Comstock Holding Companies, Inc.
Form 10-K
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission file number 001-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-1164345**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1886 Metro Center Drive, 4th Floor, Reston, Virginia 20190

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC
Preferred Stock Purchase Rights	Nasdaq Capital Market

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

None

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

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

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. x Yes ¨ No

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant 8,232,162 shares based on the last reported sale price of the registrant s common equity on the Nasdaq Global Market (NASDAQ) on June 28, 2013, which was the last business day of the registrant s most recently completed second fiscal quarter, was $22,803,089. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

As of March 31, 2014, there were outstanding 18,629,638 shares of the registrant s Class A common stock, par value $0.01 per share, and 2,733,500 shares of the registrant s Class B common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2014 Annual Meeting of Stockholders, to be filed within 120 days after the registrant s fiscal year ended December 31, 2013, are incorporated by reference into Part III of this Form 10-K.

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COMSTOCK HOLDING COMPANIES, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2013

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PART I

CAUTIONARY NOTES REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K include forward-looking statements. These forward-looking statements can be identified by the use of words such as anticipate, believe, estimate, may, likely intend, expect, will, should, seeks or other similar expressions. Forward-looking statements are based largely on expectations and involve inherent risks and uncertainties including certain risks described in this Annual Report on Form 10-K. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this Annual Report on Form 10-K. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include: general economic and market conditions, including interest rate levels; our ability to service our debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; 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 Annual Report on Form 10-K under the heading Risk Factors in Item 1A.

Item 1. Business

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

Overview

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

Available Information

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

Our principal executive offices are located at 1886 Metro Center Drive, 4th Floor, Reston, Virginia 22180 and our telephone number is (703) 883-1700. Information on or linked to our website is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

Our Operating Market

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

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

We believe that our significant experience over the past 28 years within the Washington D.C. market provides us the experience necessary to identify attractive opportunities in our core market. We believe that our focus in the Washington, D.C. market, which has historically been characterized by economic conditions less volatile than many other major homebuilding markets, should provide us with an opportunity to generate attractive returns on investment and for growth.

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

Our Business Strategy

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

Homebuilding We target new home building opportunities where our building experience and ability to manage highly complex entitlement, development and related issues provides us with a competitive advantage.

Multi-family We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We will either position the assets for sale to institutional buyers when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future.

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

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

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

Finished building lots Whenever practical, we purchase fully developed building lots from sellers that secure necessary entitlements and permits and complete the land development process. This enables us to minimize the amount of land we hold in inventory and to time our acquisition of such lots with the sales of homes to be built on such lots, thereby reducing the hold time and carry costs associated with holding the lots.

Entitled building lots We purchase certain development sites after the land seller has secured substantially all entitlements, allowing for prompt development of the land into building lots. This affords us the opportunity to secure building lots in locations where finished building lots are not readily available, or where the price of obtaining finished lots are determined to be unaffordable.

Land options We contract to purchase certain development sites in advance of entitlements being secured. This affords us the opportunity to design the layout of the building lots to fit our home products, while the land continues to be held by the land seller and minimizes our costs associated with carrying such land in our inventory while development permits are secured.

With respect to our homebuilding operations, we seek to minimize risk associated with fluctuating market conditions by primarily building pre-sold units and limiting the number of spec units (units that are not pre-sold) held in inventory. In each new community that we develop, we build model homes to demonstrate our products and to house our on-site sales operations. When practical, we execute sale-leaseback transactions on model homes. We limit building spec units in locations where there is a demand

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for immediate delivery homes or where a significant number of the units in a multi-family building (such as townhouses or condominiums) have been pre-sold. We believe that by limiting the number of model homes and spec units held in inventory, we reduce our exposure to cyclical fluctuations in market values and minimize costs associated with holding inventory, such as debt service.

Our Operations

We believe that we are properly staffed for current market conditions and that we have the ability to manage growth as market conditions warrant. Our operations are focused mainly in the Washington, D.C. market, where we believe our 28 years of market experience provides us the best opportunity to enhance stockholder value.

Our Communities

We are currently operating, or developing in multiple counties throughout the Washington, D.C. Market. The following table summarizes certain information for our owned or controlled communities as of December 31, 2013:

			As of December 31, 2013					
Project	State	Product Type (2)	Estimated Units at Completion	Units Settled	Backlog (3)	Lots Owned Unsold	Lots under Option Agreement	Average New Order Revenue Per Unit to Date
City Homes at the Hampshires (1)	DC	SF	38	20	2	16		$ 733
Townes at the Hampshires (1)	DC	TH	73	13	5	55		$ 541
Villas at Eastgate (1)	VA	Condo	66	53	4	9		$ 387
Single Family Homes at Falls Grove (1)	VA	SF	19			19		$
Townes at Falls Grove (1)	VA	TH	110		11	99		$ 292
Townes at Shady Grove Metro (1)	MD	TH/SF	39		6	33		$ 590
Momentum | Shady Grove (1)	MD	Condo	117			117		$
Emerald Farm (4)	MD	SF	84	78		6		$ 452
Townes at Maxwell Square (1)	MD	TH	45			45		$
Townes at Hallcrest (1)	VA	TH	42			42		$
The Oaks of Highlands(5)	VA	SF	24			24		$
Total			**657**	**164**	**28**	**465**		**468**

(1) Community in development and/or construction with units available for sale.
(2) SF means single family home, TH means townhouse, Condo means condominium and MF means multi-family
(3) Backlog means we have an executed order with a buyer but the settlement has not yet taken place.
(4) Developed and planned for construction activities in 2014.
(5) Development and construction activities planned for 2014.

Northern Virginia Market

The Eclipse on Center Park was a 465-unit, high-rise condominium complex in Arlington, Virginia, just minutes from downtown Washington D.C., the Pentagon and Reagan National Airport. The project was an upscale, urban-style, mixed-use complex with residential condominiums above an 83,000 square foot retail center, which included a Harris Teeter grocery store and other convenience-oriented retailers. The Company had 19 units remaining in its inventory at

December 31, 2012. We exited the Eclipse project in May 2013 after settling all remaining units.

Penderbrook Square was a 424-unit rental multi-family complex in the Fair Oaks area of Fairfax County, Virginia that we purchased as a condominium conversion project. We acquired the property in 2005 and made significant improvements to common areas, building exteriors, and heating and air-conditioning systems within the units. We completed the conversion and sale of a majority of the units in fiscal year 2012 with two units remaining in our inventory at December 31, 2012. The Company exited this project in January 2013 with the settlement of the two remaining units.

Single Family Homes at Falls Grove and Townes at Falls Grove projects are located in northern Prince William County near Centreville, Virginia. The properties will be developed as 19 single family homes and 110 townhouses with prices expected to be starting from the $200 s for the townhomes and the $400 s for the single-family homes. Sales began in July 2013. At December 31, 2013, there were 11 units in backlog.

Villas at Eastgate is located in Loudoun County near Chantilly, Virginia. The project consists of 66 single-level condominiums in a cluster of two-level buildings, situated within the 400-unit Eastgate master-planned community. Construction started in December 2012 and settlements began in March 2013. During fiscal year 2013, we settled 53 units and 4 units were in backlog at December 31, 2013.

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Townes at Hallcrest is a new community located in Sterling, Virginia. The property will be developed as 42 townhomes with prices expected to be starting from the $400 s. The Company acquired the subject land in September 2013 and land development is expected to commence in spring 2014. Homes sales are anticipated to begin in spring of 2014, with first delivery expected in mid- 2014.

The Oaks of Highlands is a new community located in Stafford, Virginia. The property was acquired as finished lots and we will construct 24 single family homes on the site. The Company acquired the subject land on December 27, 2013. Construction and sales activities are anticipated to begin in mid-2014.

Maryland

Emerald Farm consists of 6 finished single-family lots that we own in a large development of single-family homes in Frederick, Maryland conveniently located near major transportation routes. It is our intention to begin marketing and sales activities on this property in 2014.

Townes at Shady Grove Metro and Momentum | Shady Grove projects are new residential projects in Rockville, Maryland, adjacent to the Shady Grove metro rail station, the terminus of the red line of the Washington metro. The projects will be developed as 3 single family homes, 36 upscale townhomes and 117 luxury condominium units. Development began in June 2013 and the sales center opened in July 2013. We had 6 townhouse units in backlog at December 31, 2013 with settlements anticipated to begin in mid- 2014.

Townes at Maxwell Square is located in downtown Frederick, Maryland. The property was acquired as finished building lots where we will construct 45 townhomes with prices expected to be starting from mid-$300 s. Development and construction is expected to begin in the spring of 2014, with sales anticipated to begin concurrently.

District of Columbia

City of Homes at the Hampshires and Townes at the Hampshires are located in the Northeast quadrant of Washington, D.C. The property has been developed as 111 building lots where we are currently constructing residential units, consisting of 38 single-family homes and 73 townhomes. The Hampshires is located proximate to two metro rail stations just inside the Washington, D.C. Maryland border. Construction on the single-family units began in August 2012, with the first settlements occurring in March 2013. Construction on the townhomes began in April 2013. We settled 20 single family homes and 13 townhouses during fiscal year 2013 and had 2 single family homes and 5 townhouse units in backlog at December 31, 2013.

Land/Lot Acquisition and Inventory Management

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

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

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

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

- Managing our supply of land/lots controlled (owned and optioned) based on anticipated future home closing levels;

- Monitoring market and demographic trends, housing preferences and related economic developments, based on the quality of schools, new job opportunities and local growth initiatives;

- Utilizing land/lot option contracts, where possible;

- Seeking to acquire developed lots which are substantially ready for home construction, where possible;

- Limiting the size of acquired land parcels to smaller tracts, where possible, and controlling our investments in land acquisition, land development and housing inventory to match the expected housing demand;

- Generally commencing construction of custom features or optional upgrades on homes under contract only after the buyer s receipt of mortgage approval and receipt of satisfactory deposits from the buyer; and

- Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each community.

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Land Development and Home Construction

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

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

We typically do not maintain significant inventories of land development or home construction materials, except for work in progress materials for homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources. As housing demand, land development and home construction activity increased in fiscal years 2012 and 2013, we experienced some temporary shortages, delays of materials and labor in our operating market, none of which have materially affected our consolidated operating results.

Marketing and Sales

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

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

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

Quality Control

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

Competition

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

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

Governmental Regulation and Environmental Matters

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

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

Technology and Intellectual Property

We utilize our technology infrastructure to facilitate marketing of our projects as well. Through our web site, *www.comstockhomes.com,* our customers and prospective customers receive automatic electronic communications from us on a regular basis. Our corporate marketing directors work with in-house marketing and technology specialists to develop advertising and public relations programs for each project that leverage our technology capabilities. During 2013, we continued to increase our utilization of media and internet based marketing platforms in lieu of print advertisements. We believe that the home buying population will continue to increase its reliance on information available on the internet to help guide their home buying decision. Accordingly, through our marketing efforts, we will continue to seek to leverage this trend in an effort to lower per sale marketing costs while maximizing potential sales.

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

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

Employees

At December 31, 2013, we had 47 full-time and 3 part time employees. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe we have good relations with our employees.

Executive Officers of the Registrant

Our executive officers and other management employees and their respective ages and positions as of December 31, 2013 are as follows:

Name	Age	Current Position
Christopher Clemente	54	Chairman and Chief Executive Officer
Gregory V. Benson	59	President, Chief Operating Officer
Joseph M. Squeri	48	Chief Financial Officer
Jubal R. Thompson	44	General Counsel and Secretary

Christopher Clemente founded Comstock in 1985 and has been a director since May 2004. Since 1992, Mr. Clemente has served as our Chairman and Chief Executive Officer. Mr. Clemente has over 28 years of experience in all aspects of real estate development and home building, and more than 30 years of experience as an entrepreneur.

Gregory V. Benson joined us in 1991 as President and Chief Operating Officer and has been a member of our board of directors since May 2004. Mr. Benson has over 30 years of home building experience including over 14 years at national home builders, including NVHomes, Ryan Homes and Centex Homes.

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

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

Item 1A. Risk Factors

Risks Relating to Our Business

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

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

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

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

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

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

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

During 2013 and 2012, we evaluated all of our projects, to the extent of the existence of any impairment indicators requiring evaluation to determine if recorded carrying amounts were recoverable by evaluating discount rates, sales prices, absorption and our analysis of the best approach to marketing our projects for sale. This evaluation resulted in an aggregate 2012 impairment charge of $2.4 million. Impairment charges are recorded as a reduction in our capitalized costs. During 2013, due to a revision in our previous disposition strategy, we reversed a previously recorded impairment charge of $0.7 million. Additionally, during 2013, we wrote-off $1.1 million in due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred in December 2013 due to the Company s unsuccessful attempt to obtain entitlement approvals. See real estate inventories Note 4 in the accompanying consolidated financial statements.

