

W.C. and A.N. Miller Development Company

4701 Sangamore Road, Suite 135 South Tower
Bethesda, Maryland 20816
301-915-9393

February 11, 2011

Mr. Robert W. Beers, Jr.
157 Twelve Oaks Circle
Ponte Vedra, FL 32082

Dear Bob:

Enclosed herewith are the Financial Statements for the W.C. and A.N. Miller Development Company for the period ending September 30, 2010. These statements were prepared by our accountant, Alan L. Gordon, CPA, PA. As I had previously written to you, the Company has had some serious financial setbacks this year. Let me quickly summarize the major ones:

In addition to these items, year-end adjustments to the Balance Sheet also have had an adverse effect on the Net Income of the Company. These year-end adjustments are non-cash adjustments meaning that although they have increased our net loss, but they were book entries not cash related. The three major year-end adjustments are:

1) Under Accumulated Depreciation, there is an increase of approximately \$1 million from 2009 to 2010. This significant increase is a result of an error that was discovered as part of our review process. The Miller Company owns certain assets that had never been depreciated and should have been over the past 15 years. As a result, we posted a "catch-up" depreciation for those assets;

2) Total Fixed Assets have been reduced by \$974,163 [better seen on the Statement of Income on page 4]. This loss is also a non-cash loss and is due to the write-off of fixed assets that the Company had been carrying on its books for years that were no longer in service; and

3) Although previously mentioned in my letter of October 11, 2010, it should be brought to your attention that Accounts Payable has increased by approximately \$500,000. This is a direct result of the 2007 payroll tax liability.

The first two items account for approximately \$1.9 million in recognizable non-cash losses to the Company.

Financial Statement for the Fiscal Year ending September 30, 2010

1. Balance Sheet:

Under Fixed Assets you will notice that between 2009 and 2010, the allocation between the subcategories has significantly changed as explained above. Further, the Long Term Portion of "deferred tax asset" increased by approximately \$500,000 over last year. This is a result of the loss carry forward for this Fiscal Year. Total Current Liabilities increased by approximately \$700,000, the majority of which is attributable to the increase in Accounts Payable as noted above. Additionally, Prepaid Rent income, rent received prior to its due date, increased from last year by approximately \$460,000.

2. Income Statement:

Rental Income is down approximately \$185,000 due mainly to the increase in unanticipated vacancies this past year. Rental Expenses are in excess of Budget by approximately \$1.264 million, a significant portion of which is due to the unexpected/unbudgeted snow removal costs, tenant related legal fees and expenses that were budgeted as Capital Improvements but were determined to be Rental Expenses. This resulted in a Net Operating Loss of approximately \$143,000. Further, I had budgeted for the sale of the 3 remaining lots in Montgomery County. As a result of those not selling, our Gross Operating Profit was \$1.345 million ahead of budget due to not realizing the loss on those 3 lots. The \$34,310 in Sales Revenue is due to the write-off of the Guaranty Reserve monies in that it is no longer necessary to have such a reserve. The Operating Expenses are for the day to day operations of the Miller Company. They exceeded budget by approximately \$157,000 primarily due to unanticipated legal fees for Haymount along with Personal Property Taxes as noted in my October 11, 2010 letter. A more detailed breakdown can be found under the Supplementary Schedules attached to the Financial Statements.

In conclusion, although our records indicate that the Miller Company's performance was far from stellar this past year, the majority of the losses are book losses not cash. In October 2009, we started with \$1,959,409.84 and ended the fiscal year with \$1,557,845.66 in cash. During the fiscal year, we paid down our long term debt by \$1,508,466 and improved our real estate holdings by making \$757,887 in improvements as well as distributing \$400,000 in dividends. All things considered, the year was not as bad as it could have been.

