

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

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

August 16, 2010

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

Dear Rob:

I would like to take this opportunity to provide you an update on the Company's activities during the Third Quarter of the fiscal year ending on June 30, 2010. Enclosed with this update is the Balance Sheet, Long Term Debt schedule, Income Statement and our Cash Flow Statement.

The Third Quarter activities of the Miller Company have improved along with the weather. Our leasing efforts have been redoubled and we are seeing an increase in traffic and closed deals. This quarter we renewed six tenants in our office and retail spaces and have maintained 96.80% occupancy at Sumner Highlands.

## I. Financial Statements

### A. Balance Sheet

You will note on the Balance Sheet and Income Statement that our cash position has increased by @\$155,000 this quarter and year to date by \$537,000. Our Accounts Receivable is down from last quarter by \$563,000 primarily due to the expensing of uncollectible debt and prior years CAM charges that were improperly billed over the past few years. Inventory has gone up by @\$75,000 due to the requirements of the State and County that we complete the site work on the property we owned in Great Falls, Virginia.

### Assets

Under Fixed Assets, our Building assets remain the same from last quarter but have gone up year to date by \$220,000. This represents additional improvements to our Buildings. Further, we have Tenant Improvements of @\$52,000 for the quarter and @\$380,000 year to date. Cumulatively, we have reinvested in our Buildings @\$600,000 through the third quarter this year. Under Other Assets, Deferred Leasing Commissions are up @\$38,000 for the quarter which represents leasing commissions paid. These cannot be expensed but must be amortized over the life of the lease. Real Estate Tax Escrow is a requirement of some of our lenders that

we escrow monies for the real property taxes that will be coming due. Total Assets are down this quarter by @\$763,000 the majority of which is attributable to Accumulated Depreciation and the decrease in Accounts Receivable.

### Liabilities

Accounts Payable is down over last quarter by @\$6,000. 2007 Payroll Tax Liability is down by \$33,000. Please note that we continue to pay \$11,000 per month until such time as we are assigned an IRS agent in this matter. Accrued Expenses are down by @\$83,000. Prepaid Income/RE is where we apply the Tenant's portion of the real estate taxes that they have prepaid until such time as the taxes are due. Overall, Current Liabilities are down this quarter by @\$61,000 and year to date increased by @\$767,000 the majority of which is attributable to the 2007 Payroll Tax Liability and Accrued Expenses. Long Term Liability is down this quarter by @\$250,000 as a direct result of the normal amortization of long term debt. Total Liabilities at \$91,462,844.26 is down by @\$310,000 for the quarter and is essentially unchanged year to date. Minority Interest, our stake in Haymount, has gone up year to date by @\$6,800 due to the legal expenses incurred defending a lawsuit that has been ongoing for several years along with the payment of real estate taxes for the parcel of land that was not conveyed to Avanti. This quarter we have paid dividends of \$150,000 and year to date of \$250,000. We have a Retained Deficit of \$14,940,783.77 with a Total Stockholders' Deficit of \$14,390,583.74.

### B. Income Statement

Rental Income is up over Budget by @\$350,000 primarily due to prior year CAM billings. Rent Expenses are up by @\$907,000 over Budget due to @\$325,000 in snow removal expenses along with the expensing this quarter of a portion of the prior year CAM billings as a bad debt expense in that we felt that a portion of these billings are uncollectible. Depreciation is up over Budget due to the fact that when the Budget was prepared the wrong Depreciation schedule was used. Sales Revenue is down \$275,000 due to the lack of sales of the remaining lots in Montgomery County, Maryland. Gross Profit is down \$244,463.88 over Budget. Operating Expenses are in excess of Budget by @\$28,000 due to two main factors: 1) Legal expenses for Haymount are @\$37,000; and 2) the Company failed to pay DC Personal Property Taxes for 10 years, found in Other Taxes and Licenses, of @\$44,000. Otherwise, most line items are either under Budget or within it. Year to Date Net Operating Income is down @\$273,000 over Budget. Other Income and Expenses is down @\$553,000 year to date primarily due to the 2007 Payroll Tax Liability. Net Los is \$210,198.61.

## II. Fourth Quarter

As we enter the Fourth Quarter, we appear to be in a better than expected position with the exception of the sales of the lots in Montgomery County, Maryland. As predicted in my last update, after making the curtailment to Burke and Herbert Bank of \$678,750 our cash will be reduced to approximately \$1.5 million but our forecasting model shows that we should be back to \$2 million in cash reserves early next year.