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

We currently have approximately $118.5 million in federal and state NOLs with a potential value of up to approximately $46 million in tax savings. These deferred tax assets are currently fully reserved. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 rules, if a change of ownership is triggered, our NOL asset and possibly certain other deferred tax assets may be impaired. We estimate that as of December 31, 2013, the cumulative shift in the Company s stock would not cause an inability to utilize any of our NOL asset.

The Company s ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an ownership change as defined under Internal Revenue Code Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders over a specified time period (generally three years). Given Internal Revenue Code Section 382 s broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company s stock that is outside of the Company s control. In an effort to preserve the availability of these NOLs, Comstock adopted a Internal Revenue Code 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 stockholders on June 17, 2011, and the plan was approved at that meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

result in lower sales volume and revenues; and

increase our costs and reduce our earnings.

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

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

The cancellation rate of buyers who contracted to buy a home from us but did not close escrow (as a percentage of overall orders) was approximately 14% and 13% during the years ended December 31, 2013 and 2012, respectively. Home order cancellations negatively impact the number of closed homes, net new home orders, home sales revenue and results of operations, as well as the number of homes in backlog. Home order cancellations can result from a number of factors, including declines or slow appreciation in the market value of homes, increases in the supply of homes available to be purchased, increased competition, higher mortgage interest rates, homebuyers inability to sell their existing homes, homebuyers inability to obtain suitable financing, including providing sufficient down payments, and adverse changes in economic conditions including unemployment. Upon a home order cancellation, the homebuyer s escrow deposit is returned to the homebuyer (other than certain miscellaneous deposits, which we retain). An increase in the level of our home order cancellations could have a negative impact on our business, prospects, liquidity, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acts of war or terrorism may seriously harm our business.

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

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

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

Risks Related to our Common Stock and Level of Indebtedness

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

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

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

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

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

Our stock price has been volatile, and we expect it will continue to be volatile. For example during the year ended December 31, 2013, the closing price of our common stock ranged from a high of $3.65 to a low of $0.48. The volatility of our stock price can be due to many factors including:

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

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

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

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

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

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

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

Messrs. Clemente and Benson own 100% of our outstanding Class B common stock, which, together with their shares of Class A common stock, represent approximately 77% of the combined voting power of all classes of our voting stock as of December 31, 2013. As a result, Messrs. Clemente and Benson, acting together, have control over us, the election of our board of directors and our management and policies. Messrs. Clemente and Benson, acting together, also have control over all matters requiring stockholder approval, including the amendment of certain provisions of our amended and restated certificate of incorporation and bylaws, the approval of any equity-based employee compensation plans and the approval of fundamental corporate transactions, including mergers. In light of this control, other companies could be discouraged from initiating a potential merger, takeover or any other transaction resulting in a change of control. Such a transaction potentially could be beneficial to our business or to our stockholders. This may in turn reduce the price that investors are willing to pay in the future for shares of our Class A common stock.

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

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

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

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

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

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

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

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 20,000,000 shares of preferred stock, par value $0.01 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders, even where stockholders are offered a premium for their shares. The issuance of shares of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of Class A common stock, including the loss of voting control. We have no preferred stock currently outstanding nor do we have any present plans to issue any shares of preferred stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

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

Item 3. Legal Proceedings

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

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Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market for Common Stock

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

Fiscal Year Ended 2012	**High**	**Low**
First quarter	$ 2.03	$ 1.08
Second quarter	$ 1.82	$ 1.13
Third quarter	$ 1.53	$ 1.10
Fourth quarter	$ 1.59	$ 1.15
Fiscal Year Ended 2013	**High**	**Low**
First quarter	$ 1.96	$ 0.48
Second quarter	$ 3.65	$ 1.65
Third quarter	$ 2.92	$ 1.74
Fourth quarter	$ 2.24	$ 1.62

Holders

As of December 31, 2013, there were approximately 36 record holders of our Class A common stock. As of December 31, 2013, there were two holders of our Class B common stock.

Dividends

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

Unregistered Sales of Equity Securities and Use of Proceeds

The descriptions of the offerings related to Comstock Investors VII, L.C. and Comstock Investors VIII, L.C. in Notes 3 and 9 in the accompanying consolidated financial statements are hereby incorporated by reference. The membership interests and the warrants were offered and sold to Purchasers in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act and the certificates representing the securities shall bear legends to that effect. The membership interests, the warrants and the shares of our Class A Common Stock issuable upon the exercise of the warrants have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Issuer Purchases of Equity Securities

Our board of directors has previously authorized the repurchase of up to 1.0 million shares of our Class A common stock in one or more open market or privately negotiated transactions. During the 12 months period ended December 31, 2013, we did not repurchase any of our outstanding Class A common stock. As of December 31, 2013, 0.6 million shares of our Class A common stock authorized for repurchase remain available for repurchase; however, we have no immediate plans to repurchase stock under this authorization.

Item 6. Selected Financial Data

Not Applicable.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see Cautionary Notes Regarding Forward-looking Statements for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the headings Risk Factors and Cautionary Notes Regarding Forward-looking Statements.

Overview

The underlying trends in U.S. housing point toward an ongoing multi-year recovery supported by favorable demographics, an improving economy, mortgage interest rates near historic lows, and limited supplies of new and existing home inventories. Our results in 2013 showed significant improvement in the majority of our key operating metrics compared to 2012, driven by the introduction of new home inventory and development activities, as compared to the fully developed, available for sale legacy inventories settled in 2012. Sales trends in the first six months of 2013 were stronger than the last six months of the year. During the first half of 2013, the homebuilding market experienced favorable sales and pricing trends compared to 2012, driven by historically low mortgage interest rates and rising costs in the rental market which contributed to higher levels of housing affordability in the Washington, D.C. market. Sales trends in the second half of 2013 were strong compared to 2012, though negatively impacted by increasing mortgage interest rates, higher home prices and buyer uncertainty. The housing market also continues to face challenges from tight mortgage underwriting standards. While we have benefited from generally improved market conditions, we continue to face gross margin pressure due to increasing land acquisition, land development and home construction costs.

Home closings, revenues, average selling price, gross margin, overhead leverage, and net income from continuing operations all improved in 2013 compared to 2012. Our settlements for the year ended December 31, 2013 totaled 107 units, compared to 45 units in 2012, which represents an increase of 138%. Our consolidated homebuilding revenues for the year ended December 31, 2013 totaled $53.8 million, an increase of 363% from $11.6 million in 2012. Our net new orders increased by 147% in 2013 compared to 2012. An increase in the number of active communities with units available for sale contributed to the increase in net new orders as compared to 2012. The higher active community count resulted from our more disciplined land investment strategy and capital raising initiatives. We intend to continue to calibrate sales pace in each community to improve our gross margins and maximize returns on invested capital. We expect that this approach will continue to result in an expansion in our net new order volume in 2014, as compared to 2013. While we believe higher mortgage interest rates are inevitable and may have a moderating effect on demand and pricing, we believe this impact will be outweighed in the long-term by other factors driving increased sales volume as overall new home sales in the Washington, D.C. market remain low compared with historical levels.

The significant improvements reported for 2013, coupled with our successful capital raising initiatives, allowed us to continue to enhance our financial position. Unrestricted cash at December 31, 2013 totaled $11.9 million, an increase of $8.4 million from $3.5 million at December 31, 2012. Our improved financial position provided us additional flexibility to increase our pipeline and reduce our secured loan-to-inventory ratio to 57% at December 31, 2013, as compared to 70% at December 31, 2012.

In the short-term, we will continue to focus on maximizing our operating margins to enhance our balance sheet, despite the possibility of rising house cost pressures from increasing material prices and labor shortages, by using our existing land assets more effectively, allocating capital more effectively, and aggressively controlling unsold spec inventory. We believe we have positioned ourselves to deliver improved long-term returns. In planning for the longer term, we continue to maintain confidence that we are likely in the early stages of a broad, sustainable recovery in the U.S. new home market. While the U.S. macroeconomic environment continues to face challenges, we are continuing to pursue strategic land positions that meet our underwriting requirements in well-positioned locations and believe that sustained execution of our strategy will allow us to continue to improve our financial position and improve our returns on invested capital over the housing cycle.

Recent Developments

Comstock Maxwell Square, L.C.

On September 30, 2013, the Company, through its subsidiary Comstock Maxwell Square, L.C. the borrower, closed on its forty-five unit townhome condominium project located in downtown Frederick, Maryland (the Townes at Maxwell Square). In connection with the closing of the Townes at Maxwell Square, the borrower entered into a loan agreement and related documents with EagleBank pursuant to which the borrower secured (i) a $2.1 million acquisition and development loan, (ii) a $3.4 million revolving construction loan and (iii) a $51 letter of credit facility (collectively, the Eagle Maxwell Loans) to finance the development of the Townes at Maxwell Square. The Eagle Maxwell Loans provide for a variable interest rate of LIBOR plus 3%, subject to a minimum floor of 4.75%. The Eagle Maxwell Loans have a maturity date of 24 months, subject to meeting a minimum sales and settlement schedule on a quarterly basis. There is no prepayment penalty associated with the Eagle Maxwell Loans, which are secured by a first deed of trust on the Townes at Maxwell Square and fully guaranteed by the Company.

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Comstock Investors VIII, L.C.

In December 2013, Comstock Investors VIII, L.C. (Comstock VIII), a subsidiary of the Company, entered into subscription agreements with certain accredited investors (the Comstock VIII Class B Members), pursuant to which the Comstock VIII Class B Members purchased membership interests in Comstock VIII for an aggregate amount of $4.0 million (the Comstock VIII Private Placement). In connection with the Comstock VIII Private Placement, the Company issued 102 warrants for the purchase of shares of the Company s Class A common stock to the non-affiliated accredited investors, who participated in the Comstock VIII Private Placement, having an aggregate fair value of $132. The Comstock VIII Class B Members included unrelated third-party accredited investors along with members of the Company s board of directors and the Company s Chief Operating Officer and the Chief Financial Officer. The Comstock VIII Class B Members are entitled to a cumulative, preferred return of 20% per annum, compounded annually on their capital account balances. The Company has the right to repurchase the interests of the Comstock VIII Class B Members at any time, provided that (i) all of the Comstock VIII Class B Members interests are acquired, (ii) the purchase is made in cash and (iii) the purchase price equals the Comstock VIII Class B Members capital accounts plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The Comstock VIII Private Placement provides capital related to the current and planned construction of the following projects: The Townes at HallCrest in Sterling, Virginia, consisting of 42 townhomes and the Townes at Maxwell Square in Frederick, Maryland consisting of 45 townhome condominium units (collectively, the Investor VIII Projects). Proceeds of the Comstock VIII Private Placement are to be utilized (A) to provide capital needed to complete the Investor VIII Projects in conjunction with project financing for the Investor VIII Projects, (B) to reimburse the Company for prior expenditures incurred on behalf of the Investor VIII Projects, and (C) for general corporate purposes of the Company. No distributions were paid to the Comstock VIII Class B Members in 2013.

Comstock Hall Road, L.C.

On December 30, 2013, the Company, through its subsidiary Comstock Hall Road, L.C., the borrower, entered into a loan agreement and related documents with Cardinal Bank pursuant to which the borrower secured a $3.7 million acquisition and development loan, a $3.5 million revolving construction loan and a $2.0 million letter of credit facility (collectively, the Hall Cardinal Loan) to finance the development of the Townes at Hallcrest project located in Loudoun County, Virginia (the Townes at Hallcrest). The Hall Cardinal Loan provides for an initial variable interest rate of prime plus 0.5%, subject to an interest rate floor of 4.5%, payable monthly to the extent not offset by a $250 interest reserve initially set aside for the benefit of the borrower. The Hall Cardinal Loan has a maturity date of 24 months, so long as the borrower obtains three sales and settlements within the 12 month period following the closing of the Hall Cardinal Loan. There is no prepayment penalty associated with the Hall Cardinal Loan, which is secured by a first deed of trust on the Townes at Hallcrest. The Loan is fully guaranteed by the Company and by a limited guaranty from Messrs. Christopher Clemente and Gregory Benson, the Chief Executive Officer and Chief Operating Officer of the Company, respectively. Messrs. Clemente and Benson have initially agreed not to charge a credit enhancement fee for the Hall Cardinal Loan as permitted by that certain Credit Enhancement and Indemnification Agreement previously entered into by and among the Company and Messrs. Clemente and Benson.

