period ending December 31, 2003.

Our policies and procedures for accruals with respect to period end cut-off were deemed to be insufficient to properly present the financial position of the company with respect to accrued expenses. The result of the inaccurate accrual and release of completion expenses was that accurate reporting of profits was delayed. This change in policy affected the timing of reported profits, not cumulative reported profits. Since the three-year audit presented herein is the first combined consolidated audit of the Comstock Companies there was no restatement associated with this change in policy and procedure. We adjusted our policy with respect to accruals for estimable and probable expenses associated with unit settlements. We have established formal procedures for reviewing these estimates on a quarterly basis for completeness. This change in policy was effected retroactively and is reflected in our three-year audited combined consolidated financial statements.

Our policies and procedures with respect to the approval and documentation of related party transactions needed to be formalized so that we could ensure the fairness of these transactions and proper inclusion of these transactions in our financial statements. We have adopted a new procedure for presenting all related party transactions to our Board of Directors for approval by a majority of the independent members of our Board of Directors. Our procedure requires that our Chief Financial Officer, assuming he is not party to the related party transaction, coordinate with the independent members of our Board of Directors in evaluating the fairness of related party transactions.

We believe that the remedial measures described above address the material weaknesses identified by our independent auditors. We were able to accurately report our financial condition and results of operations for the nine months ended September 30, 2004 without any reportable conditions or material weaknesses having been reported, and we believe that we will continue to be able to accurately report on a timely basis our financial condition and results of operations. However, the process of designing and implementing effective internal controls and procedures is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. Upon completion of this offering, we will have had only limited operating experience with the improvements we have made to date. We cannot be certain that the measures we have taken to date or any future measures will adequately remedy the material weaknesses reported by our independent auditors. Our independent auditors have not formally evaluated the measures we have taken or plan to take to address any material weaknesses. For a description of risks associated with our internal controls, please see "Risk Factors Being a public company will require us to significantly enhance our controls over the preparation of financial statements in order to ensure the detection, in a timely manner, of misstatements that could occur in our financial statements in amounts that may be material."

Results of Operations

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

Orders and Backlog

New orders for homes for the nine months ended September 30, 2004 increased $118.7 million, or 228.6%, to $170.6 million on 490 homes sold as compared to $51.9 million on 166 home sold for the nine months ended September 30, 2003. This increase in orders is primarily attributable to sales at The Eclipse on Center Park ($76.1 million), River Club at Belmont Bay 5 ($13.3 million), Blooms Mill ($22.8 million), Wescott Ridge Condominiums ($11.1 million) and Emerald Farm ($5.6 million) and was offset by reductions due to project completions at Ashland 23 and Riverside.

The average sale price per new order for the nine months ended September 30, 2004 increased $35,000, or 11.2%, to $348,000 as compared to $313,000 for the nine months ended September 30,

2003. This increase is primarily attributable to general price appreciation in the Washington, DC market and a shift in mix of product sold to include more townhomes. The increase can be specifically attributed to increased average order price at Blooms Mill ($95,000 or 32.0%), Flynns Crossing ($28,000 or 11.2%) and Emerald Farm ($36,000 or 8.6%) and was offset by decreases at Wescott Ridge Condominiums (-$87,000 or 26.3%) as a result of the sale of affordable dwelling units (ADUs) to Fairfax County.

The value of our backlog on home sales revenue sold but not yet delivered increased $91.4 million, or 208.3%, to $135.4 million for the period ended September 30, 2004 as compared to $43.9 million for the period ended September 30, 2003. This increase is generally attributable to a shift in product mix that includes more condominiums with longer periods between order and delivery. The increase can be specifically attributed to the initiation of sales at The Eclipse on Center Park ($76.1 million) and a slower than expected delivery of the first building at River Club at Belmont Bay 5 ($16.3 million) due to construction delays.

Revenues.

The number of homes delivered (settlements) in the nine months ended September 30, 2004 increased by 144 homes, or 225.0%, to 208 from 64 homes for the nine months ended September 30, 2003. This increase was derived from increases in settlement activity at Blooms Mill (95), Flynns Crossing (49) and Emerald Farm (20) and was offset by a decrease at Riverside (26) as result of the project having been completed in the interim. Average per settlement revenue increased by approximately $24,000 to $325,000 for the nine months ended September 30, 2004 as compared to $301,000 for the nine months ended September 30, 2003. Home building revenues increased by $48.3 million, or 250.6%, to $67.6 million for the nine months ended September 30, 2004 as compared with $19.3 million for the nine months ended September 30, 2003. This increase was generally attributable to increases in order prices during the period that generated higher revenue from home building. The increase was principally derived from increases in settlement revenue at Blooms Mill ($34.0 million), Flynns Crossing ($13.3 million) and Emerald Farm ($8.5 million) and was offset by reductions in revenue at Riverside ($7.1 million) and Wescott Ridge Condominiums ($1.4 million). Total revenue, which includes revenue derived from providing administrative and production management services to Comstock Service and the sale of finished lots to other home builders, increased $51.4 million, or 221.5%, to $74.6 million for the nine months ended September 30, 2004 as compared to $23.2 million for the nine months ended September 30, 2003. Other revenue increased $3.0 million, or 78.4%, to $6.9 million for the nine months ended September 30, 2004 as compared to $3.9 million for the nine months ended September 30, 2003. The increase in other revenue was primarily the result of an increase in revenues from lot sales at Blooms Mill ($2.7 million).

Cost of sales and selling, general and administrative expenses.

The cost of sales for the nine months ended September 30, 2004 increased $32.5 million, or 183.8%, to $50.1 million as compared to $17.6 million for the nine months ended September 30, 2003. All costs directly associated with development and construction are capitalized to real estate held for development and sale and are released on a pro-rata basis at settlement of a home (in the case of a residential customer) or a finished lot (in the case of a sale of a lot to another home builder). As a result, there is a direct correlation between revenue and cost of sales and increases in costs of sales are primarily attributable to increased settlements and revenue during the period. Because lot sales are included in other revenue, capitalized cost of sales can be associated with both revenue from homebuilding and other revenue. As a percentage of total revenue, cost of sales decreased by 9 percentage points to 67.2% for the nine months ended September 30, 2004 as compared to 76.2% for the nine months ended September 30, 2003. This decrease is primarily attributable to a reduction in cost of sales of real estate (2.5 percentage points) which is the result of price appreciation that

outpaced cost of goods inflation and a reduction in cost of sales other (6.5 percentage points) which is the result of the delivery of 27 finished lots at Blooms Mill during the nine months ended September 30, 2004 as compared to 6 finished lots at Blooms Mill during the nine months ended September 30, 2003. The lot sales at Blooms Mill delivered gross margins in excess of 50%. While selling finished lots to other home builders is not part of our core business strategy we will, from time to time, sell finished lots to other home builders when there is a strategic rationale for such sales.

Selling, general and administrative costs during the nine months ended September 30, 2004 increased $6.3 million, or 215%, to $9.3 million as compared to $3.0 million for the nine months ended September 30, 2003. The increase is the result of an increase in staffing costs ($2.6 million) related to hiring new executive and staff employees to accommodate our anticipated growth, audit fees related to the three year combined consolidated audit ($1.2 million), bonuses related to the Company's incentive bonus program ($1.3 million), marketing expenses resulting from the opening of our The Eclipse on Center Park project ($700,000), computer consulting and IT services and other miscellaneous costs such as health insurance recruiting and office rent ($500,000). As a percentage of revenue our selling, general and administrative costs remained consistent at 12.5% for the nine months ended September 30, 2004 as compared to 12.8% for the nine months ended September 30, 2003.