### **III. Annual Meeting**

At the last Annual Meeting it was suggested that the Board of Directors move the meeting from January to sometime in the Spring. As a result of this request by the Shareholders, the Annual Meeting for 2011 will be held on Friday, April 22, 2011 and a possible family reunion on Saturday, April 23, 2011. Please, therefore, save these dates on your calendars now. More information will be provided closer to the meeting.

Please note that all information required by the By-Laws to be given to the Shareholders will be provided no later than six months from the close of the fiscal year.

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](mailto:rmiller@wcanmiller.com)].

Sincerely,



Robert R. Miller

Enclosures

	06/30/2010	03/31/2010	12/31/2009	9/30/2009	YTD Variance
		ASSETS			
Current Assets					
Cash and Cash Equivalents	\$ 2,496,729.14	\$ 2,341,613.88	\$ 2,536,369.27	\$ 1,959,409.84	537,319.30
Accounts Receivable, net	4,330,240.75	4,893,314.20	3,962,830.49	4,437,345.89	(107,105.14)
Other Receivables	843,465.18	800,279.16	830,448.08	859,747.31	(16,282.13)
Inventory	1,881,263.94	1,805,460.55	1,777,516.38	1,773,616.38	107,647.56
Prepaid Expenses	123,816.34	168,577.86	268,753.63	474,772.02	(350,955.68)
Total Current Assets	9,675,515.35	10,009,245.65	9,375,917.85	9,504,891.44	170,623.91
Fixed Assets					
Land	8,278,840.50	8,278,840.50	8,278,840.50	8,278,840.50	0.00
HLP, II Land	538,905.48	538,905.48	538,905.48	538,905.48	0.00
Buildings	41,752,868.62	41,752,868.62	41,730,671.83	41,532,837.34	220,031.28
Property and Equipment	1,722,997.46	1,722,997.46	1,722,997.46	1,722,997.46	0.00
Capital Improvements - Opt	648,671.00	648,671.00	648,671.00	648,671.00	0.00
Tenant Improvements	17,458,323.00	17,406,299.13	17,193,624.04	17,079,203.39	379,119.61
Less: Accumulated Depreciation	17,568,300.06	17,025,334.05	16,382,739.57	15,941,503.19	1,626,796.87
Net Fixed Assets	52,832,306.00	53,323,248.14	53,730,970.74	53,859,951.98	(1,027,645.98)
Other Assets					
Deferred Leasing Commissions,	526,234.68	492,823.76	455,688.37	435,362.97	90,871.71
Deferred Finance Charges, net	940,181.91	940,181.91	940,181.91	927,567.74	12,614.17
Accum Amort Def	(12,614.17)	(12,614.17)	(12,614.17)	0.00	(12,614.17)
Deposit	17,630.05	17,630.05	17,630.05	17,630.05	0.00
Deferred Taxes	6,721,709.00	6,721,709.00	6,721,709.00	6,721,709.00	0.00
Escrow Water	0.00	(9,679.56)	0.00	0.00	0.00
Real Estate Tax Escrow	531,666.96	513,402.81	463,096.06	258,684.03	272,982.93
Total Other Assets	8,724,808.43	8,663,453.80	8,585,691.22	8,360,953.79	363,854.64
TOTAL ASSETS	\$ 71,232,629.78	\$ 71,995,947.59	\$ 71,692,579.81	\$ 71,725,797.21	(493,167.43)

