

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

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

May 21, 2010

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

Dear Rob:

I would like to take this opportunity to give you an update on the Company's performance for the first half of the fiscal year ending on March 31, 2010. Enclosed with this update is the Balance Sheet, Long Term Debt schedule, Income Statement and our Cash Flow Statement.

The Second Quarter activities of the Miller Company have been slow due mainly to the severe weather the Washington DC area suffered this past winter. Also, the weak economy has hampered our leasing activities significantly. The good news is, with the exception of a handful, our tenants are meeting their financial obligations to us.

## **I. Financial Statements**

### **A. Balance Sheet**

You will note on the Balance Sheet and the Income Statement there is a significant increase in our liabilities due to a 2007 Payroll Tax Liability. It was brought to my attention earlier this year that the Miller Company failed to pay its payroll tax liability for the first quarter of 2007 amounting to \$424,475.06 but with penalties and interest the balance due is now \$539,032.68. We are attempting to negotiate with the Internal Revenue Service and hope that we can reduce the penalty and pay the balance due over the next 4 years.

### **Assets**

Our cash position still remains strong at \$2,342,000 and is above the limits we have set upon ourselves. Our accounts receivable has gone up significantly. This is a direct result of the billing errors with the CAM that have been corrected and billed to the respective tenants. We have set aside a bad debt reserve due to the possibility of not collecting on this from our local "Mom and Pop" tenants. Prepaid expenses are down by @\$306,000 due to the normal course of paying our real estate taxes and insurance. Fixed Assets are down by @\$537,000 mainly due to an increase in the accumulated depreciation which is offset by the increase in the Capital

Improvements. Total Other Assets have increased by @\$302,000 primarily due to the Real Estate Tax Escrow and the Deferred Leasing Commissions. Overall, the Assets have increased by @\$270,000 year to date.

### Liabilities

Accounts Payable has gone down @\$2,200. Accrued Expenses are up by @\$330,000. Prepaid Rent is up by @\$23,000 leaving Current Liabilities at @\$2.4 million which is a year to date increase of @\$829,000. Long Term Liabilities are down by @\$284,000 due to the normal amortization of our long term debt. Minority Interest in Haymount has decreased by @\$3,400. At its January Meeting, the Board of Directors approved a payment of a dividend in the amount of \$50,000 per month commencing in February 2010. Our Retained Deficit has been reduced by \$89,707.06 which is our Net Income as shown on the Income Statement. The Total Stockholders Deficit is \$13,940,678.10.

### B. Income Statement

Rental Income is up over Budget by @\$400,000 primarily due to the billing of the prior years' CAM charges to our retail tenants. Rental Expenses are up due to the snow removal expenses that were in excess of Budget (\$326,787 versus 65,700). Depreciation is up over Budget due to the fact that when the Budget was prepared the wrong Depreciation schedule was used. Debt Service Interest is @\$100,000 lower than Budget due to the payment of one of our October loans in September. Net Rental Income is @\$5,700 under Budget. Total Operating Expenses are in line with Budget as well as the Net Operating Income. Net Income is off Budget by @\$565,000 primarily due to the 2007 Payroll tax Liability discussed above.

### C. Cash Flow Statement

The Company's cash has increased by \$382,204 over the past six months.

## **II. Third and Fourth Quarter**

As you may recall at the Annual Shareholders Meeting, in reviewing the Budget, it included the sale of the 3 lots in Montgomery County, Maryland. I have revised our forecasting model to not include these sales simply due to the fact that there has been little or no interest in them. In re-forecasting, the Cash Flow in September 2010 will dip below our cash floor of \$2 million. Although, this is temporary, I thought that I should bring this to your attention. Our forecast indicates that we will probably drop to \$1.5 million in available cash reserves. Please note that this includes a pay down of the Burke & Herbert loan of \$678,750.