Fourth Quarter Company Update for the period ending September 30, 2010

The activities of the Miller Company began on a sour note. One of our long term tenants who had just negotiated a renewal in 2008 moved out in the middle of the night leaving a 7,500 square foot vacancy. Although we have seen an improvement in the leasing traffic, the tough economic times continue to have an effect on our ability to absorb the vacancy we already have. That being said, we have been working diligently with several potential tenants which, although we have not closed, we anticipate closing in the 2nd quarter of the 2010/2011 Fiscal Year. Management has worked diligently to prepare the 2010/2011 Fiscal Year Budget which was approved by the Board of Directors in November. (A copy of which is included with this

package.) Unfortunately, as a result of these tough economic conditions, the Board of Directors did decide to suspend the dividend at the end of the 1st Quarter of Fiscal Year 2010/2011 until further notice. Also, during the 4th Quarter we worked closely with our accounting firm to close out our year and prepare for the Review and corresponding tax documentation.

Last year the Board of Directors defined certain financial limits on management which acts as an internal control for the safety and welfare of the Company. As a result, the Audit & Finance Committee engaged our accounting firm to perform and "Agreed Upon Procedures Report" which is in essence a test of the Miller Company internal control system. Attached is a Memorandum from the Chairman of the Audit & Finance Committee, Rob Beers, regarding the "Agreed Upon Procedures Report". Although not included with this package the report is available for your review upon request.

Fiscal Year 2009/2010 Company Update

The Fiscal Year started off shall we say White! During the 1st Quarter of the Fiscal Year, the Washington Area was blanketed in snow due to numerous heavy storms that crippled the city during most of December making it difficult to conduct any business during that period. Listed below are some of the activities that occurred during the Fiscal Year.

- The Company completed 23 lease transactions representing 40,750 square feet of space.
- The Company's vacancy rate stood at 9.14% which is in keeping with the surrounding market. The majority of this vacancy is at the Shops at Sumner Place.
- Sumner Highlands Apartment Complex was 100% leased. During the 4th Quarter, we instituted a rental rate increase and eliminated all concessions.
- The Company paid down \$1,508,466 in long term debt out of which was a onetime curtailment of \$675,000.
- The Company paid \$400,000 in dividends.
- The following projects were completed:
 - a. Upgraded all common areas in 4900 and 4910 Massachusetts Avenue office buildings;
 - b. Renovated the restrooms at the Shops at Sumner Place;
 - c. Renovated and upgraded the elevator cabs on all three elevators at the Shops at Sumner Place; and

- d. Performed a significant amount of minor improvements throughout all of the properties.
- The Company was successful in collecting a significant amount of the past due Common Area Maintenance fees which totaled approximately \$350,000 in previously unbilled charges.
 - Management worked diligently with our law firm regarding the outstanding issues with the Haymount project which is still an ongoing concern.
 - Management worked and resolved its issues with the Company's former auditing firm. Although not formerly executed, we have reached an agreement in principal and are awaiting the final documentation from the attorneys.

First Quarter Update for period ending December 31, 2010

1. Balance Sheet:

Total Assets are down by \$639,000 for the Quarter primarily due to Accumulated Depreciation of \$540,000 and a decrease in Accounts Receivable of \$311,000 and an increase in Deferred Leasing Commissions and Real Estate Tax Escrow of \$216,000. Cash increased by \$94,000. We had a decrease in long term debt of \$318,000 and dividend payments of \$150,000.

2. Income Statement:

Rental Income was down by \$133,000 from Budget as a result of the timing of the prior year Common Area Maintenance fee reconciliation that was budgeted to occur during the 1st Quarter but did not get billed until the 2nd Quarter. All other rental activities are in line with Budget. Our Operating Expenses are greater than Budget by \$102,000 primarily due to unanticipated legal expenses for the Haymount lawsuit and a timing issue with the Review and Accounting work that was budgeted to be paid in January but instead was paid out in December.