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. In January 2013, this guidance was amended by ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which limits the scope of ASU 2011-11 to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. The guidance is effective for fiscal years beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this guidance, which is related to disclosure only, did not have a material impact on our disclosures in the notes to the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward with certain defined exceptions. ASU 2013-11 is intended to end inconsistent practices regarding the presentation of a unrecognized tax benefits when a net operating loss (NOL), a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from the disallowance of a tax position. We adopted this guidance during fiscal year 2013. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial statements.

In April 2013, the FASB issued ASU 2013-04, *Liabilities* , (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 will be effective for our fiscal year beginning January 1, 2014 and subsequent interim periods. The adoption of ASU 2013-04 is not expected to have a material effect on our consolidated financial statements.

Other accounting pronouncements issued or effective during the year ended December 31, 2013 are not applicable to us and are not anticipated to have an effect on our consolidated financial statements.

Critical Accounting Policies and Estimates

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

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

Real estate inventories

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

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

If the project is considered held for sale, it is valued at the lower of cost or fair value less estimated selling costs. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances that may affect fair value including management s plans for the property. As of December 31, 2012, the Company classified its Eclipse and Penderbrook projects as held for sale and accordingly, carried the projects at fair value less costs to sell as determined by discounted cash flow models, by reference to comparable market transactions, or relevant purchase offers. 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. The estimates of sales prices, sales pace and discount rates used by the Company were based on the best information available at the time the estimates were made. The Company did not have any development projects considered to be held for sale at December 31, 2013.

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

Revenue recognition

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

Equity-based compensation

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

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

Income taxes

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

Use of estimates

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

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Results of Operations

Year ended December 31, 2013 compared to year ended December 31, 2012

Orders, backlog and cancellations

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012	
Gross new orders		147		57
Cancellations		21		6
Net new orders		126		51
Gross new order revenue	$	70,283	$	18,894
Cancellation revenue	$	9,554	$	2,465
Net new order revenue	$	60,728	$	16,429
Average gross new order price	$	478	$	332
Settlements		107		45
Settlement revenue homebuilding	$	53,806	$	11,633
Average settlement price	$	503	$	259
Backlog units		28		9
Backlog revenue	$	12,343	$	5,421
Average backlog price	$	441	$	602

Revenue homebuilding

The number of units delivered for the year ended December 31, 2013 increased by 62 to 107 as compared to 45 units for the year ended December 31, 2012. Average revenue per unit delivered increased by approximately $244 to $503 for the year ended December 31, 2013 as compared to $259 for the year ended December 31, 2012. Revenue from homebuilding increased by $42.2 million to $53.8 million for the year ended December 31, 2013 as compared to $11.6 million for the year ended December 31, 2012. For the year ended December 31, 2013, the Company settled 107 units (33 units at The Hampshires, 53 units at Eastgate, 2 units at Penderbrook and 19 units at Eclipse), as compared to 45 units (37 units at Penderbrook and 8 units at Eclipse) for the year ended December 31, 2012. In addition, our homebuilding gross margin percentage for the year ended December 31, 2013 increased by 6.0% to 22.7%, as compared to 16.7% for the year ended December 31, 2012. The increase noted in revenue, average sales price and margins was a result of the increase in the number of homes settled, mix of units settled and the Company exiting impaired legacy projects. Excluding the impact of the release of the warranty reserve discussed in Note 2 in the accompanying consolidated financial statements, gross margin percentage was 21.9% for the year ended December 31, 2013.

Revenue other

Revenue other decreased approximately $1.9 million to $0.8 million during the year ended December 31, 2013, as compared to $2.7 million for the year ended December 31, 2012. The decrease primarily relates to revenue from rental operations, as the number of rental units at Penderbrook and Eclipse continued to decline until all units were sold in the second quarter of 2013. The completion of several of the general contracting projects in 2012 also contributed to the decline.

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

Cost of sales homebuilding

Cost of sales homebuilding for the year ended December 31, 2013 increased by $31.9 million, to $41.6 million as compared to $9.7 million for the year ended December 31, 2012. The number of units settled and mix of homes settled during the year ended December 31, 2013 accounted for the increase in cost of sales.

Cost of sales other

Cost of sales other decreased approximately $2.7 million to $0.8 million during the year ended December 31, 2013 as compared to $3.5 million for the year ended December 31, 2012. As a result of the continued absorption and sale of the condominium units at Penderbrook and Eclipse, the decline in the number of units used in rental operations resulted in a significant decrease in cost of sales other. Additionally, the completion of several general contracting projects in 2012 also contributed to the decline.

Impairment charges and write-offs

We evaluate all of our projects to the extent of the existence of any impairment indicators requiring evaluation to determine if recorded carrying amounts were recoverable by evaluating discount rates, sales prices, absorption and our analysis of the best approach to marketing our projects for sale. Based on this evaluation, we recorded an impairment charge of $2.4 million during the year ended December 31, 2012, to properly record our for sale project at fair market value less costs to sell based on the then current bulk sale strategy consistent with the provisions of ASC 360.

Due to a change to an individual unit retail sale model from our previous bulk sale disposition strategy, we reversed a previously recorded impairment charge of $0.7 million during the year ended December 31, 2013. Additionally, during 2013, we wrote-off $1.1 million in due diligence and entitlement pursuit costs related to the BLVD Newell project, which was controlled under a land purchase option contract. The write-off occurred in December 2013 due to the Company s unsuccessful attempt to obtain entitlement approvals. See real estate inventories in Note 4 in the accompanying consolidated financial statements for further discussion and the basis for determining the impairment charges, reversals and write-offs.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2013 increased by $1.4 million to $2.0 million, as compared to $0.6 million for the year ended December 31, 2012. The increase in sales and marketing expenses over the prior year period is directly attributable to increases in active developments and marketing efforts, which resulted in an increase in homes ordered and delivered.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2013 decreased by $1.3 million to $6.7 million, as compared to $8.0 million for the year ended December 31, 2012. The decrease in general and administrative expenses over the prior year is attributable to increased utilization of operations employees which increased capitalization to specific projects as a result of the increase in active selling and developing communities.

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 inventories during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive 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 inventories are expensed as a component of cost of sales as related units are sold. Approximately, $1.9 million and $0.4 million of interest was capitalized to projects during the years ended December 31, 2013 and 2012, respectively.

When a project becomes inactive, its interest, real estate taxes and indirect overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. During the year ended December 31, 2013 and 2012, we recorded interest expense of $0.1 million and $1.9 million, respectively, related to inactive projects. Refer to Note 2 in the accompanying consolidated financial statements for the breakdown of the interest, real estate taxes and indirect costs related to inactive projects reported on the consolidated statement of operations.

Discontinued operations

As described in Note 14 to the consolidated financial statements, on March 7, 2012, the Company s subsidiary sold the Cascades Multi-family units for $19.4 million. Because the sale of the Cascades Multi-family units represented a component of the Company, U.S. GAAP required the results of operations associated with the Cascades Multi-family units to be included in Discontinued Operations. Accordingly, the net gain from the sale of the project of $6.5 million is reflected within Discontinued Operations in the accompanying financial statements. Although the sale of the Cascades project is presented in the accompanying financial statements under Discontinued Operations, developing multi-family units for the purpose of selling is a component of the Company s ongoing strategy and operating activities. The Company continues to pursue such projects within its multi-family segment and anticipates that sales of similar operating projects will be reflected in this manner.

Income taxes

The effective tax rate for the years ended December 31, 2013 and 2012 was 17.1% and 0%, respectively. This resulted in $0.3 million and $0 in tax expense for the twelve month periods ended December 31, 2013 and 2012, respectively. This tax arises from taxable income generated in the District of Columbia against which the Company has no tax net operating losses to offset.

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 to finance acquisition, development and construction on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, rental multi-family projects, finished and raw building lots and the sale of equity and debt securities. The Company is involved in ongoing discussions with lenders and equity sources in an effort to provide additional growth capital to fund various new business opportunities. Refer to Note 8 in the accompanying consolidated financial statements for more details on our credit facilities and Note 3 in the accompanying consolidated financial statements for details on private placement offerings in 2013. We are anticipating that through a combination of the capital raised through the aforementioned private placements, current available cash on hand and additional cash from settlement proceeds at existing and under development communities, the Company will have sufficient financial resources to sustain our operations through the next 12 months, though no assurances can be made that we will be successful in our efforts.

Credit Facilities

We have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate projects. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. Refer to Note 8 in the accompanying consolidated financial statements for further information on our credit facilities.

Cash Flow

Net cash used in operating activities was $4.3 million for the year ended December 31, 2013. This represents a decline of $11.7 million from the net cash used in operating activities of $16.0 million for the year ended December 31, 2012. The improvement in operating cash flow is largely attributable to the improvement in net income to $2.7 million from a loss of $(5.6) million. Note, the 2012 cash flows from operating activities do not reflect the net cash flows from the sale of the Cascades multi-family units of approximately $4.7 million. Although the construction, development and sale of this and potentially other future merchant build projects are an ongoing component of the Company s operations, the sale of the project is required to be presented as Discontinued Operations. Accordingly, the net cash flows are presented within the investing and financing section of the accompanying consolidated statement of cash flows. Additionally, for 2012, other significant outflows relate to a $0.5 million reduction in accrued interest payable for debt service payments made to lenders, a $9.0 million use of cash for land acquisitions and expenditures for development activities reflecting continued investment in real estate inventories.

Net cash provided by investing activities was $1.2 million for the year ended December 31, 2013. This was primarily attributable to the release of insurance deposit of $1.0 million. Net cash provided by investing activities was $18.9 million for the year ended December 31, 2012, primarily attributable to the sale of the Cascades Multi-family units.

Net cash provided by financing activities was $11.5 million for the year ended December 31, 2013. This was primarily attributable to the proceeds from the Comstock VII and Comstock VIII private placements as further described in Note 3 in the accompanying consolidated financial statements. Net cash used in financing activities was $5.0 million for the year ended December 31, 2012, primarily attributable to the payoff of long outstanding deficiency notes, debt curtailments on settlements and refinancing and retirement of the non-controlling interests, including preferred returns, in full related to the Cascades Multi-family units.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

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

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

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 of 1934, as amended (the Exchange Act)) as of December 31, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2013, that our disclosure controls and procedures were effective, and designed to ensure that (a) information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and instructions, and (b) information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Limitations on the Effectiveness of Controls

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

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

Management s Report on Internal Control Over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013, based on criteria set forth in the framework in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Our management determined that, as of December 31, 2013, 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, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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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 2014 Annual Meeting of Stockholders, except that the information relating to our executive officers is included in Item 1, Business Executive Officers of this Annual Report on Form 10-K .

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2014 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 2014 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 2014 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 2014 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

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

(3) Exhibits

Exhibit **Number**	**Exhibit**

3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
3.2	Amended and Restated Bylaws (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
4.1	Specimen Stock Certificate (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.1	Lease Agreement, dated as of January 31, 2004, with Comstock Partners, L.C. (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.2	Agreement of Sublease, dated as of October 1, 2004, with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.3	Form of Indemnification Agreement (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.4	Form of Promissory Note to be issued to each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub by each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc. (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).

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Exhibit Number	Exhibit
10.5	Form of Tax Indemnification Agreement to be entered into by each of Christopher Clemente, Gregory Benson, James Keena and Lawrence Golub with each of Comstock Holding Company, Inc., Comstock Homes, Inc., Sunset Investment Corp., Inc. and Comstock Service Corp., Inc. (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.6	2004 Long-Term Incentive Compensation Plan (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.7	Form Of Stock Option Agreement under the 2004 Long-Term Incentive Compensation Plan (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.8	Form Of Restricted Stock Grant Agreement under the 2004 Long-Term Incentive Compensation Plan(incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005). +
10.9	Employee Stock Purchase Plan (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.10	Purchase and Sale Agreement, dated as of November 9, 2004, as amended, with Fair Oaks Penderbrook Apartments L.L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.11	Services Agreement, dated March 4, 2005, with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.12	Employment Agreement with Christopher Clemente (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.13	Employment Agreement with Gregory Benson (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.14	Confidentiality and Non-Competition Agreement with Christopher Clemente (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.15	Confidentiality and Non-Competition Agreement with Gregory Benson (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193). +
10.16	Trademark License Agreement (incorporated by reference to an exhibit to the Registrant s Registration Statement on Form S-1, as amended, initially filed with the Commission on August 13, 2004 (No. 333-118193).
10.17	

	Purchase Agreement, dated as of November 12, 2004 with Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).
10.18	Description of Reimbursement and Indemnification Arrangement with Christopher Clemente and Gregory Benson (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2005).
10.19	Stock Purchase Agreement with Parker-Chandler Homes, Inc. and the Selling Stockholders identified therein, dated as of January 19, 2006 (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 16, 2006).
10.20	Form of purchase agreement, dated as of May 5, 2006, as amended as of May 9, 2006, by and between the Company and the purchasers identified therein (incorporated by reference to an exhibit to the Current Report on Form 8-K of the Registrant filed with the Commission on May 10, 2006).
10.21	Form of warrant (incorporated by reference to an exhibit to the Current Report on Form 8-K of the Registrant filed with the Commission on May 10, 2006).
10.22	Note Purchase Agreement with Kodiak Warehouse LLC, dated as of May 4, 2006 (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).