Operating income.

Operating income for the nine months ended September 30, 2004 increased $12.6 million to $15.2 million as compared to $2.6 million for the nine months ended September 30, 2003. Our operating margin for the nine months ended September 30, 2004 was 20.3% as compared with 11.1% for the nine months ended September 30, 2003. This increase in operating margin is attributable to an increase of 9.0 percentage points in gross margin for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003.

Income before minority interest.

Income before minority interests increased $12.3 million, or 464.4%, to $14.9 million for the nine months ended September 30, 2004 as compared to $2.6 million for the nine months ended September 30, 2003. The increase in income before minority interest is a result of the increase in settlements and the associated increase in revenue. Net margins on income before minority interest increased 8.6 percentage points to 20.0% for the nine months ended September 30, 2004 as compared to 11.4% for the nine months ended September 30, 2003. This increase is the result of an increase of 9.2 percentage points in gross margin and a 0.6 percentage point increase in other expenses as a percent of total revenue. Average profit per settlement before minority interest increased $31,000 to $72,000 for the nine months ended September 30, 2004 as compared to $41,000 for the nine months ended September 30, 2003.

Other (income) expense, net.

Other (income) expense, net decreased by $400,000, or 504.5%, to a net expense of $300,000 for the nine months ended September 30, 2004 as compared to net income of $100,000 for the nine months ended September 30, 2003. This decrease is primarily attributable to an increase in financing fees associated with an unsecured corporate loan facility ($300,000).

Minority interest.

Minority interest for the nine months ended September 30, 2004 increased $3.4 million to $4.4 million as compared to $1.0 million for the nine months ended September 30, 2003. Minority interest expense for the nine months ended September 30, 2004 is primarily attributable to the earnings

of the minority interest shareholders in Comstock Investors VI, L.C. ($5.6 million) and losses by the minority shareholders in Comstock Potomac Yard, L.C. (-$1.4 million).

Year ended December 31, 2003 compared to year ended December 31, 2002

Orders and backlog.

New orders for the year ended December 31, 2003 increased $40.2 million, or 139%, to $69.1 million on 216 homes as compared to $28.9 million on 101 homes for the year ended December 31, 2002. This increase in new orders was primarily attributable to an increase in the demand for our products in the Washington, D.C. market and the increased availability of lots at our Blooms Mill, Emerald Farm and Flynns Crossing communities during the course of the year. Sales for the year ended December 31, 2002 were lower due in part to the shortage of inventory of building lots available for sale. This shortage resulted from the inability of the municipalities in which we operate to keep pace with new development and construction permitting requests. While we expect to continue to experience such delays, we do not anticipate such delays having a significant impact on us in the near future. The delays we experienced as a result of time spent processing land during 2002 created a natural opportunity for increased orders in 2003. Increases in saleable inventory during the period are partially attributable to the resolution of several infrastructure limitations within the counties in which we operate that had in the recent past restricted the release of development and building permits. For example, the water moratorium we experienced at our Emerald Farm and Riverside developments resulted in no new permits being issued for either development during late 2002 and early 2003.

The average sale price per new order for the year ended December 31, 2003 increased by $34,000 to $320,000 as compared to $286,000 for the year ended December 31, 2002. This change was attributable to a shift in product mix that included a significant number of higher-priced townhouse sales derived from the opening of our Blooms Mill development during the year ended December 31, 2003 and higher average overall price points than was derived from inventory settled for the year ended December 31, 2002. On average, the sale price of townhouses increased $44,730 to $271,430 for the year ended December 31, 2003 as compared to the year ended December 31, 2002. Our single-family homes increased by approximately $28,250 during the year ended December 31, 2003 to $443,400 from $415,150 at December 31, 2002. The average sale price of our condominiums increased by $40,660 to $343,560 for the period ending December 31, 2003 as compared to $302,900 for the period ended December 31, 2002.

Our backlog at December 31, 2003 increased $20.0 million, or 175%, to $31.5 million on 93 homes compared to our backlog at December 31, 2002 of $11.5 million on 39 homes. This increase in backlog is attributable to increases in orders during the second half of the year resulting from the increased demand for our products in the Washington, D.C. market and due to the increased availability of saleable building lots in our developments. Several projects that were in the approval review process at the beginning of the period received approvals necessary for initiation of development or construction during the second half of 2003, increasing inventory of building lots available for sale. As a result of the timing of sales and a year that experienced record rainfall, inventory under construction could not be converted into settlements by the end of 2003. Increased undelivered inventory increased our backlog at December 31, 2003.

Revenues.

The number of homes delivered in the year ended December 31, 2003 increased by 30.6% to 162 from 124 homes in the year ended December 31, 2002. Average per settlement revenue increased by approximately $66,000 to $303,000 for the year ended December 31, 2003 as compared to $237,000 for the year ended December 31, 2002. Home building revenues increased by $19.7 million, or 67.0%, to $49.0 million for the year ended December 31, 2003 as compared to $29.4 million for the year ended

December 31, 2002. Total revenue, which includes administrative and production management services revenue derived from Comstock Service, increased $20.8 million to $55.5 million for the year ended December 31, 2003 as compared to $34.8 million in the year ended December 31, 2002. The increase in deliveries and revenue from December 31, 2002 to December 31, 2003 are in large part attributable to the delivery in the quarter ended December 31, 2003 of homes sold during the quarters ended June 30, 2003 and September 30, 2003. Significant price appreciation in the Washington, D.C. market also led to increases in revenues during the year ended December 31, 2003. The addition of single-family homes at Blooms Mill and the conversion into revenue of the increases in order prices at Wescott Ridge Condominiums, where average settlement revenue increased approximately $25,660, increased settlement revenue during the year ended December 31, 2003 as compared to the year ended December 31, 2002.

Cost of sales and selling, general and administrative expenses.

Cost of sales for the year ended December 31, 2003 increased $15.0 million, or 55.7%, to $41.8 million, or 75.2% of revenue, as compared to $26.8 million, or 77.2% of revenue, for the year ended December 31, 2002. The two percentage point change in cost of sales as a percentage of home building revenues is attributable to the sale of finished lots during 2003. Increases in total cost of sales are primarily attributable to an increase in settlements during the year ended December 31, 2003 and the associated capitalized costs of sales of those settlements that were expensed during the year ended December 31, 2003 as cost of sales. Since costs associated with development and construction are capitalized into real estate held for development and resale as incurred and released pro rata as units and/or finished lots settle, cost of sales is directly related to revenue. As such, higher settlement revenues for the year ended December 31, 2003 resulted in an increased cost of sales. Extended construction and development periods resulting from severe weather during the second half of the year ended December 31, 2003 contributed to increased carrying costs on the homes and lots that were settled during the year ended December 31, 2003. In addition, the competition for skilled labor and subcontractors increased during the year ended December 31, 2003 causing an increase in per unit labor costs. Price appreciation in the market was sufficient, however, to offset these increases.

Selling, general and administrative costs for the year ended December 31, 2003 increased $2.0 million to $5.7 million from $3.7 million for the year ended December 31, 2002. This increase was the result of additional staffing costs of $300,000 to support our growth, increased marketing expenses of $800,000, and general inflation with respect to the goods and services of $900,000. As a percentage of revenue, selling, general and administrative expenses decreased to 10.3% during the year ended December 31, 2003 from 10.7% during the year ended December 31, 2002.

