

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

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

February 13, 2012

Mr. Robert R. Miller
5107 SW Inverness Court
Palm City, FL 34990

Dear Rob:

Enclosed herewith are the Financial Statements for the W.C. and A.N. Miller Development Company for the period ending September 30, 2011. These statements were prepared by our accountant, Alan L. Gordon, CPA, PA. Additionally, enclosed is the 2011/2012 Budget and First Quarter Financial Statements for the period ending on December 31, 2011.

The 2011 Fiscal Year was an excellent year for the Miller Company compared to the previous year. Although we still have some outstanding issues that need to be resolved, I do believe that our Company is in far better financial condition at the end of this Fiscal Year than at the end of 2010 Fiscal Year.

Financial Statement for the Fiscal Year ending September 20, 2011

1. Balance Sheet:

Our current Total Assets have decreased by approximately \$2 million primarily attributable to an increase in Accumulated Depreciation of \$1.8 million as well as a decrease in Inventory of \$1.7 million. We also had a significant increase in our Cash of approximately \$1 million giving us \$2,563,644 in the bank. Finally, we had an increase in Improvements to our Buildings of approximately \$634,925.

2. Income Statement:

Total Rental Income of \$14,264,679 is down from last year but in line with Budget. Rental Expenses is significantly below last year but in line with Budget. Depreciation at \$2,031,801 is significantly below last year but in line with Budget. Interest Expense of \$5,382,118 is slightly below last year but in line with Budget. Real Estate taxes of \$1,211,358 is significantly below last year but in line with Budget. Net Rental Income of \$1,140,860 is significantly better than last year which showed a loss of (\$143,785). Sales of \$630,000 is significantly better than last year and Cost of Sales of \$1,784,187 is significantly greater than last year which leaves us with a Gross Loss of (\$1,154,187). The sale of the three (3) lots in

Montgomery County had not been budgeted. Please note that the Cost of Sales is not a cash loss as you will note on the Consolidated Statements of Cash Flow on page 4 of the Financial Statements. Operating Expenses of \$1,514,091 is below last year by approximately \$130,000 but over Budget by approximately \$650,000 which is primarily attributable to Legal Expenses and Executive Compensation. For the year ending September 30, 2012, the Company realized a net loss of (\$1,679,489). A more detailed analysis can be found in the Supplementary Schedules at the back of the Financial Statements.

In conclusion, although our Financial Statements indicate a loss of (\$1,679,489), our performance this year is far better than expected. Please refer to the Consolidated Statements of Cash Flows on page 4 which shows that the sale of the three (3) lots in Montgomery County with the decrease in rental expenses along with the refinance of the Burke & Herbert loan secured by the Spring Valley retail portfolio helped the Company to realize an increase in cash of \$1,005,798.97 over the prior year.

Fiscal Year 2010/2011 Company Update

Listed below are some of the accomplishments of the Company during the past Fiscal Year.

- Resolution of the Reznick matter (2/2011) which generated a payment to the Company of \$50,000.
- Renewed Lease with subtenant at 4350 East West Highway (6/2011) through end of our lease (11/2014) which saved the Company a total of \$496,375.00.
- Sale of 3 lots in Montgomery County for \$630,000 (July 13, 2011). This is noteworthy considering the very poor market for lots of this price
- Successful ruling on the 3 year CAM issues in the Circuit Court for Montgomery County, Maryland (8/2011). Prior management had neglected to charge tenants the proper CAM charges for years. Current management actively pursued this matter and was able to generate approximately \$405,827.96 in cash for the Company.
- Refinance of Spring Valley Retail Loan for an annual interest savings of \$231,353.76 and cash realized of \$1,856,778.75 (August 15, 2011).
- Settlement of all issues relating to a tenant with a recovery of our legal expenses (\$77,100.44) and the monies owed for the 3 Year CAM billings (68,394.64) (9/2011) which will generate \$1,092,839 in cash for the Company over the 5 year term of the lease renewal.
- Leasing Activity:
 - a. Renewed 25,239 square feet of space; and
 - b. New Tenants rented 23,085 square feet of space

