ORGANOVO HOLDINGS, INC.
Form 424B3
November 14, 2012
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-182101

PROSPECTUS SUPPLEMENT NO. 1

(TO PROSPECTUS DATED July 6, 2012)

Organovo Holdings, Inc.

Common Stock, Par Value $0.001 Per Share

This Prospectus Supplement No. 1 (the Prospectus Supplement) supplements our Prospectus dated July 6, 2012 (the Prospectus) relating to the resale of up to 32,095,974 shares of our common stock by certain selling security holders listed on pages 13 through 18 of the Prospectus, including any permitted donee, pledgee, transferee or other successor in interest. We will not receive any proceeds from the sale of shares by the selling security holders.

Recent Developments

This Prospectus Supplement is being filed to update and supplement the information in the Prospectus with the information contained in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed with the Securities and Exchange Commission on November 14, 2012 (the Quarterly Report). Accordingly, we have attached the Quarterly Report to this Prospectus Supplement. Any statement contained in the Prospectus shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement.

This Prospectus Supplement should be read in conjunction with, and may not be delivered or utilized without, the Prospectus.

In reviewing this Prospectus Supplement, you should carefully consider the matters described under the caption Risk Factors beginning on page 6 of the Prospectus and beginning on page 25 of our Quarterly Report.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This Prospectus Supplement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The date of this Prospectus Supplement is November 14, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number 000-54621

Organovo Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-1488943**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6275 Nancy Ridge Drive, Suite 110, San Diego, CA 92116	**(858) 550-9994**
(Address of principal executive offices and zip code)	**(Registrant s telephone number, including area code)**

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of September 30, 2012, a total of 46,969,141 shares of the Registrant s Common Stock, $0.001 par value, were outstanding.

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Organovo Holdings Inc.

(A development stage company)

Condensed Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 7,675,918	$ 339,607
Grants receivable	95,477	
Inventory	312,182	291,881
Deferred financing costs		318,843
Prepaid expenses and other current assets	144,515	79,874
Total current assets	8,228,092	1,030,205
Fixed Assets - Net	605,920	278,208
Restricted Cash	88,321	
Other Assets	120,890	100,419
Total assets	$ 9,043,223	$ 1,408,832
Liabilities and Stockholders Deficit		
Current Liabilities		
Accounts payable	$ 61,347	$ 657,560
Accrued expenses	830,033	437,837
Deferred revenue	75,000	152,500
Capital lease obligation, current portion	9,845	
Accrued interest payable		24,018
Convertible notes payable, current portion		703,833
Total current liabilities	976,225	1,975,748
Capital lease obligation, net current portion	19,712	
Warrant liabilities	35,471,527	1,266,869
Total liabilities	$ 36,467,464	$ 3,242,617
Commitments and Contingencies (Note 5)		
Stockholders Deficit		
Common stock, $0.001 par value; 150,000,000 shares authorized, 46,969,141 and 22,445,254 issued and outstanding at September 30, 2012 and December 31, 2011, respectively	46,969	22,445
Additional paid-in capital	13,208,039	4,835,326
Deficit accumulated during the development stage	(40,679,249)	(6,691,556)
Total stockholders deficit	(27,424,241)	(1,833,785)
Total Liabilities and Stockholders Deficit	$ 9,043,223	$ 1,408,832

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

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Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	*Period from April 19, 2007 (Inception) through September 30, 2012*
Revenues					
Product	$	$	$	$ 100,000	$ 223,500
Collaborations	373,761	231,974	752,736	449,213	1,515,824
Grants	95,477		95,477	56,925	759,589
Total Revenues	469,238	231,974	848,213	606,138	2,498,913
Cost of product revenue				50,584	133,607
Selling, general, and administrative expenses	2,981,481	550,157	4,939,403	1,129,597	7,605,440
Research and development expenses	1,105,456	304,251	2,305,311	1,013,981	5,503,699
Loss from Operations	(3,617,699)	(622,434)	(6,396,501)	(1,588,024)	(10,743,833)
Other Income (Expense)					
Fair value of warrant liabilities in excess of proceeds received			(19,019,422)		(19,019,422)
Change in fair value of warrant liabilities	42,252,357		(5,190,637)		(5,197,206)
Financing transaction costs in excess of proceeds received			(2,129,500)		(2,129,500)
Loss on disposal of fixed assets	(158,366)		(158,366)		(158,366)
Interest expense	(203)	(182,320)	(1,087,656)	(294,245)	(3,406,098)
Interest income	1,358		3,342		5,348
Other income (expense)	596	(488)	(8,953)	(2,038)	(30,172)
Total Other Income (Expense)	42,095,742	(182,808)	(27,591,192)	(296,283)	(29,935,416)
Net Income (Loss)	$ 38,478,043	$ (805,242)	$ (33,987,693)	$ (1,884,307)	$ (40,679,249)
Net income (loss) per common share - basic	$ 0.87	$ (0.07)	$ (0.86)	$ (0.16)	$
Net income (loss) per common share - diluted	$ 0.69	$ (0.07)	$ (0.86)	$ (0.16)	$
Weighted average shares used in computing net income (loss) per common share - basic	44,099,554	12,262,691	39,349,681	11,537,879	
Weighted average shares used in computing net income (loss) per common share - diluted	55,849,360	12,262,691	39,349,681	11,537,879	

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

Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Stockholders Deficit

Period from April 19, 2007 (Inception) through September 30, 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at Inception (April 19, 2007)		**$**	**$**	**$**	**$**
Issuance of Common stock					
Stock-based compensation expense					
Net Loss					
Balance at December 31, 2007		**$**	**$**	**$**	**$**
Issuance of Common stock to founders	1,729,532	1,730	(1,730)		
Issuance of restricted Common stock	12,627,697	12,628	(12,628)		
Stock-based compensation expense			1,742		1,742
Net Loss				(97,559)	(97,559)
Balance at December 31, 2008	**14,357,229**	**$ 14,358**	**$ (12,616)**	**$ (97,559)**	**$ (95,817)**
Issuance of restricted Common stock	130,422	130	(130)		
Stock-based compensation expense			2,336		2,336
Net Loss				(872,041)	(872,041)
Balance at December 31, 2009	**14,487,651**	**$ 14,488**	**$ (10,410)**	**$ (969,600)**	**$ (965,522)**
Issuance of restricted Common stock	219,369	219	(219)		
Stock-based compensation expense			3,856		3,856
Net Loss				(1,338,694)	(1,338,694)
Balance at December 31, 2010	**14,707,020**	**$ 14,707**	**$ (6,773)**	**$ (2,308,294)**	**$ (2,300,360)**
Issuance of Common stock through conversion of notes payable	7,676,828	7,677	3,482,081		3,489,758
Issuance of restricted Common stock	61,406	61	(61)		
Warrants issued with convertible notes and conversion of notes			1,111,364		1,111,364
Beneficial conversion feature of convertible notes payable			239,700		239,700
Stock-based compensation expense			9,015		9,015
Net Loss				(4,383,262)	(4,383,262)
Balance at December 31, 2011	**22,445,254**	**$ 22,445**	**$ 4,835,326**	**$ (6,691,556)**	**$ (1,833,785)**
Issuance of Common stock in connection with the merger	6,000,000	6,000	(6,000)		
Issuance of Common stock through private placements in connection with the merger	13,722,600	13,723	13,708,877		13,722,600
Costs associated with the merger			(13,722,600)		(13,722,600)
Issuance of Common stock through conversion of notes payable and accrued interest in connection with the merger	1,525,387	1,525	1,523,862		1,525,387
Issuance of warrants to consultant			72,919		72,919
Issuance of Common stock from warrant exercises	1,810,831	1,811	1,766,665		1,768,476

Warrant liability removed due to exercise of warrants			3,728,001		3,728,001
Issuance of Common stock from stock option exercises	224,064	224	17,701		17,925
Issuance of restricted common stock	1,380,000	1,380	(1,380)		
Restricted stock forfeitures	(138,995)	(139)	139		
Stock-based compensation expense			1,284,529		1,284,529
Net Loss				(33,987,693)	(33,987,693)
Balance at September 30, 2012	**46,969,141**	**$ 46,969**	**$ 13,208,039**	**$ (40,679,249)**	**$ (27,424,241)**

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

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Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Period from April 19, 2007 (Inception) through September 30, 2012
Cash Flows From Operating Activities			
Net loss	$ (33,987,693)	$ (1,884,307)	$ (40,679,249)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred financing costs	318,843		438,296
Loss on disposal of fixed assets	158,366		158,366
Depreciation and amortization	116,828	49,929	273,156
Amortization of debt discount	896,167	97,565	2,083,735
Interest accrued on convertible notes payable	11,616	196,680	495,392
Fair value of warrant liabilities in excess of proceeds	19,019,422		19,019,422
Change in fair value of warrant liabilities	5,190,637		5,197,206
Stock-based compensation	1,284,529	2,596	1,301,478
Amortization of warrants issued for services	36,054		36,054
Warrants issued in connection with exchange agreement			527,629
Increase (decrease) in cash resulting from changes in:			
Grants receivable	(95,477)	59,744	(95,477)
Inventory	(327,993)	(212,395)	(619,874)
Prepaid expenses and other assets	(53,490)	1,044	(146,496)
Accounts payable	(596,213)	374,973	61,347
Accrued expenses	392,196	260,031	830,033
Deferred revenue	(77,500)	95,075	75,000
Net cash used in operating activities	(7,713,708)	(959,065)	(11,043,982)
Cash Flows From Investing Activities			
Restricted cash deposits	(88,321)		(88,321)
Purchases of fixed assets	(255,750)	(16,290)	(682,573)
Purchases of intangible assets		(65,000)	(95,000)
Net cash used in investing activities	(344,071)	(81,290)	(865,894)
Cash Flows From Financing Activities			
Proceeds from issuance of convertible notes payable		1,042,500	4,630,000
Proceeds from issuance of common stock and warrants	15,491,075		15,491,075
Proceeds from exercise of stock options	17,925		17,925
Proceeds from issuance of related party notes payable		225,000	250,000
Principal payments on capital lease obligations	(4,663)		(4,663)
Repayment of related party notes payable		(250,000)	(250,000)
Repayment of convertible notes and interest payable	(110,247)		(110,247)
Deferred financing costs		(205,984)	(438,296)
Net cash provided by financing activities	15,394,090	811,516	19,585,794

Net Increase (Decrease) in Cash and Cash Equivalents	7,336,311	(228,839)	7,675,918
Cash and Cash Equivalents at Beginning of Period	339,607	285,308	
Cash and Cash Equivalents at End of Period	$ 7,675,918	$ 56,469	$ 7,675,918
Supplemental Disclosure of Cash Flow Information:			
Interest	$ 10,247	$	$ 10,247
Income Taxes	$ 800	$ 2,400	$ 3,200

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Supplemental Disclosure of Noncash Investing and Financing Activities:

During 2008, the Company issued 1,729,532 shares of Common stock to its founders.