Operating income.

Our operating income for the year ended December 31, 2003 increased $3.8 million to $8.1 million as compared to $4.2 million for the year ended December 31, 2002. Our operating margin for the year ended December 31, 2003 was 14.6% compared with 12.1% for the year ended December 31, 2002. The increase in operating margin in spite of increased cost of sales is attributable to selling, general and administrative expenses that did not experience a similar increase as a percentage of revenue during the year ended December 31, 2003. The increase in margin resulted in large part from leverage gains in our fixed cost structure, increased deliveries and price appreciation.

Income before minority interest.

Our income before minority interest increased by $3.9 million, or 93.0%, to $8.1 million for the year ended December 31, 2003 as compared to $4.2 million for the year ended December 31, 2002. Net margins as a percentage of revenues increased by 2.5% to 14.6% for the year ended December 31, 2003 from 12.1% for the year ended December 31, 2002. This increase is primarily attributable to the

selling, general and administrative expenses that increased but did not increase pro rata to revenue growth during the year ended December 31, 2003. As a result, income increased due to leverage gains in our fixed price structure, increased deliveries and price appreciation.

Other (income) expense, net.

Other (income) expense, net increased by $54,000 to a net income of $44,000 for the year ended December 31, 2003 as compared to a net expense of $10,000 for the year ended December 31, 2002. Other (income) expense net is primarily comprised of miscellaneous items including financing fees and fees from the rental of model homes to mortgage brokers.

Minority interest.

Minority interest increased by $1.6 million, or 250%, to $2.3 million for the year ended December 31, 2003 as compared to $664,000 for the year ended December 31, 2002. This increase is primarily the result of increased income to the minority shareholders in Comstock Investors VI, L.C. of $1.0 million and Comstock Investors V, L.C. of $400,000.

Year ended December 31, 2002 compared to year ended December 31, 2001

Orders and backlog.

New orders for the year ended December 31, 2002 decreased $7.3 million, or 20.2%, to $28.9 million on 101 homes as compared to $36.3 million on 161 homes for the year ended December 31, 2001. This decrease in new orders was primarily attributable to our shift in focus from primarily purchasing finished lots to developing our own inventory of building lots. Increased competition for finished lots and delays in generating building lot inventory caused a shortfall in our inventory of saleable building lots. As a result, sales for the year ended December 31, 2002 were depressed while we managed land inventory through the entitlement process and obtained building permits. We ended 2002 with a significant inventory of building lots in process but did not achieve completion of the permitting process in time for the building lots to be made available for sale during the period. The average sale price per new order for the year ended December 31, 2002 increased by $61,000 to $286,000 as compared to $225,000 for the year ended December 31, 2001. This change was primarily attributable to price inflation in the Washington, D.C. market and a shift in our product mix which increased our sales of higher-priced homes.

Our backlog at December 31, 2002 decreased $780,000, or 6.4%, to $11.5 million on 39 homes compared to our backlog at December 31, 2001 of $12.3 million on 62 homes. This decrease in backlog is attributable to our decision to focus on generating inventory internally and the resultant lack of saleable lots.

Revenues.

The number of homes delivered in the year ended December 31, 2002 decreased by 43.6% to 124 from 220 homes in the year ended December 31, 2001. Average per settlement revenue increased by approximately $18,000 to $237,000 for the year ended December 31, 2002 from $219,000 for the year ended December 31, 2001. Home building revenues decreased by $18.7 million, or 38.8%, to $29.4 million for the year ended December 31, 2002 as compared to $48.1 million for the year ended December 31, 2001. Total revenue, which includes administrative and production management services revenue derived from Comstock Service, decreased $16.1 million to $34.8 million for the year ended December 31, 2002 as compared to $50.9 million in the year ended December 31, 2001. The decreases in deliveries and revenue from the year ended December 31, 2001 to the year ended December 31, 2002 are in large part attributable to delays in the processing of our land inventory into developed lots. The increase in per lot revenue was primarily due to an increase in the price of housing in the

Washington, D.C. market accompanied by a shift in our inventory to higher-priced product including single-family homes and townhouses along with newly introduced condominiums at Wescott Ridge in Fairfax, Virginia.

Cost of sales and selling, general and administrative expenses.

Cost of sales for the year ended December 31, 2002 decreased $14.0 million, or 34.4%, to $26.8 million, or 77.2% of revenue, as compared to $40.8 million, or 80.2% of revenue, for the year ended December 31, 2001. Decreases in cost of sales are primarily attributable to the reduction in settlement activity. Settlements in 2002 included land which was engineered and/or developed by us, as opposed to purchased as finished lots from developers. These company-developed lots, with lower costs as a percentage of revenue, contributed to the decrease in the cost of sales as a percentage of revenue. Selling, general and administrative costs during the year ended ended December 31, 2002 decreased $175,000, or 4.5%, to $3.7 million as compared to $3.9 million for the year ended December 31, 2001. This decrease was primarily a result of our efforts to maintain our resources in advance of the growth that we foresaw materializing within a twelve-month period. In addition, during the course of 2002, we moved our corporate headquarters to a larger facility.

Operating income.

Operating income decreased by $2.0 million, or 31.9%, to $4.2 million for the year ended December 31, 2002 as compared to $6.2 million for the year ended December 31, 2001. Our operating margin as a percentage of total revenues for the year ended December 31, 2002 remained consistent at 12.1% as compared to the year ended December 31, 2001. The stability in operating margin in spite of lower settlements is primarily attributable both to average settlement prices that were approximately 8.2% higher in 2002 as compared to 2001 and to costs of sales that were three percentage points lower as a percentage of revenue during the year ended December 31, 2002 than in the year ended December 31, 2001.

Income before minority interest.

Income before minority interest decreased by $2.3 million, or 35.2%, to $4.2 million, or 12.1% of revenue, for the year ended December 31, 2002 as compared to $6.5 million, or 12.7% of revenue, for the year ended December 31, 2001. This decrease in income before minority interest is primarily attributable to a 31.6% reduction in total revenue as margins remained consistent.

Other (income) expense, net.

Other (income) expense, net decreased by $312,000 to a net expense of $10,000 for the year ended December 31, 2002 as compared to a net income of $302,000 for the year ended December 31, 2001. This decrease was the result of a decrease in model rent income of $100,000, bank fees, and deposit forfeitures.

Minority interest.

Minority interest decreased by $1.3 million, or 66%, to $700,000 for the year ended December 31, 2002 as compared to $2.0 million for the year ended December 31, 2001. This decrease was primarily the result in decreases in the earnings of minority shareholders in Comstock Operations, L.C. of $100,000 and Comstock Investors II, L.C. of $200,000.

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 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 September 30, 2004, we had approximately $29.6 million of equity financing, $72.2 million of debt financing and $15.3 million of cash. As discussed in more detail below, we believe that funds generated from the sale of our equity securities, operations and borrowings under our credit facilities will provide us with sufficient capital to meet our existing and expected capital needs.