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Exhibit Number	Exhibit
10.23	Junior Subordinated Indenture with Wells Fargo Bank, N.A., dated as of May 4, 2006 (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.24	Credit Agreement with Wachovia Bank, N.A., dated as of May 26, 2006 (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.25	Stock Purchase Agreement with Capitol Homes, Inc. and the Selling Shareholders identified therein, dated as of May 1, 2006 (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2006).
10.26	Loan and Security Agreement, dated as of February 2008, by and between the Registrant and Stonehenge Funding, LC. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.27	Guaranty Agreement, dated as of February 2008, by Comstock Potomac Yard, L.C. in favor of Stonehenge Funding, LC (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.28	Supplement to Indenture, dated as of January 7, 2008, by and between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.29	Amended and Restated Indenture, dated as of March 14, 2008, by and between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 24, 2008).
10.30	Forbearance and Conditional Release Agreement, dated as of November 25, 2008, by and among Highland Avenue Properties, LLC, Comstock Homes of Atlanta, LLC, the Registrant and Bank of American, N.A. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.31	Sixth Loan Modification Agreement, dated as of November 26, 2008, by and among the Registrant and Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.32	Amended and Restated Promissory Note (Tribble Road Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.33	Loan Modification and Forbearance Agreement, dated as of December 10, 2008, by and among the Registrant, various wholly owned subsidiaries as guarantors and Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.34	Amended and Restated Promissory Note (Revolving Line of Credit), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009).
10.35	

	Amended and Restated Promissory Note (Term Loan), dated as of December 10, 2008, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2009) .
10.36	Consensual Foreclosure and Settlement Agreement, dated August 17, 2009, by and among the Registrant, et.al. and Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.37	Third Amendment of Loan Agreement, dated September 16, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.38	Settlement Agreement and Mutual Release, dated September 21, 2009, by and among Registrant, Mathis Partners, LLC and Cornerstone Bank (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.39	Forbearance Agreement, dated September 28, 2009, by and among Comstock Cascades, L.C., the Registrant and Manufacturers and Traders Trust Company (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).

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Exhibit Number	Exhibit
10.40	Forbearance and Conditional Release Agreement, dated September 28, 2009, by and among Comstock Belmont Bay 89, L.C., the Registrant and Manufacturers and Traders Trust Company (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.41	First Amendment to Loan Agreement, dated October 30, 2009, by and among Comstock Station View, L.C., Comstock Potomac Yard, L.C., the Registrant and Key Bank National Association (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.42	Forbearance and Conditional Release Agreement, dated November 10, 2009, by and among Comstock Homes of Raleigh, L.L.C., the Registrant and Fifth Third Bank, N.A. (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 13, 2009).
10.43	Forbearance Agreement and Second Amendment to Loan Agreement, dated January 27, 2009, by and among Comstock Penderbrook, L.C., the Registrant and Guggenheim Corporate Funding, LLC (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.44	Fourth Amendment to Sublease Agreement and Services Agreement, dated February 26, 2009, with Comstock Asset Management (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.45	Subordinated Deficiency Note, dated as of September 21, 2009, by the Registrant in favor of Cornerstone Bank., successor-in-interest to Haventrust Bank (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.46	Amended and Restated Subordinated Deficiency Note, dated as of November 5, 2009, by the Registrant in favor of Wachovia Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.47	Bankruptcy filing for Buckhead Overlook, LLC, filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.48	Bankruptcy filing for Post Preserve, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.49	Bankruptcy filing for Parker Chandler Homes, LLC f/k/a Comstock Homes of Atlanta, LLC filed November 2009 in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.50	Lease Agreement, dated on or about December 31, 2009, with Comstock Asset Management, L.C. by Comstock Property Management, L.C., a subsidiary of Registrant (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.51	

	License Agreement, effective January 1, 2010, with I-Connect (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.52	Letter of Intent, effective February 12, 2010, by and between Registrant and Stonehenge Funding, L.C. and Subordination and Standstill Agreements between Registrant and Guggenheim Corporate Funding, LLC and between Registrant and Key Bank, National Association (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.53	Seventh Loan Modification Agreement dated as of February 25, 2010, by and among the Registrant and Bank of America, N.A. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.54	Memorandum Opinion, filed February 23, 2010, by the US District Court in favor of Comstock Potomac Yard, L.C., a subsidiary of Registrant, against Balfour Beatty Construction, LLC (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).
10.55	Purchase Agreement, dated October 30, 2009, by and between Comstock Station View, L.C. and M/I Homes of DC, LLC (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2010).

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Exhibit Number	Exhibit
10.56	Second Amended and Restated Indenture, dated as of February 12, 2010, by and among the Registrant and Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010).
10.57	Amended and Restated Senior Note, effective February 12, 2010, by and among, Stonehenge Funding, LC, the Registrant and Comstock Asset Management, L.C. (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010).
10.58	Employment Agreement with Joseph M. Squeri (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010).+
10.59	Confidentiality and Non-Competition Agreement with Joseph M. Squeri (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 12, 2010). +
10.60	Loan Agreement, dated as of January 27, 2011, by and among Comstock Potomac Yard, L.C. and Eagle Bank (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2011).
10.61	Loan Agreement, dated as of February 11, 2011, by and among Comstock Cascades II, L.C. and Cardinal Bank (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2011).
10.62	Credit Enhancement and Indemnification Agreement, dated February 17, 2011, by and between Registrant and Christopher D. Clemente and Gregory V. Benson (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on May 13, 2011).
10.63	Loan Agreement, dated as of July 12, 2011, by and among Comstock Potomac Eclipse, L.C. and BCL Eclipse, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011).
10.64	Guaranty, Pledge and Security Agreement, dated as of July 12, 2011, by Comstock Homebuilding Companies, Inc. and Comstock Emerald Farm, L.C. to and for the benefit of BCL Eclipse, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011) .
10.65	Warrant, dated as of July 12, 2011, in the name of BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011).
10.66	Registration Rights Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011).
10.67	Right of First Refusal and First Offer Agreement, dated as of July 12, 2011, between Comstock Homebuilding Companies, Inc. and BridgeCom Development I, LLC (incorporated by reference to an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2011).
10.68	Loan Agreement, dated as of October 5, 2011, by and among Comstock Penderbrook, L.C. and BCL Penderbrook, LLC (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form

	10-Q filed with the Commission on November 14, 2012).
10.69	Contract of Sale Agreement, dated as of October 31, 2011, by and among Comstock Cascades II, L.C. and CAPREIT Acquisition Corporation (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.70	Loan Agreement, dated as of May 29, 2012, by and among Eagle Bank and Comstock Potomac Yard, L.C and Comstock Penderbrook, L.C. (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).

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Exhibit Number	Exhibit
10.71	Loan agreement, dated as of August 23, 2012, by and between Eagle Bank and New Hampshire Ave. Ventures, LLC (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.72	Loan agreement, dated as of September 27, 2012, by and between Cardinal Bank and Comstock Eastgate, L.C. (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on November 14, 2012).
10.73	Loan agreement, dated as of March 25, 2013, by and between Eagle Commercial Ventures, LLC and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-k filed with the Commission on March 27, 2013).
10.74	Loan agreement, dated as of March 25, 2013, by and between Eagle Commercial Ventures, LLC and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-k filed with the Commission on March 27, 2013).
10.75	Loan agreement, dated as of March 25, 2013, by and between Eagle Bank and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-k filed with the Commission on March 27, 2013).
10.76	Loan agreement, dated as of March 25, 2013, by and between Eagle Bank and Comstock Redland Road, L.C. (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-k filed with the Commission on March 27, 2013).
10.77	Form of Subscription Agreement, dated March 14, 2013, between Comstock Investors VII, L.C. and Subscriber, with accompanying Schedule A identifying the other Subscription Agreements (incorporated by reference to an exhibit to the Registrant s Quarterly Report on Form 10-Q filed with the Commission on May 15, 2013).
10.78	Loan agreement, dated as of May 8, 2013, by and between Cardinal Bank and Comstock Yorkshire, L.C. (incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2013).
10.79	Loan agreement dated September 30, 2013 between Comstock Maxwell Square, L.C. and Eagle Bank (incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2013).
10.80	Deferred Purchase Money Promissory Note and a Secured First Deed of Trust dated September 13, 2013 between Comstock Hall Road L.C. and certain of the sellers named therein (incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2013).
10.84*	Subscription Agreement, dated December 12, 2013, between Comstock Investors VIII L.C., and [-], with accompanying Schedule A identifying other Subscription.
10.85*	Loan agreement, dated December 30, 2013, between Comstock Hall Road, L.C. and Cardinal Bank.
11	Statement of computation of per share earnings
14.1(2)	Code of Ethics (incorporated by reference to an exhibit to the Registrant s Annual Report on Form 10-K filed with the Commission on March 31, 2005).

21.1*	List of subsidiaries
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101	The following materials from the Company s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in eXtensible Business Language (XBRL): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholder s Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Filed herewith.

\+ Management contracts or compensatory plans, contracts or arrangements

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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 HOLDING COMPANIES, INC.

Date: March 31, 2014

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 31, 2014
/s/ GREGORY V. BENSON Gregory V. Benson	President and Chief Operating Officer	March 31, 2014
/s/ JOSEPH M. SQUERI Joseph M. Squeri	Chief Financial Officer (Principal Financial Officer)	March 31, 2014
/s/ A. CLAYTON PERFALL A. Clayton Perfall	Director	March 31, 2014
/s/ DAVID M. GUERNSEY David M. Guernsey	Director	March 31, 2014
/s/ JAMES A. MACCUTCHEON James A. MacCutcheon	Director	March 31, 2014
/s/ NORMAN D. CHIRITE Norman D. Chirite	Director	March 31, 2014
/s/ ROBERT P. PINCUS Robert P. Pincus	Director	March 31, 2014
/s/ SOCRATES VERSES Socrates Verses	Director	March 31, 2014

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed on page F-1 present fairly, in all material respects, the financial position of Comstock Holding Companies, Inc. and subsidiaries (the Company) at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 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 31, 2014

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 11,895	$ 3,539
Restricted cash	2,458	3,203
Trade receivables	346	1,611
Real estate inventories	39,843	27,781
Property, plant and equipment, net	243	222
Other assets	2,094	2,343
TOTAL ASSETS	$ 56,879	$ 38,699
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued liabilities	$ 7,506	$ 4,691
Notes payable secured by real estate inventories	22,701	19,492
Notes payable to affiliates, unsecured	4,687	5,041
Notes payable unsecured	2,580	3,096
Income taxes payable	346	
TOTAL LIABILITIES	37,820	32,320
Commitments and contingencies (Note 13)		
STOCKHOLDERS EQUITY		
Class A common stock, $0.01 par value, 77,266,500 shares authorized, 18,629,638 and 17,627,826 issued and outstanding, respectively	186	176
Class B common stock, $0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	170,811	170,070
Treasury stock, at cost (426,633 shares Class A common stock)	(2,480)	(2,480)
Accumulated deficit	(164,379)	(162,349)
TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY	4,165	5,444
Non-controlling interest	14,894	935
TOTAL EQUITY	19,059	6,379
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 56,879	$ 38,699

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

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

	For the years ended December 31, 2013	2012
Revenues		
Revenue homebuilding	$ 53,806	$ 11,633
Revenue other	808	2,669
Total revenue	54,614	14,302
Expenses		
Cost of sales homebuilding	41,596	9,692
Cost of sales other	808	3,484
Impairment charges and write-offs, net (Note 4)	348	2,358
Sales and marketing	1,975	624
General and administrative	6,735	8,034
Interest, real estate taxes and indirect costs related to inactive projects	408	2,135
Operating income (loss)	2,744	(12,025)
Other income, net	267	18
Income (loss) before income tax (expense) benefit	3,011	(12,007)
Income tax (expense) benefit	(346)	2,484
Net income (loss) from continuing operations	2,665	(9,523)
Discontinued operations:		
Loss from discontinued operations	(4)	(98)
Gain on sale of real estate from discontinued operations		6,466
Income tax expense from discontinued operations		(2,484)
Net (loss) income from discontinued operations	(4)	3,884
Net income (loss)	2,661	(5,639)
Less: Net income (loss) from continuing operations attributable to non-controlling interests	4,691	(77)
Less: Net income from discontinued operations attributable to non-controlling interests		103
Net loss attributable to Comstock Holding Companies, Inc.	$ (2,030)	$ (5,665)
Basic (loss) income per share from:		
Continuing operations	$ (0.10)	$ (0.47)
Discontinued operations		0.19