Nominating Committee

The Nominating Committee of the Board of Directors has met and has recommended that one additional outside Director be proposed on the slate that the Board will recommend to you for the election at the Annual Meeting on April 30, 2011. The Nominating Committee and other Board members intend to meet on March 8, 2011 in Orlando with the three (3) possible candidates. After the interviews are complete, the Nominating Committee will propose to the Board a slate of Directors. Once the Board has adopted the proposed slate of Directors, this office will forward said slate of Directors to you for review along with all of the other information required in preparation for the Annual Meeting on April 30, 2011.

As we did last year, the Board will recommend a slate of Directors but will open up the process for Shareholders that want to nominate someone else or themselves. I ask that those Shareholders wishing to make a nomination send in the name of the person being nominated to

the Company **no later than March 15, 2011**. This will allow us to include this information in the "official" package sent to the Shareholders in early April and also would enable us to include the names of all nominees on the ballot. Nominations from the floor will be allowed at the Annual Meeting, but the above process will enable information on nominees to be sent to the Shareholders in advance of the Meeting.

Finally, please make sure that you have reserved Saturday, April 30, 2011 for the Annual Shareholders Meeting which will be held at Columbia County Club in Chevy Chase, Maryland.

Should you have any questions, concerns or would like additional information regarding the Company, please feel free to contact me by phone, letter or whatever means you feel appropriate. I look forward to seeing you at the Annual meeting in April.

Sincerely,

Robert R. Miller

W.C. and A.N. Miller Development Company

4701 Sangamore Road, Suite 135 South Tower
Bethesda, Maryland 20816
301-915-9393

MEMORANDUM

February 3, 2011

TO: All Shareholders

FROM: Robert Beers III, Audit and Finance Committee Chairman

SUBJECT: Summary of Audit and Finance Committee's Work-2010

Dear Shareholders:

As chairman of the Audit and Finance committee I wanted to give you a brief summary of the committee's work in 2010.

The committee agreed in April to retain the services of Alan Gordon, CPA, P.A. to perform the financial review of Miller's 2009-2010 fiscal year. In addition, the committee decided to also engage this firm to review Miller's financial controls that were set in place by the committee in August of 2009.

In late September the committee convened to review Miller's 2010-2011 fiscal budget. Our recommendations, including suspension of the dividend, were brought to board in October and the budget was approved at our November board meeting.

In December the committee held two different conference calls. The first was to review Miller's fiscal 2009-2010 financials with Alan Gordon. The second was to review the Agreed Upon Procedures report from Alan Gordon, which was the internal controls review. With a few minor modifications, the financials were approved by the committee and then, subsequently by the full board on December 29th, 2010. Furthermore, the Agreed Upon Procedures report review showed that management had kept within the boundaries of our internal financial controls guidelines set by the committee.

As a fellow family member and shareholder I wish all of you a safe and healthy 2011.

Best Regards,



Robert W Beers III

WC & AN Miller Companies
Balance Sheet

	12/31/2010	09/30/2010	YTD Variance
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,652,093.83	\$ 1,557,845.66	94,248.17
Accounts Receivable, net	3,508,253.10	3,819,681.87	(311,428.77)
	0.00	(3,940.33)	3,940.33
Other Receivables	1,022,647.60	1,042,454.91	(19,807.31)
Inventory	1,793,695.60	1,782,454.60	11,241.00
Prepaid Expenses	306,605.04	450,175.46	(143,570.42)
Total Current Assets	<u>8,283,295.17</u>	<u>8,648,672.17</u>	<u>(365,377.00)</u>
Fixed Assets			
Land	6,310,994.50	6,310,994.50	0.00
HLP, II Land	538,905.48	538,905.48	0.00
Buildings	48,972,549.77	48,957,009.27	15,540.50
Property and Equipment	276,109.46	276,109.46	0.00
Capital Improvements - Opt	28,883.00	28,883.00	0.00
Tenant Improvements	12,203,059.53	12,166,079.76	36,979.77
Less: Accumulated Depreciation	17,959,952.08	17,416,984.78	542,967.30
Net Fixed Assets	<u>50,370,549.66</u>	<u>50,860,996.69</u>	<u>(490,447.03)</u>
Other Assets			
Deferred Leasing Commissions,	671,487.40	515,535.12	155,952.28
Deferred Finance Charges, net	772,941.63	772,941.63	0.00
Deposit	17,630.05	17,630.05	0.00
Deferred Taxes	7,240,432.00	7,240,432.00	0.00
Real Estate Tax Escrow	300,573.82	239,884.39	60,689.43
Total Other Assets	<u>9,003,064.90</u>	<u>8,786,423.19</u>	<u>216,641.71</u>
TOTAL ASSETS	<u>\$ 67,656,909.73</u>	<u>\$ 68,296,092.05</u>	<u>(639,182.32)</u>