During 2011 and 2010 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued 61,406, 219,369 and 13,038,894, respectively, shares of restricted Common stock to certain employees, advisors and consultants of the Company.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued certain convertible notes payable that included warrants. The warrants and the related beneficial conversion feature, valued at $823,435 were classified as equity instruments and recorded as a discount to the carrying value of the related debt.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued warrants, valued at approximately $1,260,000, in connection with certain convertible notes payable. The warrants were recorded as a warrant liability and recorded as a discount to the carrying value related to debt.

During 2011, the Company issued 7,676,828 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $3,030,000 and accrued interest totaling $459,758.

During 2012, the Company issued 1,525,387 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $1,500,000 and accrued interest totaling $25,387.

During 2012, the Company issued warrants, valued at approximately $32,743,000, in connection with the Reverse Merger and the Private Placement. The warrants were recognized as a derivative liability.

During 2012, the Company purchased equipment valued at $34,220 through a capital lease.

During 2012, the Company transferred approximately $307,700 of inventory to fixed assets.

During 2012, the Company issued 100,000 warrants to purchase shares of our common stock for consulting services. The warrater" STYLE="border-bottom:1px solid #000000">**2011 2010**

Washington DC Metropolitan Area

$0 $1,548

$0 $1,548

Selling, general and administrative expenses

Selling, general and administrative costs for the year ended December 31, 2011 increased $1.8 million to $7.4 million as compared to $5.6 million for the year ended December 31, 2010. The increase is primarily attributable to increase in stock compensation expenses of $0.9 million, feasibility expenses of $0.3 million and an increase in consulting expenses of $0.3 million. We had 32 full time and 4 part time employees at December 31, 2011 versus 26 full time and 1 part time at December 31, 2010.

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

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

When a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. During the twelve months ended December 31, 2011 and 2010, all of our projects were determined to be inactive for accounting purposes. The following is a breakdown of the interest, real estate taxes and indirect costs related to inactive projects reported on the statement of operations related to the inactivation of certain real estate projects held for development and sale:

	Years ended December 31,	
	2011	**2010**
Total interest incurred and expensed for inactive projects	$ 2,507	$ 1,567
Total real estate taxes incurred and expensed for inactive projects	381	517
Total production overhead incurred and expensed for inactive projects	214	140
	$ 3,102	$ 2,224

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Liquidity and Capital Resources

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and will continue to include, funds derived from various secured and unsecured borrowings, cash flow from operations, which includes the sale and delivery of constructed homes, rental apartment projects, finished and raw building lots and the sale of equity and debt securities.

Several recent events have resulted in an improved financial position for the Company. As discussed in Notes 9 and 10, the Company entered into a strategic alliance with SunBridge Capital Management, LLC (SunBridge) which, among other things, provided for a cash out refinancing for both the Eclipse and Penderbrook projects. Additionally, the Company reached a settlement of $9.4 million in its Balfour lawsuit (see Note 15). Finally, on March 7, 2012, Cascades II completed the sale of its Potomac Square Apartment for $19.35 million resulting in unrestricted net proceeds of approximately $4.7 million from the transaction. The Company will use the net proceeds from each of these events to support its ongoing business operations and new business initiatives.

The Company is involved in ongoing discussions with lenders and potential equity investors in an effort to provide additional liquidity to sustain business operations and growth capital to fund various new business opportunities. We are anticipating that through a combination of these discussions, the additional cash from settlement proceeds, the cash generated by our rental operations and the cash generated from settlements at our new communities currently under development that the Company will generate sufficient cash to sustain our operations through 2012.

Credit Facilities

We have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate property.

As of December 31, 2011, maturities and/or curtailment obligations of all of our borrowings are as follows ($000s):

2012	557
2013	5,108
2014	10,178
2015	263
2016 and thereafter	13,709
Total	$ 29,815

In the past, the Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders.

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As described in more detail below, at December 31, 2011 and 2010 our outstanding debt by lender was as follows:

Bank	Balance as of 12/31/11	Balance as of 12/31/10	Recourse
SunBridge, net of $0.6 million discount	$ 10,178	$	Secured
Cardinal Bank	9,957		Secured
Bank of America	3,751	3,885	Unsecured
Cornerstone (Haven Trust)	400	400	Unsecured
Branch Banking & Trust	263	263	Secured
Wachovia	133	205	Unsecured
Seller - Emerald Farm	100	100	Secured
Fifth Third	25	25	Unsecured
KeyBank		10,578	Secured
Guggenheim Capital Partners		6,400	Secured
M&T Bank		1,512	Secured
	24,807	23,368	
Due to affiliates - Stonehenge Funding	5,008	5,008	Unsecured
Total	29,815	$ 28,376	

Significant 2011 Borrowings

On February 11, 2011, an entity in which the Company has a controlling interest, Cascades II, entered into a loan agreement with Cardinal Bank pursuant to which Cascades II obtained an $11.0 million multi-family construction loan and mortgage with a five year term. Proceeds from the loan were used to (i) fund the construction of a 103 unit apartment project located in the Cascades master planned community in Loudoun County, Virginia (the Cascades Apartments) and (ii) retire existing indebtedness of the Company owed to M&T having a maturity date of February 14, 2011 and which was secured by a first deed of trust on the real property upon which the Potomac Square Apartments was constructed.

On March 7, 2012, Cascades II completed the sale of Cascades Apartments to an affiliate of CAPREIT Acquisition Corporation (Purchaser), a Maryland corporation, pursuant to a Contract of Sale Agreement, as amended, dated October 31, 2011. The Project was sold for $19.35 million. At settlement, the Cardinal Bank loan was retired in full.

On July 12, 2011, the Company, through a subsidiary called Comstock Potomac Yard, L.C., entered into a loan agreement with BCL Eclipse, LLC, an affiliate of SunBridge Capital Management, LLC (SunBridge), pursuant to which the Company secured a $13.8 million loan with a three year term (the SunBridge Eclipse Loan) to refinance the Company s Eclipse condominium project. Proceeds from the SunBridge Eclipse Loan were primarily utilized to (i) pay off existing indebtedness of approximately $9.0 million, (ii) pay approximately $.8 million for expenses associated with the SunBridge Eclipse Loan (which are classified in other assets in the accompanying balance sheet), and (iii) for general corporate purposes. The SunBridge Eclipse Loan provides for a 1% origination fee and an interest rate of 12.5%. There is no prepayment penalty associated with the SunBridge Eclipse Loan, which is secured by a first deed of trust on the property. The loan is subject to minimum sales and release requirements.

On July 12, 2011, SunBridge also issued a binding commitment letter to the Company, through a subsidiary called Comstock Penderbrook, L.C., for a cash out refinance of the Company s Penderbrook Square condominium projected in an amount of up to $7.0 million with a three-year term (the SunBridge Penderbrook Loan). This commitment was drawn upon on October 5, 2011 and the loan was funded for approximately $5.4 million. Proceeds from this loan were primarily utilized to (i) pay off existing indebtedness of approximately $3.9 million, (ii) pay for expenses associated with the loan of approximately $.7 million, and (iii) for general corporate purposes. The SunBridge Penderbrook Loan provides for a 1% origination fee and an interest rate of 12.5%. There is no prepayment penalty associated with the SunBridge Penderbrook Loan, which is secured by a first deed of trust on the property. The loan is subject to minimum sales and release requirements.

Cash Flow

Net cash provided by operating activities was $12.7 million for the year ended December 31, 2011 and $15.4 million for the year ended December 31, 2010. In both years the primary source of cash provided by operating activities was the sale of real estate assets. On March 17, 2010, we completed the sale of land at our Station View project located in Loudoun County, Virginia for $2.8 million.

Net cash used in investing activities was $9.8 million for the year ended December 31, 2011. In 2011, the primary use of cash in investing activities was for construction of Cascades II. There were no material cash flows from investing activities for the year ended December 31, 2010.

Net cash provided by financing activities was $2.3 million for the year ended December 31, 2011. The primary source of cash was from the SunBridge financing. Net cash used in financing activities was $16.0 million for the year ended December 31, 2010. Repayments of indebtedness were the primary use of cash from financing activities in both years.

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Seasonality and Weather

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

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.

CAUTIONARY NOTES REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report 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-statements are based largely on our expectations and involve inherent risks and uncertainties including certain risks described in this report. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this report. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include: general economic and market conditions, including interest rate levels; our ability to service our debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; regulatory actions; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis and our continuing relationships with affiliates.

Many of these factors are beyond our control. For a discussion of factors that could cause actual results to differ, please see the discussion in this report under the heading Risk Factors in Item 1A.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
Not Applicable.

Item 8. Financial Statements and Supplementary Data
Reference is made to the financial statements, the notes thereto, and the report thereon, commencing on page F-1 of this report, which financial statements, notes, and report are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Not applicable.

Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of December 31, 2011.

Limitations on the Effectiveness of Controls

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

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

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011, based on criteria set forth in the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Our management determined that, as of December 31, 2011, our internal control over financial reporting is effective.

Changes in Internal Control

No change has occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our last fiscal quarter ended December 31, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2012 Annual Meeting of Stockholders, except that the information relating to our executive officers is included in Item 1, Business Executive Officers of this report.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2012 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2012 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2012 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2012 Annual Meeting of Stockholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements are listed in the Index to Financial Statements on page F-1 of this report.