Limited Liability Companies and Minority Interest Members

Since 1999, we have formed several LLCs in which there are minority interests to fund one or more developments. At September 30, 2004, we were the managing member of four active minority-interest LLCs (Comstock Investors IV, L.C., Comstock Investors V, L.C., Comstock Investors VI, L.C. and Comstock Potomac Yard, L.C.) that had provided significant capital to our operation. These four active minority-interest LLCs have collectively generated approximately $12.0 million of equity financing for us. The terms of the operating agreements of our minority-interest LLCs vary by LLC but they generally include the following characteristics:

- We are the managing member;
- Priority members (the minority members) receive priority with respect to cash distributions until such time as they have received a pre-determined return, which ranges from 20% to 30%;
- After the return has been achieved we share in the profits of the partnership with interests ranging from 67% to 87%;
- The managing member may not use the funds of the LLC for developments other than those stipulated in the operating agreement without the approval of a majority of the members;
- We have the right, triggered by a restructuring of our operational structure, to repurchase the minority interest in the LLC at a pre-determined rate of return, which ranges from 25% to 30%;
- Other than as allowed in the operating agreement, funds may not be loaned to other entities; and
- These LLCs are consolidated within our financial statements for reporting purposes.

We expect to pay a total of approximately $7.3 million out of the proceeds of this offering to purchase all of the outstanding membership interests in these four minority-interest LLCs.

Credit Facilities

At September 30, 2004, we had approximately $15.1 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 300 to 600 basis points over the LIBOR rate and 50 to 100 basis points over the prime rate. As a result, we are exposed to market risk in the area of interest rate changes. At September 30, 2004, the one-month LIBOR and prime rates of interest were 1.84% and 4.75%, respectively, and the interest rates in effect under our existing secured revolving development and construction credit facilities ranged from 4.50% to 5.58%. For information regarding risks associated with our level of debt and changes in interest rates, see "Risk Factors" and "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. While the loan agreements relating to these various facilities contain certain covenants, they generally contain few, if any, material financial covenants. Typically, our loan agreements contain covenants requiring us to:

- obtain agreements of sale for a specified number of homes within a specified time period, with the number of homes and time period varying by project;

- in the case of facilities entered into directly by our project-based subsidiaries, maintain minimum equity levels, typically in the range of 10% to 20% of the project's cost;

- in the case of facilities entered into by our primary holding companies, maintain minimum tangible net worth levels, typically in the range of $3.0 million to $5.0 million, and minimum leverage ratios, typically of five-to-one or less;

- maintain control of any subsidiary that is a party to the applicable loan agreement;

- complete any construction which is the subject of the loan agreement without significant delay and in accordance with the approved plan;

- notify the lender immediately if we receive a claim of material lien with respect to any services, labor or material furnished in connection with applicable construction, and to remove any such lien within a specified number of days after the date the lien was filed;

- maintain certain minimum levels of insurance;

- provide inventory status reports and financial statements and other inventory and financial information periodically and as reasonably requested by the lender;

- furnish the lender with copies of all notices received by us claiming any breach or potential breach of any contracts related to the construction, claiming or asserting a right to a lien for work performed or materials provided in connection with construction, or from any governmental authority asserting that the land or construction which is the subject of the loan agreements may or does violate any law or regulations;

- not enter into leases affecting the land or the construction which is the subject of the applicable loan agreements without the prior written consent of the lender;

- not obtain subordinate financing on the land, construction or other property granted as security under applicable loan agreements without the prior approval of the lender; and

not sell or otherwise dispose of any of the land or the construction other than in the normal course of the business of the project subject to applicable loan agreements.

As of September 30, 2004, we were in compliance with the financial covenants set forth in our loan agreements.

In order to obtain our current credit facilities, which were entered into in some cases by our primary holding companies and in other cases by our project-based subsidiaries, we were generally required to obtain guaranties by one or more of our primary holding companies as well as Christopher Clemente, our Chief Executive Officer, and Gregory Benson, our President and Chief Operating Officer, in their personal capacities. At September 30, 2004, such parties guaranteed approximately $44.9 million under our credit facilities. In addition, the companies have agreed to indemnify Christopher Clemente and Gregory Benson in connection with personal guaranties on a certain loan the balance of which on September 30, 2004 was $2.9 million. For our future financing arrangements, we do not intend to continue obtaining such guaranties which may result in less favorable financing terms and arrangements for us.

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 September 30, 2004, the annual rate of interest on these facilities ranged from 12% to 18%. At September 30, 2004, we had approximately $18.2 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 intend to refinance our existing credit facilities and replace them with one or more credit facilities shortly after consummation of this offering. We would be the borrower and primary obligor under this facility or facilities, and we anticipate the indebtedness will be secured, nonrecourse and based on an available borrowing base. As part of the anticipated refinancing, it is expected that Christopher Clemente and Greg Benson would be released from all guaranties of our debt obligations.

Cash Flow

Net cash (used in)/provided by operating activities was $(32.4 million) for the year ended December 31, 2003, $(7.9 million) for the year ended December 31, 2002 and $7.9 million for the year ended December 31, 2001. In 2003, the primary source of the decrease in cash from operating activities was attributable to increased investment in real estate held for development and sale which was offset by minority interest investment and an increase in accounts payable and accrued liabilities. In 2002, the primary source of the decrease in cash from operating activities was attributable to increased investment in real estate held for development and sale which was offset by minority interest investment and an increase in accounts payable and accrued liabilities. In 2001, the primary source of the increase in cash from operating activities was attributable to the sale of real estate held for development and sale and a contribution from minority shareholders. Net cash (used in)/provided by operating activities for the nine-month period ended September 30, 2004 was $5.7 million as compared to $(19.8 million) for the nine-month period ended September 30, 2003. The primary source of the increase in cash from operating activities for the nine-month period ended September 30, 2004 was net income earned by both shareholders and minority interest shareholders and retained as well as a conversion of real estate held for development and sale into cash as a result of increased settlement activity. The primary source of the decrease in cash from operating activities for the nine-month period ended September 30, 2003 was investment in real estate held for development and sale, low net income earned and the reduction of receivables and accounts payable and accrued liabilities.

Net cash (used in)/provided by investing activities was $67,000 for the year ended December 31, 2003, $(1.1 million) for the year ended December 31, 2002 and $(79,000) for the year ended December 31, 2001. In 2002, the primary source of the increase in cash from investing activities was attributable distributions from real estate partnerships. In 2002 the primary source of the decrease in cash from investing activities was attributable to an investment in a real estate partnership. In 2001, the primary source of the increase in cash from investing activities was attributable to the purchase of

property, plant and equipment. Net cash (used in)/provided by investing was $(97,000) for the nine-month period ended September 30, 2004 as compared to $52,000 for the nine-month period ended September 30, 2003. The primary source of the decrease in the nine months ended September 30, 2004 was investment in property, plant and equipment. The primary source of the increase in cash from investing activities for the nine-month period ended September 30, 2003 was distributions from an investment in a real estate partnership.

Net cash (used in)/provided by financing activities was $40.8 million for the year ended December 31, 2003, $10.6 million for the year ended December 31, 2002 and $(7.4 million) for the year ended December 31, 2001. The primary source of the increases in cash from financing activities for the periods ended December 31, 2003 and December 31, 2002 were the proceeds from notes payable and contributions from minority interest shareholders and shareholders. Net cash (used in)/provided by financing activities was $(7.4 million) for the nine-month period ended September 30, 2004 as compared to $24.2 million for the nine-month period ended September 30, 2003. The primary source of the decrease in cash from financing activities for the nine-month period ended September 30, 2004 was distributions to shareholders and minority shareholders which was offset by proceeds from related party notes. The primary source of the increase in cash from financing activities for the nine-month period ended September 30, 2003 was proceeds from notes payable and contributions from minority shareholders.

