

Memo

To: Robert R. Miller
From: Alan L. Gordon, CPA
Date: 11/26/2012
Re: Payment of Dividends in the form of subordinated promissory notes and cash

It is our understanding that the Board of Directors of the WC & AN Development Company (the Company) is considering issuing in lieu of dividends, the following:

1. Unsecured Subordinated Promissory Notes totaling \$5 million – The subordinated promissory notes are intended to be in lieu of dividend and will be repaid to the shareholders plus interest. The shareholders will be subject to income tax on the receipt of the note. In addition, the distribution will be reported to Internal Revenue Service on Form 1099-DIV. Any interest earned on the debentures will be taxable to the shareholders as ordinary income.
2. Cash totaling \$1.2 million
3. Dividends can be treated for tax purposes in four different manners, as follows:
 - a. Ordinary dividends – An ordinary dividend is taxed at the incremental tax rates of the recipient.
 - b. Qualified dividend – A qualified dividend is taxed as a long-term capital gain, at a maximum rate of 15% (in 2012). A qualified dividend is defined as dividends received during the tax year from a domestic corporation or a qualified foreign corporation.
 - c. Capital gain distribution – A capital gain distribution is taxed as a long term capital gain, at a maximum rate of 15% (in 2012)
 - d. Return of capital – A distribution considered a return of capital reduces the respective shareholder's tax basis in the related stock and any excess is treated as long-term capital gain. To the extent basis is being reduced, there is no tax.

The attached example is a hypothetical example and should be used to better understand the tax applications of the distributions. Shareholders should consult with his or her own personal tax adviser to determine their respective tax consequences of the distributions.

WC & AN Miller Development Company
Hypothetical Example
2012 Distributions to Shareholders

Ownership Percentage	1.00%
Total amount of Promissory Note	5,000,000
Promissory Note allocated to 1% shareholders	50,000
Total Cash distribution	1,200,000
Cash distribution allocated to 1% shareholder	12,000
Total distributions allocated to 1% shareholder	62,000
Federal tax rate applicable to qualified dividends and capital gain distributions	15.00%
Potential federal tax on distributions	9,300

Shareholders should consult their personal tax advisors relative to the tax consequences of this transaction