WC & AN Miller Companies
Balance Sheet

12/31/2010 09/30/2010 YTD Variance

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities			
Accounts Payable	\$ 196,299.32	\$ 86,584.49	109,714.83
2007 Payroll Tax Liability	440,032.68	473,032.68	(33,000.00)
Accrued Income Taxes	0.00	0.00	0.00
Accrued Expenses	1,183,014.92	1,066,788.34	116,226.58
Prepaid Income/RE	(59,921.17)	(89,881.74)	29,960.57
Security Deposits	332,211.14	325,128.40	7,082.74
Prepaid Rent Income	450,392.05	570,197.46	(119,805.41)
Total Current Liabilities	<u>2,661,871.28</u>	<u>2,611,613.11</u>	<u>50,258.17</u>
Long-Term Liabilities			
Notes Payable (1)	87,732,833.31	88,051,023.14	(318,189.83)
Guaranty Reserve	0.00	0.00	0.00
Total Long-Term Liabilities	<u>87,732,833.31</u>	<u>88,051,023.14</u>	<u>(318,189.83)</u>
Total Liabilities	<u>90,394,704.59</u>	<u>90,662,636.25</u>	<u>(267,931.66)</u>
Minority Interest (2)	(6,068,354.05)	(6,063,990.00)	(4,364.05)
Total Minority Interest	<u>(6,068,354.05)</u>	<u>(6,063,990.00)</u>	<u>(4,364.05)</u>
Stockholders' Deficit			
Common Stock	800,200.00	800,200.00	0.00
Dividend	(150,000.00)	(400,000.00)	250,000.00
Retained Earnings (Deficit)	(17,319,640.81)	(16,702,754.20)	(616,886.61)
Total Stockholders' Deficit	<u>(16,669,440.81)</u>	<u>(16,302,554.20)</u>	<u>(366,886.61)</u>
TOTAL LIABILITIES & STOCKHOLDERS' DEFICI	<u>\$ 67,656,909.73</u>	<u>\$ 68,296,092.05</u>	<u>(639,182.32)</u>

1. Notes Payable of 8,250,229.96 is offset by a Notes Receivable of 825,023 which is the cash of the ' 8,250,229.96 from Haymount Limited Partnership to W.C. and A.N. Miller Development Company.
2. W.C. and A.N. Miller Development Company owns 85% of Haymount Limited Partnership.

WC & AN Miller Companies
Long Term Debt
December 31, 2010

	12/31/2010		9/30/2010	YTD Variance
N/P Cur Wash Securites	200,000.00	\$	200,000.00	0.00
NP Cur Sub Debent	440,000.00		440,000.00	0.00
N/P MetLife	26,518,980.64		26,656,545.50	(137,564.86)
N/P Burke & Herbert - SVR	12,607,648.01		12,674,323.25	(66,675.24)
Key Bank Loan	17,687,672.36		17,744,717.82	(57,045.46)
N/P - TIAA Loan	22,028,302.47		22,085,206.74	(56,904.27)
N/P - Haymount Mezz	8,250,229.83		8,250,229.83	0.00
Total Long Term Debt	<u>87,732,833.31</u>	\$	<u>88,051,023.14</u>	<u>(318,189.83)</u>