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

(3) Exhibits

Exhibit Number	Exhibit
3.1(2)	Amended and Restated Certificate of Incorporation
3.2(2)	Amended and Restated Bylaws
4.1(1)	Specimen Stock Certificate
10.1(1)	Lease Agreement, dated as of January 31, 2004, with Comstock Partners, L.C.
10.2(1)	Agreement of Sublease, dated as of October 1, 2004, with Comstock Asset Management, L.C.
10.3(1)	Form of Indemnification Agreement
10.4(1)	Form of Promissory Note to be issued to each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub by each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc.
10.5(1)	Form of Tax Indemnification Agreement to be entered into by each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub with each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc.
10.6(1)	2004 Long-Term Incentive Compensation Plan+
10.7(1)	Form Of Stock Option Agreement under the 2004 Long-Term Incentive Compensation Plan+
10.8(2)	Form Of Restricted Stock Grant Agreement under the 2004 Long-Term Incentive Compensation Plan+
10.9(1)	Employee Stock Purchase Plan+
10.10(2)	Purchase and Sale Agreement, dated as of November 9, 2004, as amended, with Fair Oaks Penderbrook Apartments L.L.C.
10.11(2)	Services Agreement, dated March 4, 2005, with Comstock Asset Management, L.C.
10.12(1)	Employment Agreement with Christopher Clemente+
10.13(1)	Employment Agreement with Gregory Benson+
10.14(1)	Confidentiality and Non-Competition Agreement with Christopher Clemente+

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10.15(1)	Confidentiality and Non-Competition Agreement with Gregory Benson+
10.16(1)	Trademark License Agreement
10.17(2)	Purchase Agreement, dated as of November 12, 2004 with Comstock Asset Management, L.C.
10.18(4)	Description of Reimbursement and Indemnification Arrangement with Christopher Clemente and Gregory Benson
10.19(5)	Stock Purchase Agreement with Parker-Chandler Homes, Inc. and the Selling Stockholders identified therein, dated as of January 19, 2006
10.20(6)	Form of purchase agreement, dated as of May 5, 2006, as amended as of May 9, 2006, by and between the Company and the purchasers identified therein
10.21(6)	Form of warrant
10.22(7)	Note Purchase Agreement with Kodiak Warehouse LLC, dated as of May 4, 2006
10.23(7)	Junior Subordinated Indenture with Wells Fargo Bank, N.A., dated as of May 4, 2006
10.24(7)	Credit Agreement with Wachovia Bank, N.A., dated as of May 26, 2006
10.25(7)	Stock Purchase Agreement with Capitol Homes, Inc. and the Selling Shareholders identified therein, dated as of May 1, 2006
10.26(9)	Loan and Security Agreement, dated as of February 2008, by and between the Registrant and Stonehenge Funding, LC.
10.27(9)	Guaranty Agreement, dated as of February 2008, by Comstock Potomac Yard, L.C. in favor of Stonehenge Funding, LC.

10.28(9)	Supplement to Indenture, dated as of January 7, 2008, by and between the Registrant and Wells Fargo Bank, N.A.
10.29(9)	Amended and Restated Indenture, dated as of March 14, 2008, by and between the Registrant and Wells Fargo Bank, N.A.
10.30(10)	Forbearance and Conditional Release Agreement, dated as of November 25, 2008, by and among Highland Avenue Properties, LLC, Comstock Homes of Atlanta, LLC, the Registrant and Bank of American, N.A.
10.31(10)	Sixth Loan Modification Agreement, dated as of November 26, 2008, by and among the Registrant and Bank of America, N.A.
10.32(10)	Amended and Restated Promissory Note (Tribble Road Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association.
10.33(10)	Loan Modification and Forbearance Agreement, dated as of December 10, 2008, by and among the Registrant, various wholly owned subsidiaries as guarantors and Wachovia Bank, National Association.
10.34(10)	Amended and Restated Promissory Note (Revolving Line of Credit), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association.
10.35(10)	Amended and Restated Promissory Note (Term Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association.
10.36(11)	Consensual Foreclosure and Settlement Agreement, dated August 17, 2009, by and among the Registrant, et.al. and Wachovia Bank, National Association
10.37(11)	Third Amendment of Loan Agreement, dated September 16, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC
10.38(11)	Settlement Agreement and Mutual Release, dated September 21, 2009, by and among Registrant, Mathis Partners, LLC and Cornerstone Bank
10.39(11)	Forbearance Agreement, dated September 28, 2009, by and among Comstock Cascades, L.C., the Registrant and Manufacturers and Traders Trust Company
10.40(11)	Forbearance and Conditional Release Agreement, dated September 28, 2009, by and among Comstock Belmont Bay 89, L.C., the Registrant and Manufacturers and Traders Trust Company
10.41(11)	First Amendment to Loan Agreement, dated October 30, 2009, by and among Comstock Station View, L.C., Comstock Potomac Yard, L.C., the Registrant and Key Bank National Association
10.42(11)	Forbearance and Conditional Release Agreement, dated November 10, 2009, by and among Comstock Homes of Raleigh, L.L.C., the Registrant and Fifth Third Bank, N.A.
10.43(12)	Forbearance Agreement and Second Amendment to Loan Agreement, dated January 27, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC
10.44(12)	Fourth Amendment to Sublease Agreement and Services Agreement, dated February 26, 2009, with Comstock Asset Management
10.45(12)	Subordinated Deficiency Note, dated as of September 21, 2009, by the Registrant in favor of Cornerstone Bank., successor-in-interest to Haventrust Bank.
10.46(12)	Amended and Restated Subordinated Deficiency Note, dated as of November 5, 2009, by the Registrant in favor of Wachovia Bank, National Association.
10.47(12)	Bankruptcy filing for Buckhead Overlook, LLC, filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division
10.48(12)	Bankruptcy filing for Post Preserve, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division
10.49(12)	Bankruptcy filing for Parker Chandler Homes, LLC f/k/a Comstock Homes of Atlanta, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division

10.50(12)	Lease Agreement, dated on or about December 31, 2009, with Comstock Asset Management, L.C. by Comstock Property Management, L.C., a subsidiary of Registrant
10.51(12)	License Agreement, effective January 1, 2010, with I-Connect
10.52(12)	Letter of Intent, effective February 12, 2010, by and between Registrant and Stonehenge Funding, L.C. and Subordination and Standstill Agreements between Registrant and Guggenheim Corporate Funding, LLC and between Registrant and Key Bank, National Association
10.53(12)	Seventh Loan Modification Agreement, dated as of February 25, 2010, by and among the Registrant and Bank of America, N.A.
10.54(12)	Memorandum Opinion, filed February 23, 2010, by the US District Court in favor of Comstock Potomac Yard, L.C., a subsidiary of Registrant, against Balfour Beatty Construction, LLC
10.55(12)	Purchase Agreement, dated October 30, 2009, by and between Comstock Station View, L.C. and M/I Homes of DC, LLC
10.56(13)	Second Amended and Restated Indenture, dated as of February 12, 2010, by and among the Registrant and Comstock Asset Management, L.C.
10.57(13)	Amended and Restated Senior Note, effective February 12, 2010, by and among, Stonehenge Funding, LC, the Registrant and Comstock Asset Management, L.C.
10.58(13)	Employment Agreement with Joseph M. Squeri+
10.59(13)	Confidentiality and Non-Competition Agreement with Joseph M. Squeri+
10.60(14)	Loan Agreement, dated as of January 27, 2011, by and among Comstock Potomac Yard, L.C. and Eagle Bank
10.61(14)	Loan Agreement, dated as of February 11, 2011, by and among Comstock Cascades II, L.C. and Cardinal Bank
10.62(15)	Credit Enhancement and Indemnification Agreement, dated February 17, 2011, by and between Registrant and Christopher D. Clemente and Gregory V. Benson.
10.63(16)	Loan Agreement, dated as of July 12, 2011, by and among Comstock Potomac Eclipse, L.C. and BCL Eclipse, LLC.
10.64(16)	Guaranty, Pledge and Security Agreement, dated as of July 12, 2011, by Comstock Homebuilding Companies, Inc. and Comstock Emerald Farm, L.C. to and for the benefit of BCL Eclipse, LLC.
10.65(16)	Warrant, dated as of July 12, 2011, in the name of BridgeCom Development I, LLC.
10.66(16)	Registration Rights Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC.
10.67(16)	Right of First Refusal and First Offer Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC.
10.68	Loan Agreement, dated as of October 5, 2011, by and among Comstock Penderbrook, L.C. and BCL Penderbrook, LLC.
10.69	Contract of Sale Agreement, dated as of October 31, 2011, by and among Comstock Cascades II, L.C. and CAPREIT Acquisition Corporation.
11	Statement of computation of per share earnings
14.1(2)	Code of Ethics
21.1*	List of subsidiaries
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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* Filed herewith.
\+ Management contracts or compensatory plans, contracts or arrangements
(1) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005.
(2) Incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
(3) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2005.
(4) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2005.
(5) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 16, 2006.
(6) Incorporated by reference to an exhibit to the Current Report on Form 8-K of the Registrant filed with the Commission on May 10, 2005.
(7) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006.
(8) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 16, 2007.
(9) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 24, 2008.
(10) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009.
(11) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009.
(12) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010.
(13) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010.
(14) Incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2011.
(15) Incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on May 13, 2011.
(16) Incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMSTOCK HOMEBUILDING COMPANIES, INC.

Date: March 30, 2012

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

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

Signature	Capacity	Date
/s/ CHRISTOPHER CLEMENTE Christopher Clemente	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 30, 2012
/s/ GREGORY V. BENSON Gregory V. Benson	President and Chief Operating Officer	March 30, 2012
/s/ JOSEPH M. SQUERI Joseph M. Squeri	Chief Financial Officer (Principal Financial Officer)	March 30, 2012
/s/ A. CLAYTON PERFALL A. Clayton Perfall	Director	March 30, 2012
/s/ DAVID M. GUERNSEY David M. Guernsey	Director	March 30, 2012
/s/ JAMES A. MACCUTCHEON James A. MacCutcheon	Director	March 30, 2012
/s/ NORMAN D. CHIRITE Norman D. Chirite	Director	March 30, 2012
/s/ ROBERT P. PINCUS Robert P. Pincus	Director	March 30, 2012
/s/ SOCRATES VERSES Socrates Verses	Director	March 30, 2012

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Consolidated Statements of Operations for the Years Ended December 31, 2011 and 2010	F-4
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Comstock Homebuilding Companies, Inc.:

In our opinion, the consolidated financial statements listed on page F-1 present fairly, in all material respects, the financial position of Comstock Homebuilding Companies, Inc. and subsidiaries (the Company) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

March 30, 2012

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

	December 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 5,639	$ 475
Restricted cash	3,082	5,201
Trade receivables	2,228	392
Real estate held for development and sale	21,212	34,008
Operating real estate, net	12,095	
Property, plant and equipment, net	105	50
Other assets	2,018	802
TOTAL ASSETS	$ 46,379	$ 40,928
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities	$ 3,987	$ 5,884
Notes payable - secured by real estate held for development and sale, net of discount	10,541	18,853
Notes payable - secured by operating real estate	9,957	
Notes payable - due to affiliates, unsecured	5,008	5,008
Notes payable - unsecured	4,309	4,515
Income taxes payable	33	
TOTAL LIABILITIES	33,835	34,260
Commitments and contingencies (Note 15)		
SHAREHOLDERS EQUITY		
Class A common stock, $0.01 par value, 77,266,500 shares authorized, 17,944,503 and 17,120,467 issued and outstanding, respectively	179	171
Class B common stock, $0.01 par value, 2,733,500 shares authorized, 2,733,500 issued and outstanding	27	27
Additional paid-in capital	168,620	166,700
Treasury stock, at cost (391,400 shares Class A common stock)	(2,439)	(2,439)
Accumulated deficit	(156,684)	(157,791)
TOTAL COMSTOCK HOMEBUILDING EQUITY	9,703	6,668
Non-controlling interest	2,841	
TOTAL EQUITY	12,544	6,668
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 46,379	$ 40,928