Material Acquisitions

In December 2003, we purchased approximately 4.5 acres of unimproved land in Arlington, Virginia, which is expected to yield approximately 470 condominium units and 80,000 square feet of retail space. Our purchase price was approximately $21.5 million. The estimated project cost for this development is $160 million. We intend to enter into a new senior construction credit facility for this project in the estimated amount of $119.3 million and a mezzanine credit facility of approximately $28.2 million.

In November 2004 we entered into an option contract to purchase 424 completed rental apartments in Fairfax, Virginia for the purpose of converting them to for-sale condominiums. Our purchase price is approximately $75 million with anticipated construction costs for upgrades of approximately $12 million. We intend to enter into a new senior acquisition and construction facility for this project.

In November 2004 we expect to enter into an option contract to purchase 16 large lot single family home site for an expected purchase price of $3.4 million. This acquisition is expected to close in late 2006.

Contractual Obligations and Commercial Commitments

In addition to the above financing arrangements, we have commitments under certain contractual arrangements to make future payments for goods and services. These commitments secure the future rights to various assets and services to be used in the normal course of operations. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and obligations pertaining to such firm commitments are not reflected as assets or liabilities on the consolidated balance sheet. The following table summarizes our contractual and other obligations at

December 31, 2003, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

	Payments due by period				
Contractual obligations at December 31, 2003	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
	(in thousands)				
Notes payable	$ 61,062	$ 39,869	$ 21,193	$	
Operating leases	1,647	449	876	322	
Total	$ 62,709	$ 40,318	$ 22,069	$ 322	

Notes payable have an undefined repayment due date and are typically due and payable as homes are settled.

We are not an obligor under, or guarantor of, any indebtedness of any party other than Comstock Service and its subsidiaries.

We have no off-balance sheet arrangements except for the operating leases described above.

At December 31, 2003 we were obligated under an option purchase agreement for 28 condominium lots in Woodbridge, Virginia.

Seasonality and Weather

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

Inflation

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

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 September 30, 2004, 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 $525,000 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, 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 option 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.

New Accounting Pronouncements

Consolidation of variable interest entities.

We typically acquire land for development at market prices from various entities under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if we fail to perform under the agreement. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts. We may, at our 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. Our 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 liquidating damage provision contained within the purchase agreement. As a result, none of the creditors of any of the entities with which we enter into forward fixed price purchase agreements have recourse to the general credit of the Company. We also do not share in an allocation of either the profit earned or loss incurred by any of these entities with which we enter fixed price purchase agreements.

We have concluded that whenever we option land or lots from an entity and pay a significant nonrefundable deposit as described above, a variable interest entity is created under the provisions of FIN 46-R (see recent accounting pronouncement in Note 2). This is because we have 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. We therefore examine the entities with which we enter into fixed price purchase agreements, for possible consolidation by us under FIN 46-R. This requires us 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 we do not have any contractual or ownership interests in the entities with which we contract to buy the land, we do not have the ability to compel these development entities to provide financial or other data to assist us in the performance of the primary beneficiary evaluation.

OUR BUSINESS

Overview

We are a production home builder that develops, builds and markets single-family homes, townhouses and condominiums. We focus on geographic areas, products and price points where we believe there is significant demand for our homes and the greatest profit potential. We currently operate in the Washington, D.C. and Raleigh, North Carolina markets where we target a diverse range of buyers, including first-time, early move-up, secondary move-up, empty nester move-down and active adult home buyers. We believe that this demographic represents a significant and stable segment of the home buying market. Since our founding in 1985, we have built and delivered over 2,500 homes valued at over $565 million, including Comstock Service.

Over the past several years we have successfully expanded our business model to include the development of land for our home building operations as a complement to the purchasing of finished building lots developed by others. We are currently experiencing the benefits of this expansion. For the year ended December 31, 2003, our revenue and operating income increased over 2002 by 60% and 91.4%, respectively. For the nine months ended September 30, 2004, our revenue and operating income increased by 221.7% and 490.8%, respectively, as compared to the same period in 2003.

Our markets have generally been characterized by strong population and economic growth trends that have led to strong demand for housing. We believe that these markets provide attractive long-term growth opportunities. At September 30, 2004, including Comstock Service, our backlog from home sales was approximately $142.0 million, representing 400 homes, compared to approximately $52.4 million, representing 170 homes, at September 30, 2003. Including Comstock Service, our backlog at December 31, 2002 and 2003 was approximately $17.5 million, representing 56 homes, and approximately $36.4 million, representing 113 homes, respectively. At September 30, 2004, including Comstock Service, we either owned or had options to acquire over 3,200 building lots, excluding lots in our backlog. At October 31, 2004, including Comstock Service, we had backlog of $142.0 million from home sales.

Our Markets

We operate in the Washington, D.C. and the Raleigh, North Carolina markets. We believe that in the home building industry, local economic trends and influences have a more significant impact on supply and demand than national economic trends and influences. According to the National Association of Home Builders, the Washington, D.C. and Raleigh, North Carolina metropolitan areas are both ranked in the top 20 housing markets in the country with respect to total residential building permits issued in 2003.

Greater Washington, D.C. Metropolitan Market

Our current and anticipated projects for the Washington, D.C. market are in Arlington, Culpeper, Fairfax, Fauquier, Loudoun, Prince William and Stafford counties in Virginia, and Anne Arundel, Frederick, Howard, Montgomery, Prince Georges counties in Maryland and in the District of Columbia. The Washington, D.C. metropolitan area enjoys strong population and economic growth. The strength of this employment market and the stability and resilience of the local economy result in part from the size of the federal government workforce. The presence of the federal government historically has served as a buffer for the local economy against market downturns in the private sector. According to the Bureau of Labor Statistics, the federal government employs about 12% of the metropolitan workforce. Furthermore, according to the Bureau of Labor Statistics, the Washington, D.C. market is also characterized by a large professional and business services sector, such as legal, consulting and lobbying services, that employs about 21% of the metropolitan workforce. According to the U.S.

Department of Commerce, the Washington, D.C. market enjoyed the fourth highest per capita income among metropolitan areas in the country in 2002 138% of the national per capita income.

The Washington, D.C. new home buying market is characterized by strong demand and a limited supply of available housing inventory. Demand in the Washington, D.C area is strong because of a low unemployment rate and relatively high household incomes, among other factors. The supply of new homes in the market has been constrained in part by slow-growth and environmental preservation initiatives that are strictly enforced in many counties in the metropolitan area. According to the National Association of Realtors, there was a 1.9-month supply of homes for sale in the Washington, D.C. area for February 2004, as compared to the national supply of 4.6 months. This limited supply has had a significant impact on the price of homes for sale in the Washington, D.C. market. The average sales price of a new Comstock home in the market has risen to $348,000 in the first nine months of 2004, compared to $225,000 in 2001, an increase which is in part due to a shift in product mix and in part due to price appreciation. When adjusted to include Comstock Service the average sales prices for the first nine months of 2004 and for 2001 are $338,000 and $224,000, respectively. For the 12-month periods ended December 31 and the nine months ended September 30, 2004, the average order prices for our market rate homes were as follows:

	12-month period ended December 31,			For the Nine Months Ended
	2001	**2002**	**2003**	**September 30, 2004**
Townhouse	$ 189,750	$ 226,700	$ 271,430	$ 356,800
Single-family	$ 339,440	$ 415,150	$ 443,400	$ 497,400
Condominium		$ 302,900	$ 343,560	$ 386,800

The Washington, D.C. market experienced population growth of 19.7% from 1990 to 2001, according to the U.S. Census Bureau, and is projected to add approximately 52,000 persons annually through 2030, according to the Metropolitan Washington Council of Governments. According to the U.S. Bureau of Labor Statistics, the unemployment rate for the Washington, D.C. market was 3.0% in March 2004 well below the national unemployment rate of 6.0% and the lowest unemployment rate of the 51 largest metropolitan areas in the United States. For the 12 months ended March 2004, the Washington, D.C. market added 60,600 jobs with northern Virginia adding 50,000. According to the Center for Regional Analysis at George Mason University, the Washington, D.C. market is projected to add approximately 78,000 jobs in 2004.