WC & AN Miller Companies  
Balance Sheet

	06/30/2010	03/31/2010	12/31/2009	9/30/2009	YTD Variance
LIABILITIES AND STOCKHOLDERS' DEFICIT					
Current Liabilities					
Accounts Payable	\$ 13,303.38	\$ 19,736.61	\$ 120,382.16	\$ 21,942.21	(8,638.83)
2007 Payroll Tax Liability	506,032.68	539,032.68	0.00	0.00	506,032.68
Accrued Income Taxes	464.00	464.00	464.00	35,576.00	(35,112.00)
Accrued Expenses	1,245,912.41	1,328,840.37	1,237,973.20	998,228.92	247,683.49
Prepaid Income/RE	(52,275.37)	0.00	0.00	0.00	(52,275.37)
Security Deposits	321,377.26	319,586.93	339,265.94	345,898.94	(24,521.68)
Prepaid Rent Income	230,699.21	223,517.83	187,384.00	200,677.76	30,021.45
Total Current Liabilities	2,370,064.31	2,431,178.42	1,885,469.30	1,602,323.83	767,740.48
Long-Term Liabilities					
Notes Payable (1)	89,058,469.89	89,307,347.87	89,601,197.95	89,852,295.48	(793,825.59)
Guaranty Reserve	34,310.06	34,310.06	34,310.06	34,310.06	0.00
Total Long-Term Liabilities	89,092,779.95	89,341,657.93	89,635,508.01	89,886,605.54	(793,825.59)
Total Liabilities	91,462,844.26	91,772,836.35	91,520,977.31	91,488,929.37	(26,085.11)
Minority Interest (2)	(5,839,630.74)	(5,836,210.66)	(5,835,612.77)	(5,832,747.00)	(6,883.74)
Total Minority Interest	(5,839,630.74)	(5,836,210.66)	(5,835,612.77)	(5,832,747.00)	(6,883.74)
Stockholders' Deficit					
Common Stock	800,200.00	800,200.00	800,200.00	800,200.00	0.00
Dividend	(249,999.97)	(100,000.00)	0.00	0.00	(249,999.97)
Retained Earnings (Deficit)	(14,940,783.77)	(14,640,878.10)	(14,792,984.73)	(14,730,585.16)	(210,198.61)
Total Stockholders' Deficit	(14,390,583.74)	(13,940,678.10)	(13,992,784.73)	(13,930,385.16)	(460,198.58)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICI	\$ 71,232,629.78	\$ 71,995,947.59	\$ 71,692,579.81	\$ 71,725,797.21	(493,167.43)

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.

Unaudited - For Management Purposes Only

August 12, 2010

WC & AN Miller Companies  
Long Term Debt  
June 30, 2010

	6/30/2010	3/31/2010	12/31/2009	9/30/2009	YTD Variance
N/P Cur Wash Securities	200,000.00	\$ 200,000.00	\$ 200,000.00	200,000.00	0.00
NP Cur Sub Debent	440,000.00	440,000.00	440,000.00	440,000.00	0.00
N/P MetLife	26,836,609.74	26,925,226.36	27,056,409.72	27,185,532.39	(348,922.65)
N/P Burke & Herbert - SVR	13,407,303.15	13,457,404.79	13,511,759.16	13,562,617.19	(155,314.04)
Key Bank Loan	17,783,214.37	17,838,448.74	17,892,799.24	17,963,916.07	(180,701.70)
N/P - TIAA Loan	22,141,112.80	22,196,038.15	22,250,000.00	22,250,000.00	(108,887.20)
N/P - Haymount Mezz	8,250,229.83	8,250,229.83	8,250,229.83	8,250,229.83	0.00
Total Long Term Debt	89,058,469.89	\$ 89,307,347.87	\$ 89,601,197.95	89,852,295.48	(793,825.59)

Notes Repayment Schedule

1. Washington Securities - 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 Nine Months Ending June 30, 2010

	Year to Date Actual	Year to Date Budget	Variance
Rental Activities			
Rent Income	11,841,607.97	11,484,353.00	357,254.97
Rent Expenses	(4,010,373.03)	(3,103,696.00)	(906,677.03)
Real Estate Taxes	(1,084,376.19)	(1,162,080.00)	77,703.81
Depreciation	(1,626,796.87)	(1,406,349.00)	(220,447.87)
Debt Service-Interest	(4,052,661.08)	(4,205,074.00)	152,412.92
Net Rental Income	1,067,400.80	1,607,154.00	(539,753.20)
Revenues			
Sales	0.00	275,000.00	(275,000.00)
Total Revenues	0.00	275,000.00	(275,000.00)
Cost of Sales	8,000.00	578,289.32	(570,289.32)
Corporate Gross Profit	(8,000.00)	(303,289.32)	295,289.32
Gross Profit	1,059,400.80	1,303,864.68	(244,463.88)
Operating Expenses			
Auto Expenses	6,046.70	7,200.00	(1,153.30)
Bank Charges	537.35	5,400.00	(4,862.65)
Computer Consultant	11,532.78	9,000.00	2,532.78
Board Consultant	6,000.00	6,000.00	0.00
Office Administration	55,000.00	45,000.00	10,000.00
Courier	11.64	0.00	11.64
Equipment Rental	21,094.53	19,715.49	1,379.04
General Insurance	23,803.00	30,500.00	(6,697.00)
Legal - General	26,323.41	87,500.00	(61,176.59)
Legal - New Homes	5,298.80	0.00	5,298.80
Legal - Haymount	37,457.35	0.00	37,457.35
Leasing Commission - Corp	17,336.55	17,336.55	0.00
Health Insurance	11,335.00	13,500.00	(2,165.00)
Management Meals	1,140.20	900.00	240.20
Annual Shareholder Meeting	785.68	2,500.00	(1,714.32)
Office Supplies	2,707.90	2,700.00	7.90
Other Taxes and Licenses	52,526.54	7,750.60	44,775.94
Parking	234.00	0.00	234.00
Payroll Taxes	3,277.50	10,822.00	(7,544.50)