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

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

	Twelve Months Ended December 31, 2011	2010
Revenues		
Revenue - homebuilding	$ 14,062	$ 19,070
Revenue - other	8,147	4,781
Total revenue	22,209	23,851
Expenses		
Cost of sales - homebuilding	12,160	19,186
Cost of sales - other	7,825	4,011
Impairments and write-offs		1,548
Selling, general and administrative	7,443	5,606
Interest, real estate taxes and indirect costs related to inactive projects	3,102	2,224
Operating loss	(8,321)	(8,724)
Gain on troubled debt restructuring	(219)	
Gain on legal settlement, net	(9,434)	
Other income, net	(299)	(1,037)
Total pre tax income (loss)	1,631	(7,687)
Income taxes expense	33	11
Net income (loss) from continuing operations	1,598	(7,698)
Less: Net income attributable to non-controlling interests	491	
Net income (loss) attributable to Comstock Homebuilding Companies, Inc.	$ 1,107	$ (7,698)
Basic income(loss) per share	$ 0.05	$ (0.42)
Diluted income(loss) per share	$ 0.05	$ (0.42)
Basic weighted average shares outstanding	20,287	18,313
Diluted weighted average shares outstanding	20,720	18,313

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

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN

SHAREHOLDERS EQUITY

(Amounts in thousands, except per share data)

	Class A		Class B		Additional paid-in capital	Treasury stock	Retained earnings (deficit)	Non-controlling interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2009	15,608	$ 156	2,733	$ 27	$ 157,418	$ (2,439)	$ (151,029)	$	$ 4,133
Cumulative effect of a change in accounting principle							936		936
Stock compensation and issuances	495	5			797				802
Stonehenge capital contribution					7,689				7,689
Warrants	1,018	10			796				806
Net loss							(7,698)		(7,698)
Balance at December 31, 2010	17,121	$ 171	2,733	$ 27	$ 166,700	$ (2,439)	$ (157,791)	$	$ 6,668
Stock compensation and issuances	824	8			924				932
Warrants					996				996
Cascades Private Placement								2,350	2,350
Net income							1,107	491	1,598
Balance at December 31, 2011	17,945	$ 179	2,733	$ 27	$ 168,620	$ (2,439)	$ (156,684)	$ 2,841	$ 12,544

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

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, except per share data)

	Twelve Months Ended December 31, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 1,598	$ (7,698)
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Amortization of loan discount and deferred financing fees	1,444	
Depreciation expense	196	98
Provision for bad debt	1	(13)
Impairments and write-offs		1,548
Amortization of stock compensation	932	704
Gain on debt restructuring	(219)	
Gain on trade payable settlements	(161)	(860)
Changes in operating assets and liabilities:		
Restricted cash	19	(1,952)
Trade receivables	(1,837)	(405)
Real estate held for development and sale	10,292	19,927
Other assets	(678)	1,187
Accrued interest	752	
Accounts payable and accrued liabilities	364	2,856
Income taxes payable	33	
Net cash provided by operating activities	12,736	15,392
Cash flows from investing activities:		
Investment in construction in process and operating real estate	(9,764)	
Purchase of property, plant and equipment	(78)	(4)
Net cash used in investing activities	(9,842)	(4)
Cash flows from financing activities:		
Proceeds from notes payable	38,908	823
Payments on notes payable	(38,436)	(17,649)
Loan financing costs	(1,548)	
Proceeds from SunBridge warrant issuance	996	
Proceeds from warrant exercise		828
Proceeds from Cascades Private Placement	2,350	
Net cash provided by (used in) financing activities	2,270	(15,998)
Net increase (decrease) in cash and cash equivalents	5,164	(610)
Cash and cash equivalents, beginning of period	475	1,085
Cash and cash equivalents, end of period	$ 5,639	$ 475

Supplemental disclosures:				
Interest paid, net of interest capitalized	$	522	$	904
Reduction in notes payable in connection with troubled debt restructuring	$		$	7,689
Increase in additional paid in capital in connection with troubled debt restructuring	$		$	7,689
Reduction in real estate held for development and sale in connection with deconsolidation of subsidiaries	$		$	15,407
Reduction in notes payable in connection with deconsolidation of subsidiaries	$		$	15,893
Reduction in accrued liabilities in connection with deconsolidation of subsidiaries	$		$	449
Increase in opening retained earnings in connection with deconsolidation of subsidiaries	$		$	936
Debt issued at a discount in connection with SunBridge warrant	$	996	$	
Increase in class A common stock in connection with issuance of stock compensation	$	8	$	14

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	Twelve Months Ended December 31, 2011	2010
Increase in additional paid in capital in connection with issuance of stock compensation	$ 924	$ 766
Reduction in accounts payable and restricted cash due to Cascades Private Placement closing	$ 2,100	$
Reclassification of Cascades II apartments from real estate held for development and sale to operating real estate, net	$ 2,504	$

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

COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

1. ORGANIZATION

Comstock Homebuilding Companies, Inc. is a multi-faceted real estate development and construction services company focused on the Washington, D.C. metropolitan area. The Company has substantial experience with building a diverse range of products including single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums, apartments and mixed-use (residential and commercial) developments. Since our founding in 1985, and as of December 31, 2011, we have built and delivered more than 5,300 homes generating total revenue in excess of $1.4 billion. References in this Form 10-K to Comstock, Company , we, our and us refer to Comstock Homebuilding Companies, Inc. together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Our business was founded in 1985 as a residential land developer and home builder focused on the Northern Virginia suburbs of the Washington, D.C area.

Comstock Companies, Inc. was incorporated on May 24, 2004 as a Delaware corporation. On June 30, 2004, the Company changed its name to Comstock Homebuilding Companies, Inc. On December 17, 2004, the Company completed an initial public offering (IPO) of its Class A common stock.

The Company s Class A common stock is traded on the NASDAQ Capital market (NASDAQ) under the symbol CHCI and has no public trading history prior to December 17, 2004. On April 20, 2010, the Company received notice from NASDAQ stating that the Company had regained compliance with the $1.00 minimum bid price requirement after its shares achieved a closing bid-price exceeding $1.00 for 10 consecutive days ending on April 19, 2010. The Company is now in compliance with all three NASDAQ continued listing requirements which are the minimum bid-price requirement, the market value of publicly held shares requirement and the minimum equity requirement.

Liquidity Developments

In an effort to stabilize the Company, management spent much of 2009 focused on negotiating with lenders to eliminate and restructure debt which temporarily limited our ability to pursue new business opportunities. In mid 2009, management formulated a Strategic Realignment Plan which identified key real estate projects to be retained by the Company and those to be disposed of. As part of that plan, the Company worked to restructure the entirety of its debt. The resulting restructured balance sheet has significantly improved the Company s financial position. Additionally, the SunBridge financing, discussed in more detail in Note 9, coupled with the settlement of the Balfour lawsuit, discussed in Note 15, has provided the Company with improved financial flexibility.

The Company continues to engage in discussions with lenders and potential equity investors in an effort to provide additional liquidity to sustain business operations and growth capital to fund various new business opportunities. We are anticipating that through a combination of these discussions, the additional cash from settlement proceeds, the cash generated by our rental operations and the cash generated from settlements at our new communities currently under development that the Company will generate sufficient cash to sustain our operations through 2012. Towards that end, subsequent to December 31, 2011, the Company has successfully sold the Cascades II Apartment building resulting in $4.7 million in unrestricted net proceeds available to the Company for its business operations. See Subsequent Event Note 20 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

The accompanying consolidated financial statements include the accounts of Comstock, a Delaware corporation, and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned partnerships and affiliates are accounted for using the equity method unless it is determined that the Company has control of the entity, in which case the entity would be consolidated.

Cash and cash equivalents and restricted cash

Cash and cash equivalents are comprised of cash and short-term investments with maturities of three months or less when purchased. At times, the Company may have deposits with institutions in excess of federally insured limits. Banking institutions with which the Company does business are considered credit worthy; therefore, credit risk associated with cash and cash equivalents is

considered low. At December 31, 2011 and 2010, the Company had restricted cash of $3.1 million and $5.2 million, respectively, which includes a $3.0 million deposit with an insurance provider, to which we have no access currently, as security for future claims. The December 31, 2010 restricted cash amounts also includes $2.1 million related to the private placement raise related to the construction of the Cascades Apartments.

Real estate held for development and sale

Real estate held for development and sale includes land, land development costs, interest and other construction costs. Land held for development is stated at cost, or when circumstances or events indicate that the land is impaired, at estimated fair value. Real estate held for sale is carried at the lower of cost or fair value less costs to sell. Land, land development and indirect land development costs are accumulated by specific project and allocated to various units within that project using specific identification and allocation based upon the relative sales value, unit or area methods. Direct construction costs are assigned to units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of fees, capitalized interest and real estate taxes. Selling costs are expensed as incurred.

The Company assesses the estimated fair value of its projects based on discounted cash flow models or based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances which may affect fair value including management s plans for the property. A write-down to estimated fair value is indicated when the net carrying value of the property exceeds its estimated undiscounted future cash flows. These evaluations are made on a property-by-property basis whenever events or changes in circumstances indicate that the net book value may not be recoverable.

Capitalized interest and real estate taxes

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

	Years ended December 31,	
	2011	**2010**
Total interest incurred and capitalized	$ 320	$
Interest expensed as a component of cost of sales	$ 2,329	$ 3,141

When a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. Following is a breakdown of the interest, real estate taxes and indirect costs related to inactive projects reported in real estate held for development and sale:

	Years ended December 31,	
	2011	**2010**
Total interest incurred and expensed for inactive projects	$ 2,507	$ 1,567
Total real estate taxes incurred and expensed for inactive projects	381	517
Total production overhead incurred and expensed for inactive projects	214	140
	$ 3,102	$ 2,224

Property, plant and equipment

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

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

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

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Warranty reserve

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

	Years ended December 31,	
	2011	**2010**
Balance at beginning period	$ 1,110	$ 692
Additions	110	721
Releases and/or charges incurred	(211)	(303)
Balance at end of period	$ 1,009	$ 1,110

Revenue recognition

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

Advertising costs

The total amount of advertising costs charged to selling, general and administrative expense was $94 and $133 for the years ended December 31, 2011 and 2010, respectively.

Stock compensation

As discussed in Note 14, the Company sponsors stock option plans and restricted stock award plans. The Company accounts for its share-based awards pursuant to Accounting Standards Codification (ASC) 718, *Share Based Payments*. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements over the vesting period based on their fair values at the date of grant. For the year ended December 31, 2011 and 2010, total stock-based compensation cost was $932 and $802, respectively. Of this amount, $925 and $802 was charged to selling, general and administration expenses for the years ended December 31, 2011 and 2010, respectively, as these costs were attributable pro rata to inactive projects.

Income taxes

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

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Income (Loss) per share

The weighted average shares and share equivalents used to calculate basic and diluted loss per share for the twelve months ended December 31, 2011 and December 31, 2010 are presented on the consolidated statement of operations. Stock options and warrants for twelve months ended December 31, 2011 are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the stock option and warrants would be anti-dilutive. As a result of net losses for the year ended December 31, 2010, approximately 1,237 and 2,185 of options and warrants, respectively, were excluded from the computation of dilutive earnings per share because their inclusion would have been anti-dilutive. The computation of basic and diluted earnings per common share is as follows:

	Year Ended December 31,	
	2011	2010
Computation of Basic Earnings Per Share		
Net income(loss) available to common shareholders	$ 1,107	$ (7,698)
Weighted average common shares outstanding - basic	20,287	18,313
Basic earnings per share	$ 0.05	$ (0.42)
Computation of Diluted Earnings Per Share		
Net income(loss) available to common shareholders	$ 1,107	$ (7,698)
Weighted average common shares outstanding - basic	20,287	18,313
Dilutive effect of stock options	170	0
Dilutive effect of warrants	263	0
Weighted average common shares outstanding - diluted	20,720	18,313
Diluted earnings per share	$ 0.05	$ (0.42)

Comprehensive income

For the years ended December 31, 2011 and 2010, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying consolidated financial statements.

Segment reporting

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

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

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

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

The following disclosure includes the Company s three reportable segments of Homebuilding, Apartment Buildings and Real Estate Services. Each of these segments operates within the Company s single Washington, DC reportable geographic segment. The information for 2010 has been reclassified to conform to current year business segment presentation.

	(in thousands)			
	Homebuilding	Apartment Buildings	Real Estate Services	Total
Twelve Months Ended December 31, 2011				
Gross revenue (1)	$ 15,354	$ 276	$ 6,579	$ 22,209
Gross income (loss)	1,692	(121)	653	2,224
Net income (loss)	1,149	(463)	421	1,107
Total assets	30,781	12,695	2,903	46,379
Depreciation and amortization	1,442	198		1,640
Interest expense	2,180	327		2,507
Capital expenditures	54	9,765	23	9,842
Twelve Months Ended December 31, 2010				
Net revenue	$ 23,851	$	$	$ 23,851
Gross income (loss)	654			654
Operating income (loss)	(7,698)			(7,698)
Total assets	38,424	2,504		40,928
Depreciation and amortization	98			98
Interest expense	1,567			1,567
Capital expenditures	4			4

(1) Gross revenue includes Revenue homebuilding and Revenue-other as described in the consolidated income statement for assets included in each segment.

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

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates are utilized in the valuation of real estate held for development and sale, valuation of deferred tax assets, capitalization of costs, consolidation of variable interest entities and warranty reserves.

Recent accounting pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which changes the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between GAAP and IFRS. ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or liabilities. In addition, the guidance expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset s highest and best use. The revised guidance is effective for interim and annual periods beginning after December 15, 2011 and early application by public entities is prohibited. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial position and results of operations.

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3. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

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

Consolidated Real Estate Held for Development and Sale

Included within the Company s real estate held for development and sale at December 31, 2011 are two consolidated entities that are VIEs and for which the Company is the primary beneficiary. These entities have been established to own and operate real estate property and were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. The Company determined that it was the primary beneficiary of these VIEs as a result of its majority voting and complete operational control of the entities.

At December 31, 2011, total assets of these VIEs were approximately $21.1 million and total liabilities were approximately $10.5 million. The classification of these assets is primarily within real estate held for development and sale and the classification of liabilities are primarily within notes payable secured by real estate held for development and sale in the Company s consolidated balance sheets.

Consolidated Operating Real Estate, Net

On January 31, 2011, Comstock Cascades II, L.C., a subsidiary of the Company (Cascades II) entered into a private placement for the sale of membership interests in Cascades II whereby Cascades II raised working capital in the amount of $2.35 million (the Private Placement) related to the planned construction of a 103 unit apartment project located in the Cascades master planned community in Loudoun County, Virginia (the Cascades Apartments). The balance was received during the first quarter of 2011. Proceeds of the Private Placement were utilized (i) to provide sufficient capital needed to secure project financing for the Cascades Apartments, (ii) to retire a portion of the existing indebtedness, and (iii) to reimburse the Company for prior expenditures incurred on behalf of the project. Participants in the Private Placement included unrelated third party investors along with several members of the Company s Board of Directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company.

On February 11, 2011, Comstock closed its loan agreement with Cardinal Bank (see Note 9) which provided the necessary construction financing for the development of the Cascades Apartments and concurrent with that closing, the Company utilized the proceeds of the Private Placement offering as described above. The Company has fully guaranteed the loan and accordingly, Comstock has concluded that Cascades II is a VIE. As part of the Cascades II operating agreement, the Company has majority voting and complete operational control of the subsidiary. The Company concluded that it is the primary beneficiary of the VIE and therefore the financial condition, results of operations and cash flows of Cascades II are consolidated in the accompanying financial statements.

The investors in the Private Placement (the Priority Members) are entitled to a cumulative, compounded, preferred return, subject to the performance of Cascades II, of 20% per annum, compounded annually on their capital account balances. Comstock has the right to repurchase the interest of the Priority Members provided that i) all of the Priority Members interests are acquired, ii) the purchase is made in cash and iii) the purchase price shall equal the Priority Members capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The equity contribution related to the Private Placement is reflected as a Non-Controlling Interest as a component of consolidated shareholders equity. The Company s investment is subordinate to the Priority Members investment and gains from the operating activity and distributions of cash flow (if any) of Cascades II will be allocated to the Priority Members (in advance of Comstock) up to their capital account plus the required preferred return of 20% as outlined above. The estimated accrued priority return of $491 thousand is reflected in the accompanying statement of operations as net income attributable to non-controlling interests to properly state the capital accounts of the members of the VIE. At December 31, 2011, total assets of this VIE was approximately $12.1 million and total liabilities were approximately $10.0 million. The classification of these assets is within operating real estate, net and the classification of liabilities are primarily within notes payable secured by operating real estate, net in the accompanying consolidated balance sheets. As discussed in Note 20, this asset was sold in 2012.

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Land purchase options

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

The Company does not share in an allocation of either the profit earned or loss incurred by any of these entities with which the Company has fixed price purchase agreements. The Company has concluded that whenever it options land or lots from an entity and pays a significant non-refundable deposit as described above, a variable interest entity is created under the provisions of ASC 810-10 *Consolidation*. This is because the Company has been deemed to have provided subordinated financial support, which creates a variable interest which limits the equity holder s returns and may absorb some or all of an entity s expected theoretical losses if they occur. The Company, therefore, examines the entities with which it has fixed price purchase agreements for possible consolidation by the Company under the provision of ASC 810-10. The Company does not have any contractual or ownership interests in the entities with which it contracts to buy the land Through review of the VIE, the Company concluded that it does not have the power to direct the activities that most significantly impact the VIE s economic performance, therefore, the Company has not consolidated these VIE s in the consolidated balance sheet.

4. REAL ESTATE HELD FOR DEVELOPMENT AND SALE

The Company has classified its Eclipse and Penderbrook projects as held for sale as discussed above and accordingly, written the projects down to fair value less costs to sell as determined by discounted cash flow models. Discounted cash flow models are dependent upon several subjective factors, including estimated average sales prices, estimated sales pace, and the selection of an appropriate discount rate. While current market conditions make the estimated timeframe for sales challenging, the Company has generally assumed sales prices equal to or less than current prices with the remaining duration of the community sales process are estimated to be one to two years. These assumptions are often interrelated as price reductions can generally be assumed to increase the sales pace. In addition, the Company must select what it believes to be an appropriate discount rate. The Company has used its best judgment in determining an appropriate discount rate based on information it has received from marketing its communities for sale in recent periods, and accordingly has elected to use a rate of 13% in its discounted cash flow model. The estimates of sales prices, sales pace, and discount rates used by the Company are based on the best information available at the time the estimates are made. In recent months, market conditions affecting the Company s Washington, DC area projects have improved; however, if market conditions deteriorate again, additional adverse changes to these estimates in future periods could result in further material impairment charges to be recorded.

The Company recorded an impairment charge of $1.5 million during the year ended December 31 2010 to properly record its held for sale projects at fair market value less costs to sell consistent with the provisions of ASC 360. There were no impairment charges recorded during the year ended December 31, 2011.

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

	December 31,	
	2011	**2010**
Land and land development costs	$ 4,693	$ 8,862
Cost of construction (including capitalized interest and real estate taxes)	16,519	25,146
	$ 21,212	$ 34,008

5. OPERATING REAL ESTATE, NET

Operating real estate consists of the following:

	December 31,	
	2011	2010
Land	$ 2,815	$
Building and improvements	9,453	
	12,268	
Less: accumulated depreciation	(173)	
	$ 12,095	$

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Depreciation expense, included in cost of sales-other in the consolidated financial statements of operations, amounted to $173 for the year ended December 31, 2011. There was no depreciation recognized during the year ended December 31, 2010.

6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	December 31,	
	2011	2010
Computer equipment and capitalized software	$ 1,840	$ 1,762
Furniture and fixtures	82	82
Office equipment	84	84
Leasehold improvements	15	15
	2,021	1,943
Less: accumulated depreciation	(1,916)	(1,893)
	$ 105	$ 50

Depreciation and amortization expense, included in selling, general, and administrative in the consolidated financial statements of operations, amounted to $23 and $98 for the years ended December 31, 2011 and 2010, respectively.

7. OTHER ASSETS

Other assets consist of the following:

	December 31,	
	2011	2010
Restricted escrow deposits	$ 442	$ 179
Deferred financing costs	581	486
Other	995	137
	$ 2,018	$ 802

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31,	
	2011	2010
Trade payables	$ 2,910	$ 2,511
Warranty	1,009	1,110
Customer deposits	63	2,185
Other	5	78

	$ 3,987	$ 5,884

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9. MORTGAGES AND CREDIT FACILITIES

The Company generally finances its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. As described in more detail below, our outstanding debt by lender was as follows:

Bank	Balance as of 12/31/11	Balance as of 12/31/10	Recourse
SunBridge, net of $0.6 million discount	$ 10,178	$	Secured
Cardinal Bank	9,957		Secured
Bank of America	3,751	3,885	Unsecured
Cornerstone (Haven Trust)	400	400	Unsecured
Branch Banking & Trust	263	263	Secured
Wachovia	133	205	Unsecured
Seller Emerald Farm	100	100	Secured
Fifth Third	25	25	Unsecured
KeyBank		10,578	Secured
Guggenheim Capital Partners		6,400	Secured
M&T Bank		1,512	Secured
	24,807	23,368	
Due to affiliates Stonehenge Funding	5,008	5,008	Unsecured
Total	$ 29,815	$ 28,376	

The SunBridge debt is fixed at 12.5%, but the majority of the Company s remaining debt is variable rate, based on LIBOR or the prime rate plus a specified number of basis points, typically ranging from 220 to 600 basis points over the LIBOR rate and from 25 to 200 basis points over the prime rate. As a result, we are exposed to market risk in the event of interest rate increases. At December 31, 2011 and 2010, the one-month LIBOR and prime rates of interest were 0.26% and 3.25%, respectively, and the interest rates in effect under the existing secured revolving development and construction credit facilities ranged from 3.5% to 14.26% and 2.5% to 18%, respectively. During the past twelve months, these rates were relatively stable. Since all projects are currently inactive by accounting standards, any change in interest would be expensed in the period incurred.

The material loan agreements are discussed below.

Cardinal Bank

On February 11, 2011, the Company, through a subsidiary called Comstock Cascades II, L.C., entered into a loan agreement with Cardinal Bank pursuant to which the Company obtained an $11.0 million multi-family construction loan and mortgage with a five-year term (the Cardinal Bank Loan). Proceeds from the Cardinal Bank Loan (i) funded the construction of the Company s Cascades apartment project and (ii) retired existing indebtedness of the Company owed to M&T Bank having a maturity date of February 14, 2011 and which was secured by a first deed of trust on the real property upon which the Cascades project was constructed. The Cardinal Bank Loan, secured by a new first deed of trust on the property, has an initial interest rate of Prime plus two percent (2%), with an interest rate floor of 6.5%, converted after 18 months to 425 basis points over the 5 year swap rate with an interest rate floor of 5% and a ceiling of 8%. The Cardinal Bank Loan shall be amortized in accordance with a 5.5%, 25-year schedule, with amortization to begin 18 months after the loan closing and has a 2% prepayment penalty if paid within the first or second year and a 1% prepayment penalty if retired in the third or fourth year. The Cardinal Bank Loan requires debt service coverage (DCR) of (i) 1.0 to 1.0 no later than 24 months from the date of closing, (ii) 1.15 DCR no later than 36 months from the date of closing, and (iii) 1.25 DCR no later than 48 months from the date of closing. The Company has fully guaranteed the Cardinal Bank Loan. Christopher Clemente, the Chief Executive Officer of the Company and Gregory Benson, the Chief Operating Officer of the Company, also provided a limited guaranty in connection with the Cardinal Bank Loan of up to $6.8 million, subject to further reduction upon the satisfaction of certain enumerated conditions set forth in the loan agreement (see Note 12). On March 7, 2012, the Company sold the Cascades Apartment Project and the Cardinal Bank Loan was repaid in full. A prepayment penalty of $0.2 million was incurred in connection with the early repayment.

Concurrent with the closing of the Cardinal Bank Loan, $1.5 million of existing indebtedness to M&T Bank was retired for approximately $1.3 million. Accordingly, the Company recorded a gain of approximately $0.2 million on the extinguishment of the M&T Bank debt.

SunBridge

On July 12, 2011, the Company, through a subsidiary called Comstock Potomac Yard, L.C., entered into a loan agreement with BCL Eclipse, LLC, an affiliate of SunBridge Capital Management, LLC (SunBridge), pursuant to which the Company secured a $13.8 million loan with a three year term (the SunBridge Eclipse Loan) to refinance the Company s Eclipse condominium project. Proceeds from the SunBridge Eclipse Loan were primarily utilized to (i) pay off existing indebtedness of approximately $9.0 million, (ii) pay approximately $0.8 million for expenses associated with the SunBridge Eclipse Loan (which are classified in other assets in the accompanying balance sheet), and (iii) for general corporate purposes. The SunBridge Eclipse Loan provides for a 1% origination fee and an interest rate of 12.5%. There is no prepayment penalty associated with the SunBridge Eclipse Loan, which is secured by a first deed of trust on the property. The loan is subject to minimum sales and release requirements.

On July 12, 2011, SunBridge also issued a binding commitment letter to the Company, through a subsidiary called Comstock Penderbrook, L.C., for a cash out refinance of the Company s Penderbrook Square condominium projected in an amount of up to $7.0 million with a three-year term (the SunBridge Penderbrook Loan). This commitment was drawn upon on October 5, 2011 and the loan was funded for approximately $5.4 million. Proceeds from this loan were primarily utilized to (i) pay off existing indebtedness of approximately $3.9 million, (ii) pay for expenses associated with the loan of approximately $0.7 million, and (iii) for general corporate purposes.

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As a condition of the loan agreement, the Company also entered into a cross-collateralization agreement whereby the Penderbrook project and the Company s Eclipse project each secure payment and performance of the covenants and agreements of the October 5, 2011 SunBridge Penderbrook Loan and the loan funded on July 12, 2011 with respect to the Eclipse project as described above. The SunBridge Penderbrook Loan provides for a 1% origination fee and an interest rate of 12.5%. There is no prepayment penalty associated with the SunBridge Penderbrook Loan, which is secured by a first deed of trust on the property. The loan is subject to minimum sales and release requirements.

On October 5, 2011, the Company and a subsidiary of the Company, Comstock Emerald Farm, L.C., as guarantors, also, entered into a guaranty agreement for the benefit of Sunbridge. Pursuant to the guaranty agreement, the guarantors jointly and severally guaranteed the payment of principal and interest and any other amounts due under the Sunbridge Penderbrook Loan Agreement, (ii) the Company pledged its equity interest in Comstock Penderbrook, L.C, and (iii) each guarantor granted SunBridge a security interest in all of its unencumbered assets, all as additional security for the SunBridge Penderbrook Loan.

Bank of America

At December 31, 2011, the Company had $3.8 million outstanding to Bank of America under a 10-year unsecured note. On February 25, 2010 the Company entered into a Seventh Loan Modification Agreement with Bank of America regarding the modification of the terms of this loan. In connection therewith the Company agreed to pay an extension fee of $100 and Bank of America agreed to delay for one year, until January 2011, the commencement of repayments of all previously unpaid interest accruing since the date of the Company s previously reported modification of the line of credit in November 2008. On February 1, 2011, the Company entered into the Eighth Loan Modification Agreement with Bank of America. The modification required payments of past interest and modification fees of approximately $175 on February 1, 2011, which were paid in accordance with the agreement. The maturity date remains December 28, 2018. Comstock is required to make monthly interest payments beginning on February 28, 2011 through loan maturity. Commencing January 28, 2012 and continuing on each and every month through November 28, 2018, Comstock is also required to make monthly principal payments of approximately $37.

Stonehenge

On December 23, 2009, Stonehenge Funding, LC (Stonehenge), an entity wholly-owned by Christopher Clemente, the Chairman and Chief Executive Officer of the Company, completed the purchase of a senior unsecured note (the JP Morgan Debt) from JP Morgan Ventures (JPMV) in the then outstanding amount of approximately $9.0 million, plus accrued and unpaid interest. The purchase of the JP Morgan Debt resulted in the transfer to Stonehenge of the warrant previously issued to JPMV for the purchase of 1.5 million shares of the Company s Class A Common Stock with a strike price of $0.07 per share (the JP Morgan Warrant). Gregory Benson, the Company s Chief Operating Officer and a member of the Company s Board of Directors, subsequently purchased a participation interest in the JP Morgan Debt and the JP Morgan Warrant from Stonehenge. In connection with the SunBridge financing, Stonehenge entered into a subordination and standstill agreement providing that the Company will not make any cash interest or principal payments to Stonehenge prior to the full repayment of loans to SunBridge in connection with the Eclipse and Penderbrook projects. On February 12, 2010 the Company entered into a Modification Agreement to modify the terms of the Company s senior unsecured note with Stonehenge. Under the terms of the Modification Agreement, Stonehenge agreed to forgive $4.5 million of the principal balance due from the Company under the JP Morgan Debt; reducing the principal balance by 50% to $4.5 million. Stonehenge also agreed to forgive an additional amount due from the Company of approximately $875 representing all past due interest, late fees and penalties accruing through December 31, 2009 under the JP Morgan Debt. Stonehenge further agreed to reduce the interest rate, effective January 1, 2010, by 50% to 300 basis points above the one year LIBOR on a floating basis. In addition, to ensure the Company s ability to comply with certain restrictions placed upon the Company by KeyBank and Guggenheim in connection with previously announced loan modifications enhancing cashflow to the Company, Stonehenge agreed to allow all future interest payments due from the Company under the JP Morgan Debt to accrue until at least 90 days after the KeyBank and Guggenheim have been fully repaid. In connection therewith, Stonehenge may, on a quarterly basis, elect to accept stock of the Company (or warrants for the purchase thereof) with a cumulative value equal to the value of the scheduled interest payment in lieu of accruing a future quarterly interest payment. For the year ended December 31, 2011, no elections were made and no warrants were issued under the agreement. For the year ended December 31, 2010, warrants were issued with a fair value of $46, to settle interest payments. The KeyBank debt was fully repaid on February 2, 2011. The Guggenheim debt was fully repaid upon funding of the SunBridge Penderbrook Loan on October 5, 2011.

Further, the Modification Agreement provided for the elimination or forbearance upon the enforcement of all financial covenants contained in the JP Morgan Debt and all previously reported covenant violations by the Company. The maturity date of the Stonehenge debt remains unchanged at March 14, 2013. Stonehenge, as a condition of the new financing arrangement with SunBridge, agreed to subordinate its loan and delay principal and interest payments until the SunBridge loans on both Eclipse and Penderbrook are fully repaid.

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Wachovia

As a condition of a foreclosure arrangement with Wachovia Bank, the Company is assisting in the selling process associated with certain parcels of land now under the control of Wachovia. As a result of several of those parcels being sold, the deficiency note to Wachovia was reduced by $73. This is reflected as a gain on debt restructuring in the accompanying consolidated statement of operations in the year ended December 31, 2011. There were no parcels sold and no gain on debt restructuring for the year ended December 31, 2010.

The Company s borrowings mature as follows:

2012	557
2013	5,108
2014	10,178
2015	263
2016 and thereafter	13,709
Total	$ 29,815

10. SUNBRIDGE WARRANT AND STRATEGIC AGREEMENT

In connection with entering into the SunBridge Loans, on July 12, 2011, the Company agreed to issue BridgeCom Development I, LLC, an affiliate of SunBridge (BridgeCom), an immediately exercisable warrant to purchase 1.0 million shares of the Company s Class A common stock at an exercise price equal to the average closing price of the stock for the preceding thirty days ($1.03) (the SunBridge Warrant). The exercise period is ten years from July 12, 2011. The Company calculated the fair value of the SunBridge Warrant and the SunBridge Loans and allocated the proceeds of the SunBridge Loans on a relative fair value basis. The fair value of the SunBridge Warrant was calculated using a Black Scholes option pricing model and the fair value of the SunBridge Loans was calculated using a discounted cash flow model. The Black Scholes option pricing model considered risk-free interest rates, volatility factors and current market and contractual prices. The fair value of the SunBridge Loans was estimated based on interest rates available to the Company for debt with similar terms. The amount allocated to the SunBridge Warrant was approximately $1.0 million and is reflected as an addition to additional paid-in capital and a corresponding discount on the SunBridge Loans. The Company is amortizing this discount over the term of the SunBridge Loans using the effective interest method. The remaining discount at December 31, 2011 is approximately $0.6 million.

In addition, the Company agreed to enter into a right of first offer and refusal (Strategic Agreement) with SunBridge to jointly pursue certain homebuilding and multi-family projects in the Washington, D.C. metropolitan area. Under the general terms of the Strategic Agreement, the Company will offer material future investment opportunities to SunBridge and if mutually agreed upon, the Company and SunBridge will enter into specific joint venture arrangements for each identified opportunity. The Strategic Agreement terminates at the earlier of three years from the date of the agreement or until each party funds a minimum of $25.0 million in identified investment opportunities.

11. COMMON STOCK AND WARRANTS

On May 12, 2006, the Company completed a private placement (the PIPE) to institutional and other accredited investors of 2,121 shares of Class A common stock and warrants exercisable into 636 shares of Class A common stock. The Company sold the securities for $9.43 per share for total proceeds of approximately $20.0 million and net proceeds of approximately $18.7 million. The per share price of $9.43 represented a premium of approximately 14.6% to the closing price of the Company s common stock on the date the purchase was completed. The net proceeds were used for general corporate purposes. The warrants issued in connection with the PIPE were five-year warrants exercisable at any time after November 10, 2006 with an exercise price of $11.32 per share. The fair value of the warrants issued under the PIPE have been reported as equity instruments because the liquidated damages, which are capped at 10%, reasonably represent the difference between the value of a registered share and an unregistered share of the Company s common stock. All unexercised warrants were forfeited as of November 10, 2011.

In February 2006 the Company s Board of Directors authorized the Company to purchase up to 1.0 million shares of the Company s Class A common stock in the open market or in privately negotiated transactions. The authorization did not include a specified time period in which the shares repurchase would remain in effect. During the twelve months ended December 31, 2006, the Company repurchased an aggregate of

0.4 million shares of Class A common stock for a total of $2,439 or $6.23 per share. There were no shares repurchased for the twelve months ended December 31, 2011 and 2010 and the Company has no immediate plans to repurchase any additional shares under the existing authorization.

In 2009, the Company s Board of Directors approved the issuance of up to 600,000 warrants of the Company s Class A Common Stock to settle outstanding trade debt. For the year ended December 31, 2010, 225,674 warrants, at an average strike price of $1.11, were issued to settle trade debt of $419,774. The Company recorded a gain of $195,890 in 2010, in connection with these exchanges. There were no warrants issued to settle trade debt for the year ended December 31, 2011. The warrant exercise period begins on the date of execution of the release agreement and ends 5 years after the execution date. Since the inception of the program, 440,311 warrants have been issued at an average strike price of $1.06. There are 159,689 warrants remaining under the authorization.

12. RELATED PARTY TRANSACTIONS

In October 2004, the Company entered into a lease agreement (the Lease) for its corporate headquarters at 11465 Sunset Hills Road, Reston, Virginia with Comstock Asset Management, L.C. (CAM), an entity wholly owned by Christopher Clemente. In October 2007, the lease agreement was amended, decreasing the total square footage from approximately 24,000 to 17,000 and extending the term to four years through September 2011. For the year ended December 31, 2011 and 2010, total payments made under this lease agreement were $203 and $196, respectively. Pursuant to the terms of an early termination of the Lease (the Lease Termination), the Company agreed to surrender approximately 15,700 square feet of space to CAM in exchange for (i) an agreement to enter into the Lease for the reduced space and at a reduced rate; and (ii) the issuance of a warrant to purchase up to 55,000 shares of the Company s Class A common stock at a strike price equal to the average of the closing stock price for the twenty days immediately preceding the effective date of the Lease Termination in exchange for the forgiveness of approximately $110 in delinquent rent. The fair value of the 55,000 warrants was $25 which resulted in a gain of $85 recorded in the first quarter of 2010. Although CAM has no obligation to do so, it has allowed us to defer portions of our payment obligations from time to time and has reduced the amount due from us under the agreements.

On December 31, 2009 we entered into a three-year lease for approximately 7,200 square feet of office space in the Reston facility from Comstock Asset Management, L.C., an affiliate wholly-owned by Christopher Clemente. For the twelve months ended December 31, 2011 and 2010, total payments made under this lease agreement were $203 and $196, respectively.

During the second quarter of 2009, the Company began deferring a portion of the base salary payments to our Chief Executive Officer and our Chief Operating Officer. These deferrals ended on May 1, 2011 and the deferred balance of $842 was paid during the third quarter of 2011.

During 2003, the Company entered into agreements with I-Connect, L.C., a company in which Investors Management, LLC, an entity wholly owned by Gregory Benson, the Chief Operating Officer of the Company, holds a 25% interest, for information technology consulting services and the right to use certain customized enterprise software. Effective January 1, 2010, the Company entered into a new software license agreement with I-Connect for the use of I-Connect s proprietary Builder s Co-Pilot software (the Agreement). Pursuant to the terms of the Agreement, I-Connect agreed to forgive approximately $12 in delinquent payments in exchange for a warrant to purchase up to 6,000 shares of the Company s Class A common stock at a strike price equal to the average of the closing stock price for the twenty days immediately preceding the effective date of the Agreement and the Company agreed to make reduced monthly payments of $6 for the use of the software for a term of 24 months. During the twelve months ended December 31, 2011 and 2010 total payments made to I-Connect were $72 and $78 respectively. Although I-Connect has no obligation to do so, it has allowed us to defer portions of our payment obligations from time to time.

In connection with the purchase of the unsecured debt discussed in Note 9, Stonehenge acquired a warrant for the purchase of 1,500,000 shares of the Company s Class A Common Stock at an exercise price of $.70 per share. Thereafter, Stonehenge surrendered a portion of the warrant representing 500,000 shares to the Company. On September 14, 2010, the Company s Chairman and Chief Executive Officer exercised his right to purchase 855,000 shares of the Company s Class A Common Stock for an exercise price of $.70 per share tendering approximately $600 to Comstock. The purchase was accomplished through Stonehenge.

On February 11, 2011, Comstock Services, L.C., a subsidiary of the Company, entered into an Owner-Contractor Agreement with CRS Construction Services, L.C., an entity wholly-owned by Christopher Clemente, the Chairman and Chief Executive Officer of the Company, to perform paving and certain site improvement work to property in Reston, Virginia which is owned by Fairfax County, Virginia. The contract sum was for approximately $1 million and the work was completed in April 2011.

Comstock Services, L.C., a subsidiary of the Company, entered into a Subcontract Agreement with Davis Construction, LLC to perform sitework and land development for a project known as Loudoun Station in Loudoun County, Virginia. Comstock Partners, L.C., an entity wholly-owned by Christopher Clemente, the Chairman and Chief Executive Officer of the Company, is the owner of the Loudoun Station project. The total contract value is estimated to be approximately $5 million and is expected to be completed in July 2012. For the year ended December 31, 2011, the Company recognized $3.8 million of revenue from the contract, which is included in Revenue-other in the consolidated income statement. As of December 31, 2011, the Company was owed $1.0 million under this contract, which is included in Trade receivables in

the consolidated balance sheet. The Company recognized no revenue or trade receivables during the year ended December 31, 2010 on the contract.

Pursuant to a Credit Enhancement Agreement by and between Comstock Homebuilding Companies, Inc. and Gregory Benson, the COO and President of the Company, and Christopher Clemente, the Chairman and Chief Executive Officer of the Company (each,

a Guarantor), the Guarantors have agreed to provide credit enhancement and the personal guarantee of loans with Cardinal Bank and Eagle Bank in exchange for payment by the Company of a Credit Enhancement Fee (see Note 9). As a result of this credit enhancement the Guarantors on an aggregate basis are entitled to a credit enhancement fee calculated at a rate of four percent (4%) per annum based on an agreed upon formula more fully discussed in Note 9. One-half of the Credit Enhancement Fee is payable monthly, in arrears, and the remaining half is deferred and payable on an annual basis. During the twelve months ended December 31, 2011, the Company made guarantee payments under this agreement of approximately $254. Another $93 is accrued in accounts payable to be paid at the end of the year. The financing with Sunbridge eliminated the need for personal guarantees on the applicable projects and accordingly this agreement was terminated on July 12, 2011 with respect to the fees paid on the Eagle Bank loan. On March 7, 2012, the Cardinal Bank Loan was repaid and, accordingly, the agreement was terminated with respect to the fees paid on the Cardinal Loan.

13. EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code (the Code). Eligible participants may contribute a portion of their compensation to their respective retirement accounts in an amount not to exceed the maximum allowed under the Code. In January 2006, the Company began matching employee contributions. The total amount matched for the twelve months 2011 and 2010 was $28 and $25 respectively. The Company also maintained an Employee Stock Purchase Plan in which eligible employees had the opportunity to purchase common stock of the Company at a discounted price of 85% of the fair market value of the stock on the designated dates of purchase. Under the terms of the plan, the total fair market value of the common stock that an eligible employee could purchase each year was limited to the lesser of 15% of the employee s annual compensation or $15. The Employee Stock Purchase Plan was discontinued in 2008. While it was active, employees of the Company purchased zero shares of Class A common stock in the last three years.

14. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

Effective January 1, 2004, the Company adopted the fair value recognition provisions required in accounting for share based payments. Prior to December 14, 2004, the Company did not sponsor any stock based plans.

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

The Plan provided an initial authorization of 2,550 shares of Class A common stock for issuance and allows an automatic annual increase equal to the lesser of (i) 3% of the Class A common stock outstanding (ii) 750 shares or (iii) such lesser amount as may be determined by the Company s Board of Directors. As of December 31, 2011, there were 0.7 million shares available for issuance under the Plan.

The fair value of each option award is calculated on the date of grant using the Black-Scholes option pricing model and certain subjective assumptions. Because the Company does not have sufficient trading history, expected volatilities are based on historical volatilities of comparable companies within our industry. We estimate forfeitures using a weighted average historical forfeiture rate. Our estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The risk-free rate for the periods is based on the U.S. Treasury rates in effect at the time of grant. The expected term of options is based on the simplified method which assumes that the option will be exercised midway between the vesting date and the contractual term of the option. The Company is able to use the simplified method as the options qualify as plain vanilla options as defined by ASC 718 Stock Compensation. The following table summarizes the assumptions used to calculate the fair value of options during 2011 and 2010.

	2011	2010
Weighted average fair value of options granted	$ 0.99	$ 1.41
Dividend yields	0	0
Expected volatility	107.3%-164.5%	107.3%-164.5%
Weighted average expected volatility	137.00%	136.00%
Risk free interest rates	0.96%	1.46%
Weighted average expected term (in years)	6.25	5

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The following table summarizes information about stock option activity:

	Shares	Weighted average exercise price
Outstanding at December 31, 2009	748	$ 0.81
Granted	100	1.69
Exercised	(133)	0.71
Forfeited or expired	(53)	1.00
Outstanding at December 31, 2010	663	$ 0.94
Granted	100	1.08
Exercised	0	0.00
Forfeited or expired	0	0.00
Outstanding at December 31, 2011	763	0.96
Exercisable at December 31, 2011	663	$ 0.94

As of December 31, 2011 and 2010, the weighted-average remaining contractual term of unexercised stock options was 7.8 years and 8.4 years, respectively.

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

	Shares	Weighted average fair value at date of grant
Restricted shares outstanding at December 31, 2009		$
Granted	361	0.88
Vested	(267)	(0.75)
Forfeited		
Restricted shares outstanding at December 31, 2010	94	$ 1.24
Granted	1,471	1.31
Vested	(602)	1.30
Forfeited	0	0
Restricted shares outstanding at December 31, 2011	963	$ 1.31

As of December 31, 2011, there was $991 unrecognized compensation cost related to restricted stock issuances granted under the Plan. The Company intends to issue new shares of its common stock upon vesting of restricted stock grants or the exercise of stock options.

15. COMMITMENTS AND CONTINGENCIES
Litigation

On July 29, 2008, Balfour Beatty Construction, LLC, successor in interest to Centex Construction (Balfour), the general contractor for a subsidiary of the Company, filed liens totaling approximately $552 at The Eclipse on Center Park Condominium project (Project) in connection

with its claim for amounts allegedly owed under the Project contract documents. In September 2008, the Company s subsidiary filed suit against Balfour to invalidate the liens and for its actual and liquidated damages in the approximate amount of $17.1 million due to construction delays and additional costs incurred by the Company s subsidiary with respect to the Project. In October 2008, Balfour filed counterclaims in the approximate amount of $2.8 million. Subsequent to an expedited hearing filed by the Company s subsidiary to determine the validity of the liens that was ultimately heard in February 2009, the Company received an order of the court in April 2009 invalidating the liens. On March 19, 2010, the Company s subsidiary received a judgment against Balfour in an amount of $11.96 million. On March 25, 2010, the Company s subsidiary received notice of Balfour s intention to appeal the judgment and post a supersedeas bond in the amount of $12.5 million. On July 21, 2011, the Company and Balfour reached a settlement for all claims related to this matter for approximately $9.4 million, net of closing costs of approximately $900. The Company received the proceeds of the settlement on August 4, 2011.

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

Letters of credit and performance bonds

The Company has commitments as a result of contracts entered into with certain third parties, primarily local governmental authorities, to meet certain performance criteria as outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that such commitments entered into are met by the Company. The letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. Although in some circumstances we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds, we cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds and it is anticipated that any such liability would likely have a material adverse effect on our financial position, operating results or cash flows. At December 31, 2011 the Company has issued $528 in letters of credit and $2,133 in performance and payment bonds to these third parties. No amounts have been drawn against these letters of credit and performance bonds.

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values based on their short maturities.

The fair value of fixed rate debt is based on observable market rates (Level 2 inputs). The following table summarizes the fair value of fixed and floating rate debt and the corresponding carrying value as of:

	December 31, 2011	December 31, 2010
Carrying amount	$ 30,378	$ 28,376
Fair value	$ 26,927	$ 23,264

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company may also value its real estate held for development and sale at fair value on a nonrecurring basis if it is determined that an impairment has occurred. Such fair value measurements use significant unobservable inputs and are classified as Level 3. See Note 2 for a further discussion of the valuation techniques and the inputs used.

17. INCOME TAXES

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

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At December 31, 2007, the Company recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance. This results in a zero deferred tax benefit or expense for the years ended December 31, 2011 and 2010.

The Company currently has approximately $106 million in federal and state NOLs, which based on current statutory tax rates, has a potential fair value of approximately $42 million in tax savings. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 rules, if a change of ownership is triggered, the Company s NOL asset and possibly certain other deferred tax assets may be impaired. We estimate that as of December 31, 2011, the cumulative shift in ownership of the Company s stock would not cause an impairment of our NOL asset. However, if an ownership change were to occur, the Section 382 limitation would not be expected to materially impact the Company s financial position or results of operations as of December 31, 2011, because of the Company s full valuation allowance on its net deferred tax assets.

The Company s ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an ownership change as defined under Section 382 of the Internal Revenue Code. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% shareholders over a specified time period (generally three years). Given Section 382 s broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company s stock that is outside of the Company s control.

In an effort to preserve the availability of these NOLs, Comstock earlier this year adopted a Section 382 stockholder rights plan (the Rights Plan). The Rights Plan was adopted to reduce the likelihood of such an unintended ownership change and thus assist in preserving the value of these tax benefits. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years. This plan was submitted to a vote of the Company s shareholders on June 17, 2011 and the plan was approved at that meeting.

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2009 through 2011 tax years generally remain subject to examination by federal and most state tax authorities.

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

	2011	2010
Current:		
Federal	$ 33	$ 0
State	0	11
	33	11
Deferred:		
Federal	731	(548)
State	136	(102)
	867	(650)
Other		
Valuation allowance	(867)	650
Total income tax expense (benefit)	$ 33	$ 11

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

	2011	2010
Deferred tax assets:		
Inventory	$ 3,480	$ 4,713
Warranty	320	338
Net operating loss and tax credit carryforwards	41,562	41,444
Cancellation of debt gain	760	760
Accrued expenses	(63)	130
Stock based compensation	303	(47)
	46,362	47,338
Less - valuation allowance	(45,815)	(46,682)
Net deferred tax assets	547	656
Deferred tax liabilities:		
Depreciation and amortization	(547)	(656)
Net deferred tax liabilities		
Net deferred tax assets (liabilities)	$ 0	$ 0

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2008 through 2011 tax years generally remain subject to examination by federal and most state tax authorities.

A reconciliation of the statutory rate and the effective tax rate follows:

	2011	2010
Federal statutory rate	(35.00)%	35.00%
State income taxes - net of federal benefit	(3.97)%	3.97%
Permanent differences	0.0%	(39.93)%
Return to provision adjustments	(14.19)%	9.42%
Change in valuation allowance	53.16%	(8.46)%
Tax benefit	0.0%	0.0%

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18. QUARTERLY RESULTS (unaudited)

Quarterly results for the years ended December 31, 2011 and 2010 follow (in thousands, except per share amounts):

	Three months ended			
	March 31, 2011	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**
Revenues	$ 4,586	$ 5,903	$ 5,394	$ 6,326
Operating loss	(1,163)	(1,845)	(2,491)	(2,823)
Pretax income (loss)	(893)	(1,558)	6,743	(2,661)
Net income (loss)	(1,025)	(1,676)	6,541	(2,733)
Basic earnings (loss) per share	(0.05)	(0.09)	0.33	(0.14)
Diluted earnings (loss) per share	(0.05)	(0.09)	0.33	(0.14)

	Three months ended			
	March 31, 2010	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Revenues	$ 9,139	$ 6,428	$ 5,589	$ 2,695
Operating loss	(1,728)	(1,884)	(3,599)	(1,514)
Pretax income (loss)	(892)	(1,843)	(3,417)	(1,535)
Net income (loss)	(892)	(1,843)	(3,428)	(1,535)
Basic earnings (loss) per share	(0.05)	(0.10)	(0.18)	(0.09)
Diluted earnings (loss) per share	(0.05)	(0.10)	(0.18)	(0.09)

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

19. TROUBLED DEBT RESTRUCTURING

On February 12, 2010, the Company executed a loan modification agreement with Stonehenge Funding (Stonehenge), an entity wholly-owned by Christopher Clemente, the Chairman and Chief Executive Officer of the Company, with respect to approximately $9.0 million of unsecured debt. Under the terms of the agreement, Stonehenge agreed to forgive $4.5 million of the principal balance due from the Company, reducing the remaining principal balance by fifty percent (50%) to $4.5 million; and to forgive all past due interest, late fees and penalties accruing through the date of the agreement. The agreement further provides that effective January 1, 2010, the interest rate is reduced by approximately fifty percent (50%) to 300 basis points above the one year LIBOR rate. Stonehenge may, on a quarterly basis, elect to receive stock of the Company (or warrants for the purchase thereof) in an amount equal to the value of the scheduled interest payment. Stonehenge has also agreed to eliminate or forbear upon the enforcement of all financial covenants. The maturity date of the debt remains unchanged at March 14, 2013. The negotiations regarding the loan modification agreement were handled by the independent members of the Board of Directors of the Company. The gain on this transaction was accounted for as a troubled debt restructuring modification of terms pursuant to ASC 470.

Principal amount of debt prior to restructure	$ 9,000
Interest	3,743
Carrying amount of debt at December 31, 2009	12,743
Less: principal amount of debt after restructure	4,500
Less: future interest liability	554
Gain on troubled debt restructuring	$ 7,689

Cancellation of indebtedness by a related party is accounted for as a capital contribution. As a result, the gain on troubled debt restructuring of $7,689 was credited to additional paid in capital during the three months ended March 31, 2010.

To date Comstock has issued to Stonehenge approximately 33 thousand shares of the Company s Class A Common Stock with a stock price of $1.40 in satisfaction of approximately $46 in interest. At December 31, 2011 the Company had $5,008 outstanding to Stonehenge Funding, which represents the December 31, 2009 balance of $12,743 less the gain on troubled debt restructuring of $7,689 recognized in the first quarter of 2010, and the $46 in interest paid in Comstock shares.

20. Subsequent Event

On March 7, 2012, Cascades II completed the sale of its Potomac Square Apartment project to an affiliate of CAPREIT Acquisition Corporation. The project was sold for $19.35 million. In connection with the closing of the transaction, Cascades II placed in escrow $300 (the Warranty Escrow) to secure performance of certain post-closing warranty work and $650 (the Claims Escrow) to secure Cascades II s indemnification and other obligations set forth in the sale agreement. The Warranty Escrow shall be released to Cascades II upon completion of the post-closing warranty work and the Claims Escrow shall be released to Cascades II in three equal installments at six, eight and twelve months from the date of settlement provided that no claims have been made against Cascades by the purchaser. At settlement, the Company received net proceeds of approximately $4.7 million from the transaction after repayment of the existing loan from Cardinal Bank secured by the Potomac Square apartments and the retirement of the related non-controlling equity investment. Upon settlement of existing loan from Cardinal Bank, the Credit Enhancement and Indemnification Agreement was terminated and the deferred Credit Enhancement Fees, of which $93 were outstanding as of December 31, 2011, were settled in full. Upon settlement of the sale, $2.9 million was disbursed to the non-controlling equity investment holders, including $0.6 million of preferred returns on the investment, of which $0.5 million was outstanding as of December 31, 2011.