Raleigh, North Carolina Market

Our current and anticipated projects for the Raleigh, North Carolina market are in Durham, Franklin, Johnston and Wake counties, which includes the city of Raleigh. From 1990 to 2000, the Raleigh, North Carolina market was the 12th fastest growing metropolitan area in the United States and was the second fastest growing area in the Southeast in terms of population growth, according to the U.S. Census Bureau. The area experienced population growth of 38.9% during that period, according to the Census Bureau. According to the Bureau of Labor Statistics, the unemployment rate for the Raleigh, North Carolina market was 3.5% in March 2004, a 1.4% decrease from a year ago and the 21st best performing metropolitan area of 331 areas examined. For the 12 months ended March 2004, the Raleigh, North Carolina market added 10,900 jobs, according to the Bureau of Labor Statistics.

Similar to the Washington, D.C. market, the local economy in the Raleigh, North Carolina market is generally stable and less sensitive to national economic trends because of large public sector employment. Raleigh is the state capital of North Carolina. According to the Bureau of Labor Statistics, the state and local government constitutes 18.7% of the total area's aggregate employment. The area is home to Research Triangle Park, a public/private, planned research park containing over

nine million square feet of office space, and the headquarters of multiple technology and research companies. Duke University, the University of North Carolina-Chapel Hill and North Carolina State University are also located in the Raleigh, North Carolina market. Additional local employers include numerous pharmaceutical and manufacturing companies and hospitals. According to the U.S. Department of Commerce, the Raleigh, North Carolina market ranked 41st among 361 metropolitan areas in 2002 in terms of per capita income, or 108% of the national per capita income.

Our Competitive Strengths

We believe we possess the following competitive strengths:

Committed and experienced management. We have been building homes since 1985 under the leadership of our current Chief Executive Officer. Our current President joined us in 1992. Most of our senior executives have been with us for at least five years. Many of our senior executives and managers have over 15 years of experience in the home building industry with some having over 30 years of experience.

Attractive land position. At September 30, 2004, we owned or controlled over 3,600 lots in our markets, including Comstock Service. We believe that restrictions on the development of new lots in our markets have increased, and will continue to increase, the market value of our land position. Our land planning, processing and development expertise allows us to acquire land positions in various stages of the entitlement process, which we believe provides us greater opportunities than many of our competitors. We intend to continue to utilize our land acquisition and development process to further develop an attractive land inventory.

Creative approach to land acquisition and development. We have developed a specialized, selective approach to land acquisition and development, focused on maximizing the value of each parcel. We have extensive knowledge regarding all aspects of the site selection, land planning, entitlement and development processes relative to all types of new home developments, from suburban single-family homes, townhouses and low-rise condominiums to high-rise, mixed-use urban condominium developments. We have significant experience in dealing with the governmental and regulatory authorities that govern the site development and entitlement processes. We leverage this knowledge and experience to manage development risk and create more value from the land that we acquire. Our knowledge and experience also allow us to be active in the development of urban mixed-use projects, which puts us in the position of acquiring and developing parcels of land that many of our competitors are not able to pursue.

Diversified product mix. Our products range from traditional single-family homes, townhouses and low-rise condominiums designed for suburban settings, to contemporary townhouses and high-rise condominiums designed for urban settings, and highly amenitized buildings targeting the active adult home buyer. This product mix allows us to diversify our risks in fluctuating market conditions by ensuring that we are positioned to attract a broad segment of the home buying population. We design all of our products to be attractively priced and value oriented. We believe that the average order price of our homes of approximately $320,000 in 2003, including Comstock Service, is consistent with our price and value goals and is well suited for the markets we target.

Broad customer base. By offering a wide variety of products in distinctly different types of locations we serve a broad customer base including first-time, early move-up, secondary move-up, empty nester move-down and active adult home buyers. First-time and early move-up home buyers make up a significant percentage of home buyers. The ownership of a home is a high priority for a large percentage of the population in the United States. We believe the growth in immigration of almost one million immigrants per year in the 1990s has increased the number of potential home buyers in America and has helped fuel growth in the first-time and early move-up home buyer market. In addition, we believe the large "baby boom" population in the United States is aging and is increasing

demand for secondary move-up, empty nester move-down and active adult new homes. Active adult refers to age-restricted developments that require at least one of the primary owners of the homes in the development to be at least 55 years old. As the baby boom generation ages, we believe that housing developments focused on this segment of the population will garner a larger share of the market.

Quality control and customer service. We strive to provide a high level of customer service during the sales and construction process as well as after a Comstock home is sold. Our sales representatives, on-site construction supervisors and post-closing customer service personnel work as a team in an attempt to ensure a high level of customer satisfaction. Our sales staff receives extensive training in understanding the needs of the customer and assisting them in the selection of a Comstock home and mortgage program that meets their requirements. As part of our commitment to quality assurance, each Comstock home is subject to a series of 25 stringent construction quality inspections covering virtually every aspect of the construction process. Our customer service personnel are trained to promptly and thoroughly address any concerns that our customers may have and also provide our home buyers with home maintenance training and advice. We believe this high level of attention to quality assurance in the construction process and focus on our customers' post-closing experience has earned Comstock a reputation for delivering high-quality products and excellent customer service. We believe this ultimately leads to enhanced customer satisfaction and additional sales through referrals.

Brand recognition. We believe the "Comstock" brand is strong and widely recognized in the Washington, D.C. and Raleigh, North Carolina markets. We license the "Comstock" trademark from Christopher Clemente, our Chief Executive Officer and Chairman of our Board of Directors, who has applied to register the trademark. We plan to maintain and enhance this brand and continue to live up to our reputation for building homes marked by quality and value.

Extensive selection of options and upgrades. Our home buyers can choose from hundreds of options and upgrades to customize their homes to meet their individual preferences. These options and upgrades include exterior finishes, bonus rooms, additional bathrooms and upgraded bath finishes, upgraded appliances, cabinets and countertop surfaces in the kitchen, decorative trims, various flooring finishes, fireplaces, lighting packages and technology options such as high speed data cabling, in-home stereo systems, in-home theatres and built-in flat screen televisions. We believe that by making many upgraded features available as options at an additional cost we are able to keep our products affordable to a greater number of potential home buyers. The availability of these options allows us to meet individual home buyer preferences while enhancing profitability through the sale of optional features.