Net loss per share	$	(0.10)	$	(0.28)
Diluted (loss) income per share from:				
Continuing operations	$	(0.10)	$	(0.47)
Discontinued operations				0.19
Net loss per share	$	(0.10)	$	(0.28)
Basic weighted average shares outstanding		20,681		19,970
Diluted weighted average shares outstanding		20,681		19,970
Net loss attributable to Comstock Holding Companies, Inc.:				
Loss from continuing operations	$	(2,026)	$	(9,446)
(Loss) income from discontinued operations		(4)		3,781
Net loss	$	(2,030)	$	(5,665)

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

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS EQUITY

(Amounts in thousands, except per share data)

	Class A Shares	Class A Amount	Class B Shares	Class B Amount	Additional paid-in capital	Treasury stock	Retained earnings (deficit)	Non-controlling interest	Total
Balance at December 31, 2011	17,945	$ 179	2,733	$ 27	$ 168,620	$ (2,439)	$ (156,684)	$ 2,841	$ 12,544
Stock compensation and issuances	(317)	(3)			1,450				1,447
Net-settlement repurchases of stock compensation						(41)			(41)
Non-controlling interest contributions								1,012	1,012
Non-controlling interest distributions								(2,944)	(2,944)
Net (loss) income							(5,665)	26	(5,639)
Balance at December 31, 2012	17,628	$ 176	2,733	$ 27	$ 170,070	$ (2,480)	$ (162,349)	$ 935	$ 6,379
Stock compensation and issuances	1,005	10			608				618
Net-settlement repurchases of stock compensation									
Warrants	92	1			(1)				
Shares withheld related to net share settlement of restricted stock awards and warrants	(96)	(1)			(143)				(144)
Non-controlling interest contributions					277			11,632	11,909
Non-controlling interest distributions								(2,364)	(2,364)
Net (loss) income							(2,030)	4,691	2,661
	18,629	$ 186	2,733	$ 27	$ 170,811	$ (2,480)	$ (164,379)	$ 14,894	$ 19,059

Balance at December 31, 2013

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

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, except per share data)

	For the years ended December 31, 2013	2012
Cash flows from operating activities:		
Net income (loss)	$ 2,661	$ (5,639)
Adjustment to reconcile net income to net cash used in operating activities		
Amortization of loan discount and deferred financing fees	482	1,283
Depreciation expense	70	122
Provision for bad debt	(22)	60
(Gain) loss on extinguishment of notes payable	(27)	73
Undistributed earnings from unconsolidated joint venture	(59)	
Gain on sale of operating real estate, net		(6,466)
Impairment charges and write-offs, net	348	2,358
Loss on disposal of property, plant and equipment		1
Amortization of stock compensation	483	1,447
Changes in operating assets and liabilities:		
Restricted cash	(255)	(121)
Trade receivables	1,287	569
Real estate inventories	(12,413)	(8,984)
Other assets	(303)	(433)
Accrued interest	248	(495)
Accounts payable and accrued liabilities	2,815	217
Income taxes payable	346	(33)
Net cash used in operating activities	(4,339)	(16,041)
Cash flows from investing activities:		
Investment in unconsolidated joint venture	(7)	
Purchase of property, plant and equipment	(91)	(158)
Release of insurance deposit restricted cash	1,000	
Proceeds from sale of Cascades multi-family units operating real estate, net	279	19,075
Net cash provided by investing activities	1,181	18,917
Cash flows from financing activities:		
Proceeds from notes payable	38,042	24,986
Payments on notes payable	(35,688)	(27,512)
Loan financing costs	(243)	(518)
Distributions to non-controlling interests	(2,364)	(2,944)
Contributions from non-controlling interests	11,909	1,012
Proceeds from exercise of stock options	1	

Taxes paid related to net share settlement of equity awards		(143)		
Net cash provided by (used in) financing activities		11,514		(4,976)
Net increase (decrease) in cash and cash equivalents		8,356		(2,100)
Cash and cash equivalents, beginning of period		3,539		5,639
Cash and cash equivalents, end of period	$	11,895	$	3,539
Supplemental disclosure for non-cash activity:				
Interest paid, net of interest capitalized	$	212	$	1,226
Reduction in proceeds from sale of Cascades multi-family units and increase in other assets related to amounts placed in escrow upon settlement of Cascades multi-family units sale	$		$	275
Increase in class A common stock par value in connection with issuance of stock compensation and warrants exercise	$	10	$	
Increase in treasury stock and accrued liabilities for net-settlement of stock compensation	$		$	41

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

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

1. ORGANIZATION

Comstock Holding Companies, Inc. is a multi-faceted real estate development and construction services company focused on the Washington, D.C. metropolitan area. 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, multi-family units and mixed-use (residential and commercial) developments. References in this Annual Report on Form 10-K to Comstock, Company , we, our and us refer to Comstock Holding Companies, Ir together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

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

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

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

Liquidity Developments

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and will continue to include, funds derived from various secured and unsecured borrowings to finance acquisition, development and construction on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, rental multi-family projects, finished and raw building lots and the sale of equity and debt securities. The Company is involved in ongoing discussions with lenders and equity sources in an effort to provide additional growth capital to fund various new business opportunities. Refer to Note 8 for more details on our credit facilities and Note 3 for details on private placement offerings in 2013. We are anticipating that through a combination of the capital raised through the aforementioned private placements, current available cash on hand and additional cash from settlement proceeds at existing and under development communities, the Company will have sufficient financial resources to sustain our operations through the next 12 months, though no assurances can be made that we will be successful in our efforts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and include the accounts of the Company, and all of its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in 50% or less owned partnerships and affiliates are accounted for using the equity method unless it is determined that the Company has control of the entity, in which case the entity would be consolidated. The Company had one joint venture investment accounted for using the equity method as of December 31, 2013. This joint venture did not exist at December 31, 2012.

Cash and cash equivalents and restricted cash

Cash and cash equivalents are comprised of cash and short-term investments with maturities of three months or less when purchased. At times, the Company may have deposits with institutions in excess of federally insured limits. We monitor the cash balances in our bank accounts and adjust the balance as appropriate. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however we can provide no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial market. At December 31, 2013 and 2012, the Company had restricted cash of $2.5 million and $3.2 million, respectively, which includes $2.0 million and $3.0 million in deposits, respectively, with an insurance provider as security for future claims.

Real estate inventories

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

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

Capitalized interest and real estate taxes

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

	Twelve Months Ended December 31	
	2013	**2012**
Total interest incurred and capitalized	$ 1,884	$ 351
Total real estate taxes incurred and capitalized	181	150
Total interest and real estate taxes incurred and capitalized	$ 2,065	$ 501
Interest expensed as a component of cost of sales	$ 2,146	$ 2,065
Real estate taxes expensed as a component of cost of sales	311	189
	$ 2,457	$ 2,254

Interest and real estate taxes expensed as a component of cost of sales

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

	Twelve Months Ended December	
	2013	**2012**
Total interest incurred and expensed for inactive projects	$ 73	$ 1,940
Total real estate taxes incurred and expensed for inactive projects	49	170
Total production overhead incurred and expensed for inactive projects	286	179
	408	2,289
Amounts reclassified to discontinued operations		(154)
	$ 408	$ 2,135

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Property, plant and equipment

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

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

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

Warranty reserve

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. Because the Company typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and current business factors. This reserve is an estimate and actual warranty costs could vary from these estimates. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to the reserve as they arise. During fiscal year 2010, the Company recorded an additional $0.6 million in warranty reserves to cover future potential costs and/or claims related to a project. In 2013, the Company settled the warranty claim for $0.2 million, releasing the Company from future warranty claims related to the project and reduced the warranty estimate by $0.4 million. The warranty reduction was recorded through homebuilding cost of sales.

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

	Years ended December 31,	
	2013	**2012**
Balance at beginning of period	$ 963	$ 1,009
Additions	262	52
Releases and/or charges incurred	(715)	(98)
Balance at end of period	$ 510	$ 963

Revenue recognition

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

Advertising costs

The total amount of advertising costs charged for the year ended December 31, 2013 was $614, of which $577 was charged to sales and marketing, $32 was charged to cost of sales and $5 was charged to general and administrative expenses. The total amount of advertising costs charged for the year ended December 31, 2012 was $168 of which $95 was charged to sales and marketing and $73 was charged to cost of sales.

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Stock compensation

As discussed in Note 12, the Company sponsors stock option plans and restricted stock award plans. The Company accounts for its share-based awards pursuant to Accounting Standards Codification (ASC) 718, *Share Based Payments*. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements over the vesting period based on their fair values at the date of grant. For the year ended December 31, 2013 and 2012, total stock-based compensation cost was $616 and $1,447, respectively. Of this amount, $477 and $1,447 was charged to general and administrative expenses for the years ended December 31, 2013 and 2012, respectively, and $6 and $0 was charged to cost of sales-other for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013, $133 was capitalized to Real estate inventories . No amount was charged to Real estate inventories in 2012.

Income taxes

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

Income (Loss) per share

The weighted average shares and share equivalents used to calculate basic and diluted (loss) income per share for the year ended December 31, 2013 and 2012, are presented on the consolidated statement of operations. Stock options and warrants for the year ended December 31, 2013 and 2012 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, 2013, approximately 466 restricted stock awards, 466 stock options and 759 warrants were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive. As a result of net losses for the year ended December 31, 2012, approximately 388 restricted stock awards, 196 stock options and 428 warrants were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

The computation of basic and diluted shares outstanding is as follows:

	Twelve Months Ended December 31,	
	2013	**2012**
Computation of basic shares outstanding		
Weighted average commom shares outstanding basic	20,681	19,970
Computation of diluted shares outstanding		
Weighted average commom shares outstanding diluted	20,681	19,970

Comprehensive income

For the years ended December 31, 2013 and 2012, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the consolidated financial statements.

Segment reporting

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

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

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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, Multi-family and Real Estate Services. Each of these segments operates within the Company s single Washington, D.C. reportable geographic market.

	Homebuilding	Multi-Family	Real Estate Services	Total
Twelve Months Ended December 31, 2013				
Gross revenue (1)	$ 53,862	$	$ 752	$ 54,614
Gross profit	11,846		364	12,210
Operating profit from continuing operations	2,623		388	3,011
Operating loss from discontinued operations		(4)		(4)
Net income (loss)	2,277	(4)	388	2,661
Total assets	56,674		205	56,879
Depreciation and amortization	686			686
Interest expense	73			73
Twelve Months Ended December 31, 2012				
Gross revenue (1)	$ 12,043	$	$ 2,259	$ 14,302
Gross Income	724		402	1,126
Operating (loss) income from continuing operations	(12,285)		278	(12,007)
Operating profit from discontinued operations		6,368		6,368
Net (loss) income	(12,285)	6,368	278	(5,639)
Total assets	36,378	278	2,043	38,699
Depreciation and amortization	1,487			1,487
Interest expense	1,775			1,775

(1) Gross revenue includes Revenue homebuilding and Revenue other as described in the consolidated statements of operations for assets included in each segment.

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

The table below reconciles the segment information to the corresponding amounts in the accompanying consolidated statements of operations:

Twelve Months Ended

	December 31, 2013	December 31, 2012
Segment operating income (loss) from continuing operations	$ 3,011	$ (12,007)
Income tax (expense) benefit	(346)	2,484
Income (loss) from continuing operations	$ 2,665	$ (9,523)
Segment operating (loss) income from discontinued operations	$ (4)	$ 6,368
Income tax expense		(2,484)
(Loss) income from discontinued operations	$ (4)	$ 3,884

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 inventories, valuation of deferred tax assets, capitalization of costs, consolidation of variable interest entities and warranty reserves.

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Recent accounting pronouncements

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. In January 2013, this guidance was amended by ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetop" style="padding:0pt .7pt 0pt 0pt;width:22.7%;">*

Six months ended June 30, 2006:

Revenues from unaffiliated customers

$

449,380

58,635

1,185,711

296,633

25,788

32,910

104,859

2,153,916

Transfers between geographic areas

52,927

3,692

7,854

15,225

3,030

4,004

5,062

(91,794

)

Total revenues

$

502,307

62,327

1,193,565

311,858

28,818

36,914

109,921

(91,794

)

2,153,916

Net revenues

$

251,860

30,553

169,694

101,933

15,424

15,474

24,829

609,767

Operating income

$

52,227

7,203

82,139

20,624

4,108

2,939

4,964

174,204

Identifiable assets at period end

$

839,926

57,363

369,930

329,676

22,431

32,241

58,371

5,612

1,715,550

Capital expenditures

$

108,764

295

7,221

3,810

346

791

606

121,833

Depreciation and amortization

$

8,485

696

2,400

3,265

387

747

699

16,679

Equity

$

1,106,283

24,124

276,872

95,304

14,245

13,256

25,951

(586,434

)

969,601

Six months ended June 30, 2005:

Revenues from unaffiliated customers

$

350,776

43,614

961,787

260,743

23,485

28,665

84,093

1,753,163

Transfers between geographic areas

35,626

2,347

5,848

10,998

2,647

3,438

3,783

(64,687

)

Total revenues

$

386,402

45,961

967,635

271,741

26,132

32,103

87,876

(64,687

)

1,753,163

Net revenues

$

196,019

24,195

127,551

86,894

13,769

12,543

20,372

481,343

Operating income

$

27,261

4,801

57,144

11,764

3,220

2,232

2,755

109,177

Identifiable assets at period end

$

666,572

47,503

317,473

289,708

23,903

23,256

43,215

5,619

1,417,249

Capital expenditures

$

36,437

512

2,150

2,519

537

552

485

43,192

Depreciation and amortization

$

7,222

729

2,386

3,012

326

547

720

14,942

Equity

$

911,406

19,831

245,979

85,294

15,106

8,606

20,623

(463,612

)

843,233

6

Note 4. Basic and Diluted Earnings per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share for the three and six-months ended June 30, 2006 and 2005:

	Three months ended June 30,		
(Amounts in thousands, except share and per share amounts)	**Net Earnings**	**Weighted Average Shares**	**Earnings Per Share**
2006			
Basic earnings per share	$ 56,329	213,725,395	$ .26
Effect of dilutive potential common shares		10,649,325	
Diluted earnings per share	$ 56,329	224,374,720	$ .25
2005			
Basic earnings per share	$ 36,698	213,552,092	$ .17
Effect of dilutive potential common shares		7,349,022	
Diluted earnings per share	$ 36,698	220,901,114	$ .17

	Six months ended June 30,		
(Amounts in thousands, except share and per share amounts)	**Net Earnings**	**Weighted Average Shares**	**Earnings Per Share**
2006			
Basic earnings per share	$ 108,681	213,574,773	$ .51
Effect of dilutive potential common shares		10,476,513	
Diluted earnings per share	$ 108,681	224,051,286	$ .49
2005			
Basic earnings per share	$ 67,744	213,504,726	$ .32
Effect of dilutive potential common shares		7,656,154	
Diluted earnings per share	$ 67,744	221,160,880	$ .31

The following shares have been excluded from the computation of diluted earnings per share because the effect would have been antidilutive:

	Three months ended June 30,		Six months ended June 30,	
	2006	**2005**	**2006**	**2005**
Shares	128,000	128,000	128,000	

Note 5. Stock and Cash Dividends

On May 3, 2006, the Board of Directors declared a 2-for-1 stock split, effected in the form of a stock dividend of one share of common stock for every share outstanding. The stock dividend was distributed on June 23, 2006 to shareholders of record on June 9, 2006. All share and per share information, except par value per share, has been adjusted for all years to reflect the stock split.

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On May 3, 2006, the Board of Directors declared a semi-annual cash dividend of $.11 per share payable on June 15, 2006 to shareholders of record as of June 1, 2006. The dividend of $24 million was paid on June 15, 2006.

On May 9, 2005, the Board of Directors declared a semi-annual cash dividend of $.075 per share payable on June 15, 2005 to shareholders of record as of June 1, 2005. The dividend of $16 million was paid on June 15, 2005.

Note 6. Shareholders Equity

A. Stock Option Plans

At June 30, 2006, the Company has two stock option plans (the 1985 Plan and the 2006 Plan) for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. On May 3, 2006, the shareholders approved the Company s 2006 Plan, which made available a total of 3,000,000 shares of the Company s common stock for purchase upon exercise of options granted under the 2006 Plan. The 1985 Plan provides for non-qualified grants. The 2006 Plan provides for qualified and non-qualified grants. Under the 1985, 2005 and 2006 Plans, outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. Grants under the 2006 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2006 Plan after April 30, 2007. Under the terms of the 2005 and 2006 Plans, no options can be granted after April 30th of the year following shareholder approval. Accordingly, no options were granted under the 2005 Plan after April 30, 2006.

The Company also has a stock option plan (Directors Plan) under which non-employee directors elected at each annual meeting are granted non-qualified options to purchase 32,000 shares of common stock at prices equal to the market value on the date of grant on the first business day of the month following the meeting. On May 3, 2006, the Directors Plan was amended by shareholder vote to require a one year vesting period. Previously, options granted under the Directors Plan vested immediately.

Upon the exercise of non-qualified stock options and disqualifying dispositions of incentive stock options, the Company derives a tax deduction measured by the excess of the market value over the option price at the date of exercise. The portion of the benefit from the deduction which equals the estimated fair value of the options (previously recognized as compensation expense) is recorded as a credit to the deferred tax asset for non-qualified stock options and is recorded as a credit to current tax expense for any disqualifying dispositions of incentive stock options. All of the tax benefit received upon option exercise which exceeds the estimated fair value of the options is credited to additional paid-in capital.

B. Stock Purchase Plan

In May 2002, the shareholders approved the Company s 2002 Employee Stock Purchase Plan (2002 Plan), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan (1988 Plan) on July 31, 2002. The Company s 2002 Plan provides for 4,305,452 shares of the Company s common stock, including 305,452 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company s stock on July 31 or (2) 85% of the fair market value of the Company s stock on the preceding August 1.

C. Adoption of SFAS 123R

As described in Note 1, effective January 1, 2006, the Company adopted SFAS 123R, requiring the recording of compensation expense based on an estimate of the fair value of options awarded under its fixed stock option or employee stock purchase rights plans. The Company elected to utilize the modified retrospective method of transitioning to SFAS 123R and has restated all prior periods to recognize the required stock compensation expense.

In applying the modified retrospective method, the Company has recorded compensation expense as previously stated in the Company s pro forma SFAS 123 disclosures in the footnotes to its prior period financial statements. The fair value of options used to determine this compensation expense was originally determined using the Black-Scholes model and no changes have been made to the compensation expense as originally stated in the pro forma disclosures. The original measurements and assumptions previously disclosed in the footnotes to the Company s financial statement included in its annual Form 10-K filings and, in more recent years, in its Form 10-Q filings, also have not been changed. In the process of recording the associated deferred tax assets related to this compensation expense, as required by SFAS 123R, the Company made its computations on a grant by grant basis. As a result of this exercise, the Company determined that the tax benefit amounts previously included in determining the disclosed pro forma net earnings figures, if actually recorded into the Company s financial statements, would have overstated deferred tax assets on the Company s balance sheet that would have been incorrect under that provisions of SFAS No. 109, Accounting for Income Taxes . Accordingly, in restating the results of prior years, management has elected to record adjustments to income tax expense and to properly record deferred tax assets.

Prior to the adoption of SFAS 123R, in the statement of cash flows, the tax benefits received by the Company from the exercise of certain employee stock options were added back to net earnings in determining net cash provided by operating activities. SFAS 123R requires a different presentation for that portion of the tax benefit received upon option exercise which exceeds the tax benefit originally recorded based on the estimated fair value of the options previously recognized as compensation expense. Accordingly, the Company has reclassified this excess tax benefit from cash provided by operating activities to cash provided by financing activities in the statement of cash flows.

The following tables summarize the adjustments to certain line items in the Company s consolidated financial statements as a result of adopting SFAS 123R for all periods presented:

Restated line items in the condensed consolidated balance sheet:

	December 31, 2005			
	As previously reported	SFAS 123R Adjustments	Reclassifications	As restated
Deferred Federal and state income taxes	$ 25,939	$ (12,661)		$ 13,278
Shareholders equity:				
Additional paid-in capital	18,663	162,242		180,905
Retained earnings	$ 895,565	$ (149,581)		$ 745,984

Restated line items in the condensed consolidated statement of earnings:

	Three months ended June 30, 2005			
	As previously reported	SFAS 123R Adjustments	Reclassifications	As restated
Salaries and related costs	$ 134,841	$ 9,576	$ 1,207	$ 145,624
Other operating expenses	19,334		(1,207)	18,127
Total operating expenses	859,694	9,576		869,270
Operating income	68,305	(9,576)		58,729
Earnings before income taxes andminority interest	71,685	(9,576)		62,109
Income tax expense	25,712	(1,630)	1	24,083
Net earnings before minority interest	45,973	(7,946)	(1)	38,026
Net earnings	44,644	(7,946)		36,698
Basic earnings per share	$ .21			$ .17
Diluted earnings per share	$ .20			$ .17

	Six months ended June 30, 2005			
	As previously reported	SFAS 123R Adjustments	Reclassifications	As restated
Salaries and related costs	$ 259,395	$ 16,684	$ 2,436	$ 278,515
Other operating expenses	39,273		(2,435)	36,838
Total operating expenses	1,627,301	16,684	1	1,643,986
Operating income	125,862	(16,684)	(1)	109,177
Earnings before income taxes andminority interest	132,556	(16,684)	(1)	115,871

Income tax expense	47,786	(2,040)	(1)	45,745
Net earnings before minority interest	84,770	(14,644)		70,126
Net earnings	82,388	(14,644)		67,744
Basic earnings per share	$ .39			$ .32
Diluted earnings per share	$ .37			$ .31

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Restated line items in the condensed consolidated statement of cash flows:

	Three months ended June 30, 2005 As previously reported	SFAS 123R Adjustments	Reclassifications	As restated
Net earnings	$ 44,644	$ (7,946)		$ 36,698
Deferred income tax expense	3,728	4,389		8,117
Excess tax benefits from employee stock plans		(4,747)		(4,747)
Tax benefits from employee stock plans	6,019	(6,019)		
Stock compensation expense		9,576		9,576
Net cash provided by operating activities	46,953	(4,747)		42,206
Excess tax benefits from employee stock plans		4,747		4,747
Net cash used in financing activities	$ (42,798)	$ 4,747		$ (38,051)

	Six months ended June 30, 2005 As previously reported	SFAS 123R Adjustments	Reclassifications	As restated
Net earnings	$ 82,388	$ (14,644)		$ 67,744
Deferred income tax expense	7,987	6,915		14,902
Excess tax benefits from employee stock plans		(6,322)		(6,322)
Tax benefits from employee stock plans	8,955	(8,955)		
Stock compensation expense		16,684		16,684
Net cash provided by operating activities	142,663	(6,322)		136,341
Excess tax benefits from employee stock plans		6,322		6,322
Net cash used in financing activities	$ (57,123)	$ 6,322		$ (50,801)

The following tables summarize information about fixed-price stock options for the six months ended June 30, 2006:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2005	22,266,646	$ 14.64		
Options granted	3,109,000	44.20		
Options exercised	(2,455,434)	10.60		
Options forfeited	(184,250)	19.66		
Options expired	(11,750)	10.45		
Outstanding at June 30, 2006	22,724,212	$ 19.08	6.27 years	$ 839,222
Exercisable at June 30, 2006	12,120,987	$ 11.65	4.47 years	$ 537,642

	Unvested Options Number of shares		Weighted average fair value per share
Balance at December 31, 2005	11,368,450		$ 9.57
Options granted	3,109,000		22.69
Options vested	(3,689,975	)	7.74
Options forfeited	(184,250	)	9.91
Balance at June 30, 2006	10,603,225		$ 14.05

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants issued during the six months ended June 30, 2006 and 2005:

	For the six months ended June 30, 2006		2005	
Dividend yield	.51	%	.56	%
Volatility	41 43	%	44 49	%
Risk-free interest rates	5.03 5.11	%	3.64 4.14	%
Expected life (years) stock option plans	7.21 8.89		6.67 9.36	
Weighted average fair value of stock options granted during the period	$ 22.69		$ 25.38	

No grants were issued under the stock purchase plan during the six months ended June 30, 2006 and 2005.

The total intrinsic value of options exercised during the three months ended June 30, 2006 and 2005 was $67 million and $22 million, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was $90 million and $33 million, respectively.

As of June 30, 2006, the total unrecognized compensation cost related to unvested stock options is $124,531 and the weighted average period over which that cost is expected to be recognized is 2.16 years.