For Management Purposes Only

August 12, 2010

WC & AN Miller Companies  
Income Statement  
For the Nine Months Ending June 30, 2010

	Year to Date Actual	Year to Date Budget	Variance
Postage	2,512.36	2,250.00	262.36
Accounting	14,683.25	13,500.00	1,183.25
Review/Audit/Tax Return	70,481.05	65,000.00	5,481.05
Promotion and Entertainment	7,127.78	5,081.00	2,046.78
Charitable Contribution	500.00	0.00	500.00
Rent	66,232.66	55,248.75	10,983.91
Executive Compensation	135,000.00	135,000.00	0.00
Storage	11,670.83	8,500.00	3,170.83
Telephone	1,604.40	2,250.00	(645.60)
Management Travel	20,338.72	22,500.00	(2,161.28)
Payroll Processing Fees	1,426.37	1,500.00	(73.63)
Interest Expense	1.01	0.00	1.01
Board of Directors fees	81,000.00	81,000.00	0.00
RE Tax Exp	3,743.07	8,500.00	(4,756.93)
Board Travel and Meals	16,958.90	21,000.00	(4,041.10)
Total Operating Expenses	715,729.33	687,154.39	28,574.94
Net Operating Income	343,671.47	616,710.29	(273,038.82)
Other Income and Expenses			
Interest Income	13,931.04	27,000.00	(13,068.96)
Debt Service (Interest) Other	(28,768.44)	(28,587.96)	(180.48)
Pr Yr Adj - 2007 Pay Tax Liab	(539,032.68)	0.00	(539,032.68)
Total Other Income and Expenses	(553,870.08)	(1,587.96)	(552,282.12)
Net Income	(210,198.61)	615,122.33	(825,320.94)

For Management Purposes Only

August 12, 2010



## W.C. and A.N. MILLER COMPANIES

## STATEMENT OF CASH FLOW

For the Month Ended June 30, 2010

	Current Month	Year to Date
Cash Flows for Operating Activities:		
Net Income	33,873	(209,899)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Dividend	(50,000)	(250,000)
Depreciation and amortization	180,989	1,639,412
Loss on disposition of fixed assets	-	-
Income allocated to minority interest	(930)	(6,885)
Accounts receivable	129,352	105,119
Other receivables	41,961	16,282
Inventory	(700)	(105,963)
Deferred income taxes	-	-
Prepaid expenses	(38,509)	350,955
Current maturities of long term debt	-	-
Accounts payable	(35,333)	497,394
Accrued income taxes	-	(35,112)
Accrued expenses	106,780	247,683
Security deposits	1,025	(24,522)
Prepaid Real Estate Tax Income	52,275	52,275
Prepaid rent income	26,174	30,021
Total Adjustments	<u>413,085</u>	<u>2,516,660</u>
Net Cash Provided by (Used for) Operating Activities	<u>446,957</u>	<u>2,306,761</u>
Cash Flow for Investing Activities:		
Acquisition of fixed assets	(44,882)	(599,150)
Acquisition of deferred financing charges	-	(103,486)
Acquisition of real estate tax escrow	(65,405)	(272,983)
Acquisition of water escrow	-	-
Disposition of guaranty reserve	-	-
Disposition of deposit	-	-
Net Cash Used for Investing Activities	<u>(110,287)</u>	<u>(975,619)</u>
Cash Flow for Financing Activities:		
Disposition of long term debt	(52,857)	(793,826)
Acquisition of long term debt	-	-
Net Cash Used for Financing Activities	<u>(52,857)</u>	<u>(793,826)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	283,812	537,315
Cash and cash equivalents, Beginning of Period	<u>2,212,914</u>	<u>1,959,410</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>2,496,725</u>	<u>\$ 2,496,725</u>