Our Strategy

Our business strategy is to focus on geographic areas, products and price points where we believe there is the greatest market potential. Our strategy has the following key elements:

Build in and expand with the strong growth markets in which we currently operate. We believe there are significant opportunities for growth in our existing markets. We plan to maintain and expand our business in the Washington, D.C. and Raleigh, North Carolina markets to capitalize on their robust economies and continued population growth. We expect the growth in these two markets to continue. According to the Center for Regional Analysis at George Mason University, the Washington, D.C. area economy is projected to add approximately 78,000 jobs in 2004. We plan to utilize our strong regional presence and our extensive experience in the these markets to expand our operations in both markets through acquisition of additional land, and we may acquire local home builders whose operations would complement ours and enhance our competitive position in the marketplace.

Expand into selected new geographic markets within our region. We intend to expand into selected new geographic markets in the eastern United States through both start-up operations and acquisitions of other home builders that have strategic land positions, strong local management teams and sound

operating principles. In evaluating expansion opportunities, we prefer new markets that are easily reached from our headquarters in northern Virginia in order to enhance our ability to integrate the acquired operation into our core operation. We expect to target new markets that have favorable demographic and economic trends where we believe we will be able to achieve sufficient scale to successfully implement our business strategy. While we are currently evaluating various potential expansion opportunities, we have not identified any specific geographic markets into which we intend to expand our operations or entered into serious negotiations to establish a market presence in any other geographic area.

Acquire and develop a high-margin land inventory. We believe that our market knowledge and experience in land entitlement and development enable us to successfully identify attractive land acquisition opportunities, efficiently manage the process of obtaining development rights and maximize land value. We have the expertise to acquire land positions in various stages of the entitlement and development process, which we believe provides us more opportunities to build land inventory than many of our competitors. We intend to continue to utilize our land acquisition and development process to further develop an attractive land inventory. As a complement to our development strategy, we will continue to grow our land inventory through acquisition of finished lots from other developers. We believe our network of relationships and broad recognition in our core markets gives us an advantage over some of our competitors in acquiring finished lots. In addition, since we can often acquire options on large numbers of finished lots with minimal deposits, this strategy allows us to cost-effectively control significant land positions with reduced risk. As such, we intend to continue to option land positions whenever possible.

Create opportunities in areas overlooked by our competitors. We believe there is a significant market opportunity for well-designed, upscale homes and condominiums in urban and suburban areas in close proximity to transportation facilities. Local governments in our markets, especially the Washington, D.C. market, have modified zoning codes in response to mounting traffic concerns to allow for high-density residential development near transportation improvements. In our experience, buyers place a premium on new homes in developments within these areas. We believe that our townhouse and condominium products, along with our substantial experience in dealing with both the market and regulatory requirements of urban mixed-use developments, enable us to identify and create value in land parcels often overlooked by larger production home builders. As a result, we believe we can achieve higher overall margins on our products than larger production home builders who are only focused on volume. We plan to continue to focus on developing and creating these opportunities within our core markets.

Focus on a broad segment of the home buying market. Our single-family homes, townhouses and condominiums are designed and priced to appeal to a wide segment of the home buying market. We serve a broad customer base including first-time, early move-up, secondary move-up, empty nester move-down and active adult home buyers. We believe first-time and early move-up home buyers are a significant portion of home buyers and have in the past, we believe, been more resistant to market downturns. We believe that the aging of the American population makes it more likely that a significant percentage of the population will continue to be attracted to secondary move-up, empty nester move-down and active adult products as well. We expect our diversified product offerings to position us to benefit from the projected population growth in our core markets and the aging population in America, and to provide a degree of protection against market fluctuations.

Expand into the growing active adult market. Many localities are adopting zoning rules that encourage construction of mixed-use and active adult developments. We expect the large and aging baby boom population in the United States to fuel growth in the active adult market of the home building industry. As the baby boom generation ages, we anticipate that housing developments focused on this population will capture a larger share of the market. We believe this growing segment of the population will also likely be attracted to the urban convenience and activities available in upscale

urban active adult developments. Active adult developments are often favored by local governments because they increase the tax base while requiring fewer government-funded services and infrastructure, such as schools and summer programs, as compared to traditional developments that attract families. We believe that we are well positioned to take advantage of this growing demand.

Maximize our economies of scale. As a production home builder, we construct a large number of homes each year. In many instances, we utilize plans we have built numerous times which allows us to minimize cost through value engineering resulting from previous field experience. We are also able to coordinate labor and material purchasing under bulk contracts thereby reducing unit costs. As a result, we are able to realize economies of scale in the purchase of raw materials, supplies, manufactured inputs and labor. As we expand, we will seek to maximize these benefits through purchasing arrangements with national and regional vendors.

Our Operations

We integrate the process of building a home by carefully controlling each phase of the process from land acquisition to the construction, marketing and sale of a home. During every stage of the process we manage risk and focus on products, geographic areas and price points that maximize our revenue and profit opportunities.

Land Identification and Acquisition

We believe that by controlling and managing a significant portion of our land inventory we are better able to manage our growth in accordance with our business plan.

We acquire land for our home building operations both as finished building lots and as raw land that we develop. We primarily acquire land that has vested development rights. Often we contract to purchase land from land developers that will maintain ownership of the land through the entitlement process. Similarly we often will contract to purchase finished building lots from land developers that will maintain ownership of the land through the land development process. When we purchase land in this manner we typically will provide our home building expertise to the seller in order to ensure the land is developed in a manner consistent with our plans for the project. By contracting to purchase land that is owned by the land developer during the entitlement and development process we minimize the risks associated with seeking entitlements and performing land development.

We also buy land that we develop into building lots ourselves. We generally buy undeveloped land when we are developing high-density projects because the product design is often integrated into the site development operations. We also buy land that we develop into traditional building lots when we believe the additional risk associated with developing the land is manageable and the return on investment will likely be enhanced. We routinely purchase these sites after the development rights have been secured, which eliminates or substantially reduces risks associated with seeking entitlements.

We are presently engaged in land development activities in six projects in the Washington, D.C. market and one project in the Raleigh, North Carolina market. Additionally, we are currently acquiring finished building lots from land developers for our home building operations in six projects in the Washington, D.C. market and seven projects in the Raleigh, North Carolina market.

Our land acquisition and development process is managed by our executive land committee that includes representatives from our various business departments. This committee meets regularly to evaluate prospective land acquisitions and evaluates several factors that could affect the outcome of a project under consideration. These factors include:

- supply and absorption rates of similar new home projects;

- supply and absorption rates of existing homes in the area;

projected equity requirements;

projected return on invested capital;

status of land development entitlements;

projected net margins of homes to be sold by us;

projected absorption rates;

demographics, school districts, transportation facilities and other locational factors; and

competitive market positioning.

We focus on opportunities that we believe have the potential to generate revenue on home sales as well as appreciation in land value through the application of our expertise. Many of the sites we select may be overlooked by large, national competitors due to the complexity of zoning and entitlement issues or other development characteristics of the site. Our acquisition due diligence process involves a high level of scrutiny which includes a variety of analyses, including land title examination, applicable zoning evaluations, environmental analysis, soil analysis, utility availability studies, and marketing studies that review population and employment trends, school districts, access to regional transportation facilities, prospective home buyer profiles, sales forecasts, projected construction costs, labor and material availability, assessment of political risks and other factors.

Land Entitlement and Development

We manage development opportunities and risks through our entitlement process.