Total stock compensation expense and the total related tax benefit recognized in the three and six-months ended June 30, 2006 and 2005 are as follows:

	For the three months ended June 30, 2006	2005	For the six months ended June 30, 2006	2005
Stock compensation expense	$ 9,418	$ 9,576	$ 17,816	$ 16,684
Recognized tax benefit, net	$ 2,247	$ 1,630	$ 2,556	$ 2,040

Shares issued as a result of stock option exercises and employee stock plan purchases are issued as new shares outstanding by the Company s transfer agent.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Certain portions of this report on Form 10-Q including the section entitled Currency and Other Risk Factors and Liquidity and Capital Resources contain forward-looking statements which must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on or about March 16, 2006.

EXECUTIVE SUMMARY

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value-added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and United States and foreign laws and policies relating to tariffs, trade restrictions, foreign investments and

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taxation. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the affects adoption of any such proposal will have on the Company s business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being influenced by governmental policies concerning international trade, the Company s business may also be affected by political developments and changes in government personnel or policies in the nations in which it does business.

The Company derives its revenues from three principal sources: 1) airfreight, 2) ocean freight and 3) customs brokerage and other services and these are the revenue categories presented in the financial statements.

As a non-asset based carrier, the Company does not own transportation assets. Rather, the Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. The difference between the rate billed to customers (the sell rate), and the rate paid to the carrier (the buy rate) is termed net revenue or yield. By consolidating shipments from multiple customers and concentrating its buying power, the Company is able to negotiate favorable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

Customs brokerage and other services involves providing services at destination, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers as well as arranging for any required inspections by governmental agencies, and arranging for delivery. This is a complicated function requiring technical knowledge of customs rules and regulations in the multitude of countries in which the Company has offices.

The Company s ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based providers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with governmental regulations implementing security policies and procedures, inherent conflicts emerge which can and do affect global trade to some degree. A good reputation helps to develop practical working understandings that will effectively meet security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. However, changes in space allotments available from carriers, governmental deregulation efforts, modernization of the regulations governing customs brokerage, and/or changes in governmental quota restrictions could affect the Company s business in unpredictable ways.

Historically, the Company s operating results have been subject to a seasonal trend when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors including climate, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of the Company s international network and service offerings. The Company cannot accurately forecast many of these factors nor can the Company estimate accurately the relative influence of any particular factor and, as a result, there can be no assurance that historical patterns, if any, will continue in future periods.

A significant portion of the Company s revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company s revenues are, to a large degree, impacted by factors out of the Company s control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company s stock.

As further discussed under liquidity and capital resources, total capital expenditures in 2006 are expected to exceed $165 million.

In terms of the opportunities, challenges and risks that management is focused on in 2006, the Company operates in 58 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company s greatest challenge is now and always has been perpetuating a consistent global culture which demands:

- Total dedication, first and foremost, to providing superior customer service;
- Aggressive marketing of all of the Company s service offerings;

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- Ongoing development of key employees and management personnel via formal and informal means;

- Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth and continuous improvement;

- Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and

- Continuous identification, design and implementation of system solutions, both technological and otherwise, to meet and exceed the needs of our customers while simultaneously delivering tools to make our employees more efficient and more effective.

The Company has reinforced these values with a compensation system that rewards employees for profitably managing the things they can control. There is no limit to how much a key manager can be compensated for success. The Company believes in a real world environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

Any failure to perpetuate this unique culture on a self-sustained basis throughout the Company, provides a greater threat to the Company s continued success than any external force, which would be largely beyond our control. Consequently, management spends the majority of its time focused on creating an environment where employees can learn and develop while also building systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future operations. As a result our focus is on building and maintaining a global culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Policies and Estimates

Management believes that the nature of the Company s business is such that there are few, if any, complex challenges in accounting for operations.

While judgments and estimates are a necessary component of any system of accounting, the Company s use of estimates is limited primarily to the following areas that in the aggregate are not a major component of the Company s statement of earnings:

- accounts receivable valuation;

- the useful lives of long-term assets;

- the accrual of costs related to ancillary services the Company provides;

- establishment of adequate insurance liabilities for the portion of the freight related exposure which the Company has self-insured; and

- accrual of tax expense on an interim basis.

Management believes that the methods utilized in all of these areas are non-aggressive in approach and consistent in application. Management believes that there are limited, if any, alternative accounting principles or methods which could be applied to the Company s transactions. While the use of estimates means that actual future results may be different from those contemplated by the estimates, the Company believes that alternative principles and methods used for making such estimates would not produce materially different results than those reported.

As described in Note 1 in the condensed consolidated financial statements in this quarterly report, effective January 1, 2006, the Company adopted SFAS 123R. This accounting standard requires the recognition of compensation expense based on an estimate of the fair value of options granted to employees and directors under the Company s stock option and employee stock purchase plans.

This expense is recorded ratably over the option vesting periods. The Company elected to utilize the modified retrospective method of adoption and has restated all prior periods to recognize the required stock compensation expense in accordance with the requirements of SFAS 123R.

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and the future interest rates and dividend yields.

The Company has historically used the Black-Scholes model for estimating the fair value of stock options in providing pro forma fair value disclosures pursuant to SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). After a review of alternatives, and considering the guidance outlined in Securities and Exchange Commission Staff Accounting Bulletin No. 107 (SAB 107), the Company

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has decided to continue to use this model for estimating the fair value of stock options granted subsequent to the adoption of SFAS 123R.

In reviewing the propriety of measurements and assumptions used historically to calculate compensation expense for disclosure purposes, management considered the guidance contained in SAB 107, even though all the Company s stock options had previously been granted under SFAS 123, as opposed to SFAS 123R, for which SAB 107 was expressly written. The Company began granting options under SFAS 123R in the second quarter of 2006. Refer to Note 6 in the condensed consolidated financial statements for the assumptions used for grants issued during the six months ended June 30, 2006 and 2005. The assumptions used by the Company for estimating the fair value of options granted under SFAS 123R were developed on a basis consistent with assumptions used for valuing previous grants.

Management believes that these assumptions are appropriate, based upon the requirements of SFAS 123, SFAS 123R, the guidance included in SAB 107 and the company s historical and currently expected future experience. Looking to future events, management has been strongly influenced by historical patterns which may not be valid predictors of future developments and any future deviation may be material.

The Company s expected volatility assumptions are based on the historical volatility of the Company s stock. The expected life assumption is primarily based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the corresponding yield curve in effect at the time of grant for U.S. Treasury bonds having the same term as the expected life of the option, i.e. a ten year bond rate is used for valuing an option with a ten year expected life. The expected dividend yield is based on the Company s historical experience. The forfeiture rate used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns.

The use of different assumptions would result in different amounts of stock compensation expense. Keeping all other variables constant, the indicated change in each of the assumptions below increases or decreases the fair value of an option (and the resulting stock compensation expense), as follows:

Assumption	**Change in assumption**	**Impact of fair value of options**
Expected volatility	Higher	Higher
Expected life of option	Higher	Higher
Risk-free interest rate	Higher	Higher
Expected dividend yield	Higher	Lower

The fair value of an option is more significantly impacted by changes in the expected volatility and expected life assumptions. The pre-vesting forfeitures assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeitures assumption would not impact the total amount of expense ultimately recognized over the vesting period. Different forfeitures assumptions would only impact the timing of expense recognition over the vesting period. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company s principal services and the Company s expenses for the three and six-month periods ended June 30, 2006 and 2005, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company s principal services since total revenues earned by the Company as a freight consolidator include the carriers charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

The table and the accompanying discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes thereto which appear elsewhere in this quarterly report.

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	Three months ended June 30, 2006		2005		Six months ended June 30, 2006		2005	
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
	(Amounts in thousands)							
Net revenues:								
Airfreight	$ 115,297	37 %	$ 90,944	36 %	$ 225,714	37 %	$ 179,391	37 %
Ocean freight and ocean services	79,500	25	59,675	24	153,280	25	112,849	24
Customs brokerage and other services	118,773	38	100,041	40	230,773	38	189,103	39
Net revenues	313,570	100	250,660	100	609,767	100	481,343	100
Operating expenses:								
Salaries and related costs	172,453	55	145,624	58	333,427	55	278,515	58
Other	52,314	17	46,307	18	102,136	17	93,651	19
Total operating expenses	224,767	72	191,931	76	435,563	72	372,166	77
Operating income	88,803	28	58,729	24	174,204	28	109,177	23
Other income, net	4,845	2	3,380	1	10,759	2	6,694	1
Earnings before income taxes and minority interest	93,648	30	62,109	25	184,963	30	115,871	24
Income tax expense	35,503	11	24,083	10	72,555	12	45,745	10
Net earnings before minority interest	58,145	19	38,026	15	112,408	18	70,126	14
Minority interest	(1,816)	(1)	(1,328)		(3,727)		(2,382)	
Net earnings	$ 56,329	18 %	$ 36,698	15 %	$ 108,681	18 %	$ 67,744	14 %

Airfreight net revenues increased 27% and 26% for the three and six-month periods ended June 30, 2006, respectively, as compared with the same periods for 2005. These increases are primarily the result of increases in airfreight tonnage of 22% and 24% for the three and six-month periods ended June 30, 2006 as compared with the same periods for 2005.

Ocean freight volumes, measured in terms of forty-foot container equivalent units (FEUs), increased 17% for the three-month period ended June 30, 2006 as compared with the same period for 2005 while ocean freight and ocean services net revenues increased 33% during the same period. The difference between these two growth rates is a result of a year over year increase in ocean freight yields and year over year increases in the Company s fee-based order management and ocean forwarding business. For the six-month period ended June 30, 2006 as compared with the same period for 2005, FEU count increased 18% while ocean freight and ocean services net revenues increased 36% during the same period. The difference in these two growth rates is also attributable to the same dynamics as described for the three month period.

The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. The Company s North American ocean freight net revenues increased approximately 43% and 46% for the three and six-month periods ended June 30, 2006, respectively, as compared with the same periods for 2005. This was due to an increase in container traffic, primarily from Asia and increases in order management and ocean forwarding business, which was a result of continued marketing efforts. Ocean freight net revenues for Asia and for Europe increased 34% and 11%, respectively, for the three months ended June 30, 2006, and 40% and 6%, respectively, for the six months ended June 30, 2006, as compared with the same periods for 2005. This increase was also a result of continued marketing efforts.

Customs brokerage and other services net revenues increased 19% and 22% for the three and six-month periods ended June 30, 2006, respectively, as compared with the same periods for 2005 as a result of the Company s continuing reputation for providing high quality service. Consolidation within the customs brokerage market has also contributed to this increase as customers seek out

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customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program. In addition, increased emphasis on regulatory compliance continues to benefit the Company s customs brokerage offerings.

Salaries and related costs increased 18% and 20% during the three and six-month periods ended June 30, 2006, as compared with the same periods in 2005 as a result of (1) the Company s increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity, and (2) increased compensation levels. As previously noted, the Company adopted SFAS 123R using the modified retrospective application method and has restated all periods presented to include compensation expense for all unvested stock options and share awards beginning with the first period restated. Accordingly, salaries and related costs for the three and six months ended June 30, 2005 have been increased to include compensation expense for the fair value of unvested stock options.

The effect of including stock-based compensation expense in salaries and related costs for the three and six-months ended June 30, 2006 and 2005 are as follows:

	For the three months ended June 30, 2006		2005		For the six months ended June 30, 2006		2005	
Salaries and related costs	$ 172,453		$ 145,624		$ 333,427		$ 278,515	
As a % of net revenue	55.0	%	58.1	%	54.7	%	57.9	%
Stock compensation expense	$ 9,418		$ 9,576		$ 17,816		$ 16,684	
As a % of salaries and related costs	5.5	%	6.6	%	5.3	%	6.0	%
As a % of net revenue	3.0	%	3.8	%	2.9	%	3.5	%

Of the 310 and 318 basis point decline in salaries and related costs as a percentage of net revenue for the three and six-month periods ended June 30, 2006, respectively, as compared with the same periods for 2005, 82 and 54 basis points, respectively, are the result of the decrease in stock compensation expense as a percentage of net revenue. One factor affecting the comparability of stock option expense between the second quarters of 2005 and 2006 relates to the treatment of stock options granted under the Directors Plan. Directors Plan options granted in June 2005, vested immediately. Accordingly, the Black-Scholes determined fair-value compensation expense for those options of $1,815, was expensed entirely in June 2005. The terms of the Directors Plan options issued in June 2006, was amended to require vesting over a 12 month period. Accordingly, only $293 of the total Black-Scholes determined fair value compensation expense of $3,575, was included in stock option compensation expense during the second quarter of 2006.

The remaining 228 and 264 basis point reduction in salaries and related costs as a percentage of net revenue for the three and six-month periods ended June 30, 2006, respectively, as compared with the same period for 2005, can be attributed to leveraging increased business volumes with improved productivity and increasing overall efficiency through technological advances. Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for the three and six-month periods ended June 30, 2006 are a result of the incentives inherent in the Company s compensation program.

Other operating expenses increased 13% and 9% for the three and six-month periods ended June 30, 2006, as compared with the same periods in 2005 as communications expense, quality and training expenses, and other costs expanded to accommodate the Company s growing operations. Other operating expenses as a percentage of net revenues decreased 179 basis points and 271 basis points for the three and six-month periods ended June 30, 2006, respectively, as compared with the same periods in 2005. This was primarily due to the continued achievement of cost containment objectives.

Other income, net, increased 43% and 61% for the three and six-month periods ended June 30, 2006, as compared with the same periods in 2005. Due to higher interest rates on higher average cash balances and short-term investments during the three and six-months ended June 30, 2006, as compared with the same periods for 2005, interest income increased $2 million and $4 million, respectively.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company s consolidated effective income tax rate during the three month period ended June 30, 2006, was 37.91% as compared to 38.78% for the same period in 2005. The Company s consolidated effective income tax rate for the six month periods ended June 30, 2006 and 2005 remained relatively constant at 39.2% and 39.5%, respectively. The periods in 2005 have been restated to include the tax benefit related to stock-based compensation expense recorded as a result of applying the requirements of SFAS 123R under the modified retrospective method. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock options cannot be anticipated. The lower consolidated effective income tax rate during the three month period ended June 30, 2006, as compared to the same period in 2005, is partially the result of a larger tax benefit received for disqualifying dispositions of incentive stock options occurring during the second quarter of 2006 compared to 2005.

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Currency and Other Risk Factors

International air/ocean freight forwarding and customs brokerage are intensively competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the Company s primary competition is confined to a relatively small number of companies within this group. While there is currently a marked trend within the industry toward consolidation into large firms with multinational offices and agency networks, regional and local broker/forwarders remain a competitive force.

Historically, the primary competitive factors in the international logistics industry have been price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality service and believes that its prices are competitive with those of others in the industry. Recently, customers have exhibited a trend towards more sophisticated and efficient procedures for the management of the logistics supply chain by embracing strategies such as just-in-time inventory management. Accordingly, sophisticated computerized customer service capabilities and a stable worldwide network have become significant factors in attracting and retaining customers.

Developing these systems and a worldwide network has added a considerable indirect cost to the services provided to customers. Smaller and middle-tier competitors, in general, do not have the resources available to develop customized systems and a worldwide network. As a result, there is a significant amount of consolidation currently taking place in the industry. Management expects that this trend toward consolidation will continue for the short- to medium-term.

The nature of the Company s worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company s ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company s ability to move money freely or the short-term financial outlook is such that hedging is the way to avoid short-term exchange losses. Any such hedging activity during the three and six-months ended June 30, 2006 and 2005 was insignificant. For the three and six-months ended June 30, 2006, the Company had foreign exchange losses of approximately $246 and foreign exchange gains of approximately $803, respectively, on a net basis. For the same periods of 2005, respectively, the Company had foreign exchange gains of approximately $213 and $671, respectively, on a net basis. The Company had no foreign currency derivatives outstanding at June 30, 2006 and 2005.

Sources of Growth

During the second quarter of 2006, the Company opened 1 full-service office (*) and 1 satellite office (+), as follows:

Latin America	**United States**
Reynosa, MX*	Calexico, CA+

Reynosa, MX changed from a satellite to a full-service office.

Acquisitions - Historically, growth through aggressive acquisition has proven to be a challenge for many of the Company s competitors and typically involves the purchase of significant goodwill , the value of which can be realized in large measure only by retaining the customers and profit margins of the acquired business. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions, where future economic benefit significantly exceeds the goodwill recorded in the transaction.

Internal Growth - Management believes that a comparison of same store growth is critical in the evaluation of the quality and extent of the Company s internally generated growth. This same store analysis isolates the financial contributions from offices that have been included in the Company s operating results for at least one full year. The table below presents same store comparisons for the three and six-months ended June 30, 2006 (which is the measure of any increase from the same period of 2005) and for the three and six-months ended June 30, 2005 (which measures growth over 2004).

	For the three months ended June 30,				**For the six months ended June 30,**			
	2006		**2005**		**2006**		**2005**	
Net revenue	25	%	12	%	26	%	13	%
Operating income	51	%	17	%	59	%	17	%

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Liquidity and Capital Resources

The Company s principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the three and six months ended June 30, 2006, was $56 million and $194 million, as compared with $42 million and $136 million for the same periods of 2005. The $14 million increase for the three months ended June 30, 2006 is primarily due to increased net earnings. The $58 million increase for the six months ended June 30, 2006, is principally due to increased net earnings and a favorable swing in the timing of receipts and disbursements represented by the accounts receivable and accounts payable balances.

The Company s business is subject to seasonal fluctuations. Cash flow fluctuates as a result of this seasonality. Historically, the first quarter shows an excess of customer collections over customer billings. This results in positive cash flow. The increased activity associated with peak season (typically commencing late second or early third quarter) causes an excess of customer billings over customer collections. This cyclical growth in customer receivables consumes available cash.

As a customs broker, the Company makes significant 5-10 business day cash advances for its customers obligations such as the payment of duties to the Customs and Border Protection of the Department of Homeland Security. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a pass through and are not recorded as a component of revenue and expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable to the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these pass through billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the three and six-months ended June 30, 2006, was $100 million and $121 million, as compared with $14 million and $44 million during the same periods of 2005. The largest use of cash in investing activities is cash paid for capital expenditures. As a non-asset based provider of integrated logistics services, the Company does not own any physical means of transportation (i.e., airplanes, ships, trucks, etc.). However, the Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. In the second quarter of 2006, the Company made capital expenditures of $100 million as compared with $14 million for the same period in 2005. The Company currently expects to spend approximately $27 million for ongoing capital expenditures in 2006. In addition to property and equipment, ongoing capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2006 are estimated to be $165 million. This includes ongoing capital expenditures as noted above, plus additional real estate acquisitions and development required to carry out the Company s plan adopted under IRC 965. During the second quarter of 2006, the Company spent $67 million for the acquisition of real estate and office/warehouse facilities in Miami, Florida. The Company expects to finance capital expenditures in 2006 with cash.

Cash used in financing activities during the three and six-months ended June 30, 2006 were $75 million and $90 million as compared with $38 million and $51 million for each of the same periods in 2005. The Company uses the proceeds from stock option exercises to repurchase the Company s stock on the open market. In 2005, the Company established a policy of repurchasing stock to prevent growth in issued and outstanding shares as a result of stock option exercises. The increase in cash used in financing activities during the three and six-months ended June 30, 2006 compared with the same periods in 2005 is primarily the result of this new policy. During the three months ended June 30, 2006 and 2005 the net use of cash in financing activities included the payment of dividends of $.11 per share and $.075 per share, respectively.

At June 30, 2006, working capital was $555 million, including cash and short-term investments of $455 million. The Company had no long-term debt at June 30, 2006.

The Company maintains international and domestic unsecured bank lines of credit. At June 30, 2006, the U.S. facility totaled $50 million and international bank lines of credit, excluding the U.K. bank facility, totaled $11 million. In addition, the Company maintains a bank facility with its U.K. bank for $13 million which is available for short-term borrowings and issuances of standby letters of credit. At June 30, 2006 the Company had no amounts outstanding on these lines of credit but was contingently liable for $60 million from standby letters of credit and guarantees related to these lines of credit and other obligations. The guarantees relate to obligations of the Company s foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

Management believes that the Company s current cash position, bank financing arrangements, and operating cash flows will be sufficient to meet its capital and liquidity requirements for the foreseeable future, including meeting any contingent liabilities related to standby letters of credit and other obligations.

In some cases, the Company s ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At June 30, 2006, cash and cash equivalent balances of $348 million were held by the Company s non-U.S. subsidiaries, of which $44 million was held in banks in the United States.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risks in the ordinary course of its business. These risks are primarily related to foreign exchange risk and changes in short-term interest rates. The potential impact of the Company s exposure to these risks is presented below:

Foreign Exchange Risk

The Company conducts business in many different countries and currencies. The Company s business often results in revenue billings issued in a country and currency which differs from that where the expenses related to the service are incurred. In the ordinary course of business, the Company creates numerous intercompany transactions. This brings a market risk to the Company s earnings.

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company s earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company s functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the six months ended June 30, 2006, would have had the effect of raising operating income approximately $14 million. An average 10% strengthening of the U.S. dollar, for the same period, would have had the effect of reducing operating income approximately $11 million. This analysis does not take in to account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and decrease imports into the United States over some relevant period of time, but the exact affect of this change cannot be quantified without making speculative assumptions.

At June 30, 2006, the Company had approximately $6 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company s ability to move money freely. Any such hedging activity during the three and six-months ended June 30, 2006, was insignificant. The Company had no foreign currency derivatives outstanding at June 30, 2006 and 2005. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At June 30, 2006, the Company had cash and cash equivalents and short-term investments of $455 million, the vast majority of which is subject to variable short-term interest rates. The Company had no short-term borrowings at June 30, 2006. A hypothetical change in the interest rate of 10% would not have a significant impact on the Company s earnings.

In management s opinion, there has been no material change in the Company s market risk exposure in the second quarter of 2006.

Item 4. Controls and Procedures

Evaluation of Controls and Procedures

As of June 30, 2006, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), an evaluation of the effectiveness of the Company s disclosure controls and procedures was performed. Based on this evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company s disclosure obligations under the Securities Exchange Act of 1934 and the SEC rules thereunder.

Changes in Internal Controls

There were no changes in the Company s internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is ordinarily involved in claims and lawsuits which arise in the normal course of business, none of which currently, in management s opinion, will have a significant effect on the Company s financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes in the Company s risk factors from those disclosed in the report on Form 10-K filed on or about March 16, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2006	1,330	$ 45.38	1,330	14,455,160
May 1-31, 2006	163,026	53.60	163,026	15,343,930
June 1-30, 2006	1,605,320	48.51	1,605,320	13,940,942
Total	1,769,676	$ 48.97	1,769,676	13,940,942

In November 1993, the Company s Board of Directors authorized a Non-Discretionary Stock Repurchase Plan. This plan was amended in February 2001 to increase the authorization to repurchase up to 20 million shares of the Company s common stock. This authorization has no expiration date. This plan was disclosed in the Company s report on Form 10-K filed March 31, 1995. In the second quarter of 2006, 411,384 shares were repurchased under the Non-Discretionary Stock Repurchase Plan.

In November 2001, under a Discretionary Stock Repurchase Plan, the Company s Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200 million shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increase. This authorization has no expiration date. This plan was announced on November 13, 2001. In the second quarter of 2006, 1,358,292 shares were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to keep the number of issued and outstanding shares from growing as a result of stock option exercises.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of the Shareholders was held on May 3, 2006.

(b) The following directors were elected to the Board of Directors to serve a term of one year and until their successors are elected and qualified:

	For	Withheld
P.J. Rose	89,739,582	2,895,153
J.L.K. Wang	89,033,162	3,601,573
R.J. Gates	83,355,095	9,279,640
J.J. Casey	84,576,281	8,058,454
D.P. Kourkoumelis	89,879,616	2,755,119
M.J. Malone	91,722,590	912,145

J.W. Meisenbach	89,879,134	2,755,601

		For	Against	Abstain	Non-Vote
(c)	Adoption of the 2006 Stock Option Plan	70,808,532	10,547,302	390,240	10,888,661

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		For	Against	Abstain	Non-Vote
(d)	Ratification of KPMG LLP as the Company s Independent Auditor Selection	92,184,268	404,127	46,340	

		For	Against	Abstain	Non-Vote
(e)	Shareholder proposal to amend the Company s existing equal opportunity policy	26,431,053	52,259,295	3,055,726	10,888,661

Item 5. Other Information

(a) On August 3, 2006, the Company filed articles of amendment in order to increase authorized common shares from 320,000,000 to 640,000,000 in connection with the 2-for-1 stock split.

(b) Not applicable.

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Item 6. Exhibits

(a) Exhibits required by Item 601 of Regulation S-K.

Exhibit Number	Description
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-OxleyAct of 2002
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

	EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
August 9, 2006	/s/ PETER J. ROSE Peter J. Rose, Chairman and Chief Executive Officer (Principal Executive Officer)
August 9, 2006	/s/ R. JORDAN GATES R. Jordan Gates, Executive Vice President-Chief Financial Officer (Principal Financial and Accounting Officer)

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Form 10-Q Index and Exhibits

June 30, 2006

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