Notes Repayment Schedule

1. Washington Securites - On Demand
2. Subordinated Debentures - On Demand with 1 year notice
3. MetLife - 1/1/2013
4. Burke & Herbert - 7/6/2016
5. Key Bank Loan - 6/30/2021
6. TIAA - 10/1/2018

WC & AN Miller Companies
Income Statement
For the Three Months Ending December 31, 2010

	Year to Date Actual	Year to Date Budget	Variance
Rental Activities			
Rent Income	3,314,397.15	3,447,677.00	(133,279.85)
Rent Expenses	(1,042,581.62)	(1,036,209.00)	(6,372.62)
Real Estate Taxes	(322,298.22)	(320,067.00)	(2,231.22)
Depreciation	(542,967.30)	(542,976.00)	8.70
Debt Service-Interest	(1,326,440.73)	(1,336,849.00)	10,408.27
Net Rental Income	80,109.28	211,576.00	(131,466.72)
Revenues			
Total Revenues	0.00	0.00	0.00
Cost of Sales	0.00	0.00	0.00
Corporate Gross Profit	0.00	0.00	0.00
Gross Profit	80,109.28	211,576.00	(131,466.72)
Operating Expenses			
Auto Expenses	1,371.30	600.00	771.30
Bank Charges	53.91	150.00	(96.09)
Computer Consultant	3,625.00	3,600.00	25.00
Office Administration	28,000.00	18,000.00	10,000.00
Equipment Rental	2,341.15	2,130.00	211.15
General Insurance	22,743.00	23,287.00	(544.00)
Legal - General	6,422.40	15,000.00	(8,577.60)
Legal - Loans/Lenders	3,839.06	0.00	3,839.06
Legal - Haymount	23,256.93	0.00	23,256.93
Health Insurance	4,113.00	4,500.00	(387.00)
Management Meals	148.34	300.00	(151.66)
Office Supplies	2,048.09	1,050.00	998.09
Other Taxes and Licenses	9,598.26	1,700.00	7,898.26
Payroll Taxes	2,142.00	1,620.00	522.00
Postage	883.77	780.00	103.77
Accounting	1,220.00	4,500.00	(3,280.00)
Review/Audit/Tax Return	62,131.98	0.00	62,131.98
Internal Control Review	5,240.00	0.00	5,240.00
Rent	18,614.88	18,612.00	2.88
Executive Compensation	45,000.00	45,000.00	0.00

For Management Purposes Only

February 8, 2011

WC & AN Miller Companies
Income Statement
For the Three Months Ending December 31, 2010

	Year to Date Actual	Year to Date Budget	Variance
Storage	2,240.00	0.00	2,240.00
Telephone	734.36	750.00	(15.64)
Management Travel	5,575.09	7,500.00	(1,924.91)
Payroll Processing Fees	492.18	450.00	42.18
Board of Directors fees	27,000.00	27,000.00	0.00
RE Tax Exp	2,455.99	2,700.00	(244.01)
Board Travel and Meals	7,603.68	7,000.00	603.68
Total Operating Expenses	288,894.37	186,229.00	102,665.37
Net Operating Income	(208,785.09)	25,347.00	(234,132.09)
Other Income and Expenses			
Interest Income	1,427.80	3,600.00	(2,172.20)
Debt Service (Interest) Other	(9,529.32)	(9,529.32)	0.00
Total Other Income and Expenses	(8,101.52)	(5,929.32)	(2,172.20)
Net Income	(216,886.61)	19,417.68	(236,304.29)

For Management Purposes Only

February 8, 2011

W.C. and A.N. Miller Development Company

4701 Sangamore Road, Suite 135 South Tower
Bethesda, Maryland 20816
301-915-9393

February 15, 2011

Dear Shareholder:

Attached is a copy of the October 11, 2011 letter that is referenced in my February 11, 2011 update. I apologize that this was inadvertently left out of your package.

As always, should you have any questions, please feel free to contact me.

Sincerely,

Robert R. Miller

October 11, 2010

«AddressBlock»

Dear «Dear»:

I wanted to provide you an update on various significant events that have occurred over the course of the last year which have had a substantial impact on our free cash flow. To date this fiscal year, we have experienced unexpected and unbudgeted operating expenses of \$882,624.01 [please see attached for detailed breakdown]. Additionally, the soft real estate market has had an adverse effect in our efforts to sell the 3 remaining lots in Montgomery County which is attributable to an additional \$825,000 in unrealized free cash flow. These unexpected and unbudgeted expenses total \$1,707,624.01. The result of these expenditures has reduced our available free cash flow to \$1,776,397.57 as of August 31, 2010 and we are anticipating that our available cash flow as of September 30, 2010 will be \$1,191,059.47, although our books are not formally closed.

As a result of these unexpected and unbudgeted expenses, we have dropped below our \$2,000,000 cash reserve that we spoke about during our Annual meeting this past January. In looking forward, during our budget process, it appears that the Company will not get above our \$2 million reserve until late next fiscal year. You may recall the purpose for the \$2 million reserve is to insure that the Company has an adequate amount of cash available in the event that unforeseen and unbudgeted expenses occur. This policy has proven itself to be invaluable as a result of what has happened this year.

Your Board of Directors met via teleconference this past Friday, at our regularly scheduled monthly meeting, and discussed the Budget for this coming fiscal year. As a result of that discussion, I wanted to send this letter advising you, as far in advance as possible, that the Board of Directors is considering the reduction and/or suspension of the monthly dividend. An in depth review of the Budget will occur at our meeting here in Washington, DC on November 11, 2010 where a final decision will be made.

It is imperative that we have adequate cash reserves to cover any unforeseen expenses such as the ones that have occurred this year. I will continue to keep you informed on any and all relevant financial matters involving your Company and as in the past I will provide you with a quarterly update along with our year-end financials once approved by the Board of Directors in our November meeting.

As always, should you have any questions, please do not hesitate to call me [443-315-9721] or e-mail me at rmiller@wcanmiller.com.

Sincerely,

Robert R. Miller

Enclosure

Unbudgeted Expenses
for the W.C. and A.N. Miller Development Company
in Fiscal Year 2009/2010

Development Company

Prepaid Income Taxes	\$ 34,490.00
2007 Payroll Tax Liability of (539,032.68) (1)	\$ 66,000.00
DC Personal Property Taxes for Past 10 Years (2)	\$ 33,598.88
Snow Removal Expenses (3)	\$ 254,202.82
Tenant Vacancies (4)	
Dr. Morrison (26,914.94 monthly)	\$ 109,357.15
Kane & Davis (\$17,148.99 monthly)	\$ 46,559.21
Jerry's Sub (\$5,420.76 monthly)	\$ 30,770.48
Litigation Expenses for Tenant Issues (after Budget) (5)	\$ 118,571.84
 Haymount LP - Litigation Fees (6)	 \$ 50,711.53
 Springvale Meadows Virginia (7)	 \$ 127,516.80
 Sunshine Brookes - Real Estate Taxes	 \$ 10,845.30
	<u>\$ 882,624.01</u>
 Lack of Sale on Lots in Sunshine Brookes	 \$ 825,000.00
	<u>\$ 1,707,624.01</u>

- (1) March 3, 2010, Miller Company received notice from IRS that the 2007 1st quarter payroll taxes were not paid.
- (2) In February 2010, in an attempt to renew our elevator certificates for our DC properties it was discovered that the Miller Company had not paid their DC Personal Property Taxes from 2000 through 2009.
- (3) The snow removal costs listed here are the costs above what was budgeted.
- (4) These three tenants vacated without notice and prior to the expiration of their leases at a cost of @\$49,500 per month.
- (5) We have had to incur extensive litigation expenses to enforce the terms of our leases in collecting the monies that are due to the Company that were not properly billed in previous years.
- (6) These are ongoing expenses to defend litigation regarding Haymount LP.
- (7) The expenses associated here are for costs we have had to incur for the State and County to accept the common areas back into their control.