We have extensive knowledge and experience in all aspects of the site selection, land planning, entitlement and land development processes. Specifically, we have significant experience in dealing with the governmental and regulatory authorities that govern the site selection, development and zoning processes. Entitlement is the process by which a local government determines the density it will permit to be developed on a particular property. Entitlements and development permits are often obtained through negotiations with local governmental authorities. This process often involves consultation with various parties, including the local homeowner associations, federal governmental agencies and environmental protection groups. Infrastructure improvements, such as sewers, roads, utilities and transportation improvements are often required to be built in connection with the development of a parcel of land.

Our experience and knowledge allow us to effectively negotiate with all concerned parties in an attempt to ensure the costs of the improvements associated with obtaining entitlements are commensurate with the development potential of the subject property. We can quickly assess the likely approvals on a particular property in the early stages of our due diligence process. As a result, we can control the details of development, from the design of each community entryway to the placement of streets, utilities and amenities, in order to efficiently design a development that we expect will improve our ability to maximize the potential return on our investment in the property. We seek to manage development risk by acquiring options to purchase properties after the approval of the necessary entitlements, while assuming control of their entitlement process, thereby deferring acquisition of the property until all necessary entitlements are obtained.

At times, we may sell lots and parcels within our developments to other home builders. This enables us to create a more well-rounded community. As of September 30, 2004, we controlled over 3,600 building lots in our markets, including lots held by Comstock Service. Of that inventory we owned approximately 1,815 of the building lots and controlled the balance of the building lots through option or deferred settlement contracts. Accordingly, we are able to reduce the risk associated with ownership

of the land in our inventory. We expect to expand our inventory of building lots through additional acquisitions of finished building lots and development sites.

Sales and Production

We have a wide variety of product lines and custom options for our products that enable us to meet the specific needs of each of our markets and each of our home buyers. We believe that our diversified product strategy enables us to best serve a wide range of home buyers and adapt quickly to changing market conditions. We continually reevaluate and improve upon our existing product designs and develop new product offerings to keep up with changing consumer demands and emerging market trends.

Our single-family homes range in size from approximately 2,000 square feet to over 5,100 square feet and are priced from the $200,000s to the $600,000s. Our townhouses range in size from approximately 1,200 square feet to over 4,500 square feet and are priced from the $100,000s to the $600,000s. Unlike many of our traditional home building competitors, we also design, sell and build mid-rise and high-rise condominiums. We believe that our condominium products are particularly well-suited to the high-density, infill and active adult home buyer market. Our condominiums range in size from approximately 400 square feet to over 2,400 square feet and are priced from the $100,000s to the $700,000s.

We typically act as the general contractor in the construction of our single-family homes, townhouses and low-rise condominium buildings. On projects where we offer these product lines our employees provide land development management, construction management, material purchasing and quality control supervision on the homes we build. Substantially all construction work on these types of projects is done by subcontractors that contract directly with us and with whom we typically have an established relationship. On our high-density, high-rise and mixed-use developments, we typically engage a general contractor for the site preparation and construction management, and typically we have a fixed price or a gross maximum price contract with the selected general contractor. In these instances the subcontractors that perform the construction work are typically contracted directly with the general contractor that we select. On projects where we offer these product lines our employees provide land development oversight management, construction quality supervision and construction management services. In all instances we follow generally accepted management procedures and construction techniques which are consistent with local market practices. We comply with local and state building codes on all of our developments.

We seek to obtain favorable purchasing arrangements with our vendors and subcontractors using our leverage as a production home builder. We typically enter into forward contracts with our vendors for the construction materials used in building our homes. This process allows us to manage the pricing risk associated with fluctuating prices for the materials, such as lumber. We do not have long-term contracts with our subcontractors but in general we have contracts that fix the price of work being provided on homes that have been sold.

We primarily build our single-family homes after contracts are signed and mortgage approval has been obtained by the home buyer. We generally begin construction of our townhouses and condominiums after we have obtained customer commitments for a significant percentage of the units in the building. Depending on the market conditions and the specific community, we may also build speculative homes. Most of these homes are sold while under construction or are used as model homes during the marketing phase of the project. We closely monitor our inventory of speculative units applying a measured approach to unit production in keeping with sales absorption. On occasion we will sell a completed model home to a third party investor that is willing to lease back the home to us for use during the marketing phase of a project.

To facilitate the sale of our products, we normally build, decorate, furnish and landscape model homes for each product line and maintain onsite sales offices. In most cases, we employ in-house commissioned sales personnel to sell our homes. On occasion we will contract for marketing services with a third party brokerage firm. All personnel engaged in the sale of Comstock homes receive extensive training in the sales process. We strive to provide a high level of customer service during the sales process. Through exclusive relationships that we have created with our preferred mortgage lenders and utilizing our custom marketing programs we are able to help our customers prepare for home ownership and obtain a mortgage tailored to their specific needs.

Our NextHome programs are designed to assist our customers in many aspects of purchasing a Comstock home, as follows:

- DownRight a program designed to help identify ways to meet the down payment requirements of a new home purchase;

- Tailor Made a program with unique financing products and agreements with major lenders that tailor a monthly payment in order to make home ownership affordable in any interest rate climate;

- Get It Sold a program designed to help our customers sell their current home quickly and efficiently in order to facilitate their purchase of a new Comstock home;

- All@Home a program enabling our customers to design technology solutions for their new Comstock home to meet their individual specifications;

- Built Right a quality assurance program incorporating quality assurance inspections with high-quality materials; and

- Home Style an optional upgrade program providing hundreds of options to choose from to customize a new Comstock home to suit your specific desires.

Our Communities

We currently have communities under development in Arlington, Fairfax, Loudoun and Prince William counties in Virginia. In Maryland we are currently active in Frederick County. In North Carolina we have active communities in Wake County. The following maps illustrate the locations of our communities as of September 30, 2004:

The following chart summarizes certain information for our current and planned communities at September 30, 2004 and includes Comstock Service:

Project	Status as of September 30, 2004(1)	Estimated Homes at Completion	September 30, 2004 Homes Settled	Lots Owned Unsold	Lots under Option Agreement Unsold	Backlog(2)	Average Sales Price($) (in thousands)
Virginia:							
Blooms Mill Townhouses 20'	Active	91	85	2		4	271.1
Blooms Mill Townhouses 22'	Active	113	22	80		11	381.2
Blooms Mill Carriage	Active	91	22	57		12	403.0
Blooms Mill Single-Family	Active	35	27	2		6	486.7
Blooms Mill Lots	Active	47	44			3	129.6
Commons on Potomac Square	Active	190		190			
Commons on Williams Square	Active	180		180			
The Eclipse on Center Park	Active	465		248		217	349.0
River Club at Belmont Bay 5	Active	84		13	28	43	428.7
Woodlands at Round Hill	Active	65		63		2	663.8
Wescott Ridge Condominiums	Active	170	97	3		70	279.1
Total Virginia Active		1,531	297	838	28	368	378.0
Total Virginia Active-Weighted Average(3)							$359.4
Barrington Park	Pre-development	134			134		
Blakes Crossing	Pre-development	160			160		
Brandy Station	Pre-development	350			350		
Haverhill(4)	Pre-development	350			350		
Loudoun Station Condominiums	Pre-development	218			218		
River Club at Belmont Bay 8 & 9	Pre-development	600			600		
Total Virginia Pre-development		1,812			1,812		