- c. Reduction in our vacancy for the offices by 6.26% giving us 90.57% occupancy in the offices. Further, our retail portfolio vacancy was reduced by 4.07% giving us 96.85% occupancy. This was done during a time when comparable properties in our market lost tenants and saw vacancy rates increase
- Retired \$14,362,305.17 in debt and secured \$14,700,000 in new debt at more favorable terms.
- Paid \$150,000 in dividends.
- Cash at start of Year: \$1,557,845.66; Cash at End of Year: \$2,563,644.63. Cash Increase of \$1,040,240.63
- Continued the program began the prior year to “catch up” on the deferred maintenance and developed a plan to complete the catch up within the next 24 months. These steps have not only increased the goodwill for the Company but also increased the value of the properties.

The Company continues to be plagued by the Haymount lawsuit. Please refer to Note 14 “Commitments and Contingencies”, Pending Litigation on page 13 of the Financial Statement for a detailed explanation of the current situation.

First Quarter Update for period ending December 31, 2011

1. Balance Sheet:

Total Assets have increased by \$67,870.41 since the beginning of the Fiscal Year primarily due to an increase in Accumulated Depreciation, an increase in Accounts Receivable which is offset by an increase in Cash and a decrease in Prepaid Expenses. There was an increase in Liabilities of \$67,870.41 for the quarter which is due to an increase in Accounts Payable, Accrued Expenses and Prepaid Rental Income which is offset by a decrease in Long Term Liabilities.

2. Income Statement:

Our Net Rental Income is down from Budget by (\$108,123.40) which is primarily due to a timing issue regarding the receipt of payments for the year end reconciliation of our CAM expenses. Operating Expenses are down by (\$29,946.42) over Budget for the quarter resulting in Net Income of \$11,625.79 versus Budget of \$151,000. Our leasing activity continues to be strong. We have successfully leased and/or renewed approximately 28,851 square feet of space so that our office vacancy has been reduced by 2.81%, retail vacancy by .17% and residential by 1.6%.

Governance & Nominating Committee

At the Board of Directors meeting held on November 17, 2011, the Governance & Nominating Committee recommended that the current Chairman of the Board, Ernest "Bud" Miller, be asked to serve for an additional term to allow for continuity in the Chairman's position allowing for a smooth transition for our two newest Directors, Mike Fallon and Jay Maddock. Therefore, as recommended, the Board of Directors voted on January 19, 2012 to recommend the existing slate of Directors for the Shareholders approval at our annual meeting on April 21, 2012.

As we did last year, the Board has recommend a slate of Directors but will open up the process for Shareholders that want to nominate someone else or themselves. Those Shareholders wishing to make a nomination please send in the name of the person being nominated along with a copy of his/her resume to the Company **no later than March 9, 2012**. This will allow us to include this information in the "official" package sent to the Shareholders the second week of March and also would enable us to include the names of all nominees on the ballot. As always, 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.

Annual Shareholders Meeting and 100th Anniversary Celebration

The date for the 2012 Annual Meeting is fast approaching. As mentioned in earlier communications, the meeting will be held on Saturday, April 21, 2012 at Columbia Country Club in Chevy Chase, Maryland. Additionally, there will be a 100th Anniversary Celebration of the founding of the Company that evening at Columbia Country Club. In order for us to have a general head count, please return the attached postcard at your earliest convenience. Please note that a formal invitation for this celebration will be sent out in early April 2012.

Frances Seay (wcandanmillercompany@gmail.com) and Kathy Kile (kathykile@gmail.com) have started to compile a booklet in commemoration of the Company's 100 year history. Your assistance in sharing your memories, photos, letters, stories and the like will go a long way in making this booklet a very special memento. Therefore, please feel free to contact either of them with any memorabilia you may have and/or any historical information you would like to share.

This concludes my report to the Shareholders. Should you have any questions in regards to these or any other matters, please do not hesitate to call me [443-315-9721] or e-mail me [rmiller@wcanmiller.com].

Sincerely,

Robert R. Miller

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

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

MEMORANDUM

February 9, 2012

TO: All Shareholders

FROM: Robert Beers III, Audit and Finance Committee Chairman

SUBJECT: Summary of Committee Work

Dear Shareholders:



