

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

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August 17, 2009

Dear Miller Company Shareholders,

As you will recall, Rob Miller assumed the role of the Miller Company's CEO a year ago. Since that time he has done a truly remarkable job in saving the Company from bankruptcy, dramatically reducing overhead, selling non-strategic assets and using the proceeds to reduce debt and create a cash reserve, improving the management of the Company's operating properties, restructuring the Company's balance sheet to build financial flexibility, bring order to the Company's financial statements, and last but by no means least, creating an open and honest dialogue with the Board and shareholders.

At the request of the Company's Board, I am sending you the following information that the Board discussed in reviewing Rob's performance over the last 12 months. If you have any questions or comments, please email me at [BudLLC@bellsouth.net](mailto:BudLLC@bellsouth.net) or call me at 404-255-5002.

Hope you and your families are enjoying the summer.

Regards,



Bud Miller  
Chairman

**Rob Miller's Key Accomplishments**  
**July 25, 2008-July 31, 2009**

**Action Plan.** On July 29 of last year Rob sent the Board a recommended action plan for the Company. (A copy of the plan is attached.) This plan was very ambitious but necessary to change dramatically the way the Company was being managed in order to save the Company from bankruptcy. The Board approved this plan, and Rob was able to achieve all of the elements of this plan and turn the Company in a new direction.

**Reduction of overhead.** Under Rob's leadership the Company's overhead has been substantially reduced by the following steps:

- 17 personnel were laid off
- Rent reduced by subletting existing space and moving into Company owned space
- Reduction in ongoing legal expenses by better management
- Elimination on "frills" that had become ingrained in Company
- Renegotiation of the severance agreements with Pasco and Ferrell which resulted in a savings of \$212,000
- As a result of these and other steps, overhead has been reduced from approximately \$4.4 million (year end September 30, 2008) to about \$650,000 annually (excluding severance payments which will end in January 2010).

**Outsourcing of leasing and property management.** As per his Action Plan, Rob conducted a thorough search of property managers firms and recommended to the Board the appointment of McShea. The firm was an excellent choice and has made major headway in restoring the condition of the properties and relationships with tenants.

As a result of McShea's efforts and Rob's follow up, major billing errors by prior management were uncovered which had caused the loss of millions in revenue to the Company over the last 10 years. Rob and McShea have been working with tenants in an attempt to recover lost revenues from prior years as well as implementing the necessary increases in the rent schedule for the current and future years. These efforts by Rob and McShea are more difficult than normal as a result of the current economic environment. In addition, Rob is working with legal counsel to identify what actions the Company may have against the prior auditors.

We all were unhappy with Bozzuto's performance at Sumner Highlands. Rob acted promptly to resolve this matter and replaced Bozzuto with McShea effective on November 1, 2008. Rob also was able to have Bozzuto waive their termination fee. Since becoming involved McShea has made major progress in improving conditions and appearances at Sumner Highlands and as of June 30 the occupancy rate was 82%. The apartments should be fully leased in the next month or so

**Conversion of non-income producing assets to cash.** With the Boards approval, Rob quickly implemented a program to sell the Company's non-income producing assets. By closing on the sales below the Company has generated over \$10 million in cash which has been used to either pay down debt or increase cash reserves. The speed of this process and the prices realized are noteworthy given the depressed real estate market.

- Warrenton parcel
- Spring Meadow lot
- Springvale ( 6 lots)
- Chandlee Mill house
- Pay off of F&R note

In addition, Rob has worked aggressively to reduce the Company's Accounts Receivable. As a result, over \$300,000 in past due receivables have been collected,

**Strengthening Balance Sheet.** One of Rob's goals was to improve the condition of the Company's balance sheet. A key strategy was to generate cash to reduce debt and/or build cash reserves by taking the above steps. Another strategy was to provide financial stability to the Company by replacing floating rate debt with fixed rate term loans. Rob first addressed the Key Bank loan which he was able to replace with a fix rate loan from Teachers and reduced the principal amount by over \$5.0 million in the process.

The next step was to replace the revolving line of credit with Chevy Chase. Rob has successfully negotiated with Burke & Herbert for a seven year fixed rate loan which should close next week. These steps have reduced the Company's debt to equity ratio to 68% and converted all of the Company's debt to fixed rate term loans which significantly improves the Company's financial strength and financial flexibility.

**Improved financial reporting.** Shortly after taking over, Rob discovered that the Company's financial records were "in shambles" and there were serious questions as to the accuracy of prior years' statements. Under Rob's leadership Patty Emory, Jasmine Wood, (temp worker), and Alan Gordon (outside accountant) have spent hours unraveling the Company's books, correcting mistakes, and restoring "order". As a result, the Company now has financial statements that are understandable and accurately reflect performance.

Rob also prepared a budget for the current fiscal year that enables the Board and shareholders to understand the financial direction of the Company. In addition, Rob has provided monthly financial reports to the Board and quarterly reports to shareholders.

**Financial Stability.** After saving the Company, the overarching goals given to Rob by the Board were to restore the Company to profitability and generate an ongoing positive cash flow. These goals have been achieved!! After elimination of the severance payments, the Company will generate annual free cash flow available for dividends, debt reduction and/or reinvestment in the \$3.0 to \$4.0 million range



Memo: Miller Company Board

July 29, 2008

Subject: Update and Action Plan

I wanted to give you an update of what's happened so far since our meeting on Friday.

I have completed the following,

1. Property tour, our property is in deplorable condition the deferred maintenance has been significantly understated.
2. I have meet with the office staff and have advised them of our plan.
3. I meet with each department and have reduced the staff from 11 to 7.
4. I have provided the required 90 day notice to our 3 contract employee's.
5. I have meet with the onsite staff from Bozzoto regarding SHA.
6. Instructed personnel that all decisions and expenditures must be approved by me.
7. Meat with Phillips Company regarding the refinance of Key Bank loan.
8. Scheduled first meeting with prospective management company.
9. I have a meeting set up with current landlord regarding terminating lease.

Outlined below is my first cut of an action plan.

Week One:

1. Review and revise as needed rolling 12 month cash flow projections.
2. Open new bank account and discontinue sweep so as to build up a cash reserve, as a precaution incase Chevy Chase calls or suspends our line.
3. Identify and make first contact with 4 or 5 potential Property Management Co.
4. Telephone conference with Board

Week Two:

1. Meet with Chevy Chase Bank to inform them of our plans and confirm the renewal of our credit line.
2. Contact Miller Co. Landlord to start lease termination negotiations.
3. Meet with property Management Co. and have them begin submittal of there proposals.
4. Perform due diligence on proposed Property Management firms. ie: check references and tour properties.

Week Three:

1. Complete negotiations with Miller Co. Landlord.
2. Review proposals from Property Management firms.
3. Short list prospects to 2 firms for presentation to the board and send to board all information.
4. Prepare a recommendation for Board to consider.

Week Four:

1. Have special Board meeting to review the presentation of the two short listed Property Management co.
2. Provide my recommendation to the Board for there consideration.
3. Have Board select and approve new Property Management co.
4. Have proposed interim Accounting firm make a presentation to Board.

Week five - eight:

1. Begin transition of new management company.
2. Have new accounting firm start.
3. Complete transition of new Management co. and start as of October 1<sup>st</sup> 2008.

Week nine - twelve:

1. Close out fiscal year 2008.
2. Prepare year end statements.
3. Prepare 2009 budget.
4. Prepare to move to new offices.