To recap, our cash position as a result of not selling our lots in Montgomery County, Maryland and the extraordinary snow expenses, has taken an @\$1.2 million in free cash flow from our original Budget. Although, we are dipping below our threshold, we have adequate cash to finance our ongoing operations and pay the monthly dividends. I am confident that the cash reserves will increase to the comfort level we established in the near future.

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

WC & AN Miller Companies  
Balance Sheet  
March 31, 2010

	3/31/2010	9/30/2009	Variance
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 2,341,613.88	\$ 1,959,409.84	382,204.04
Accounts Receivable, net	4,893,314.20	4,437,345.89	455,968.31
Other Receivables	800,279.16	859,747.31	(59,468.15)
Inventory	1,805,460.55	1,773,616.38	31,844.17
Prepaid Expenses	168,577.86	474,772.02	(306,194.16)
Total Current Assets	<u>10,009,245.65</u>	<u>9,504,891.44</u>	<u>504,354.21</u>
Fixed Assets			
Land	8,278,840.50	8,278,840.50	0.00
HLP, II Land	538,905.48	538,905.48	0.00
Buildings	41,752,868.62	41,532,837.34	220,031.28
Property and Equipment	1,722,997.46	1,722,997.46	0.00
Capital Improvements - Opt	648,671.00	648,671.00	0.00
Improvements	17,406,299.13	17,079,203.39	327,095.74
Less: Accumulated Depreciation	<u>17,025,334.05</u>	<u>15,941,503.19</u>	<u>1,083,830.86</u>
Net Fixed Assets	<u>53,323,248.14</u>	<u>53,859,951.98</u>	<u>(536,703.84)</u>
Other Assets			
Deferred Leasing Commissions,	492,823.76	435,362.97	57,460.79
Deferred Finance Charges, net	940,181.91	927,567.74	12,614.17
Accum Amort Def	(12,614.17)	0.00	(12,614.17)
Deposit	17,630.05	17,630.05	0.00
Deferred Taxes	6,721,709.00	6,721,709.00	0.00
Escrow Water	(9,679.56)	0.00	(9,679.56)
Real Estate Tax Escrow	<u>513,402.81</u>	<u>258,684.03</u>	<u>254,718.78</u>
Total Other Assets	<u>8,663,453.80</u>	<u>8,360,953.79</u>	<u>302,500.01</u>
TOTAL ASSETS	<u>\$ 71,995,947.59</u>	<u>\$ 71,725,797.21</u>	<u>270,150.38</u>

WC & AN Miller Companies  
Balance Sheet  
March 31, 2010

3/31/2010                      9/30/2009                      Variance

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities			
Accounts Payable	\$ 19,736.61	\$ 21,942.21	(2,205.60)
2007 Payroll Tax Liability	539,032.68	0.00	539,032.68
Accrued Income Taxes	464.00	35,576.00	(35,112.00)
Accrued Expenses	1,328,840.37	998,228.92	330,611.45
Security Deposits	319,586.93	345,898.94	(26,312.01)
Prepaid Rent Income	223,517.83	200,677.76	22,840.07
Total Current Liabilities	<u>2,431,178.42</u>	<u>1,602,323.83</u>	<u>828,854.59</u>
Long-Term Liabilities			
Notes Payable (1)	89,307,347.87	89,852,295.48	(544,947.61)
Guaranty Reserve	34,310.06	34,310.06	0.00
Total Long-Term Liabilities	<u>89,341,657.93</u>	<u>89,886,605.54</u>	<u>(544,947.61)</u>
Total Liabilities	<u>91,772,836.35</u>	<u>91,488,929.37</u>	<u>283,906.98</u>
Minority Interest (2)	<u>(5,836,210.66)</u>	<u>(5,832,747.00)</u>	<u>(3,463.66)</u>
Total Minority Interest	<u>(5,836,210.66)</u>	<u>(5,832,747.00)</u>	<u>(3,463.66)</u>
Stockholders' Deficit			
Common Stock	800,200.00	800,200.00	0.00
Dividend	(100,000.00)	0.00	(100,000.00)
Retained Earnings (Deficit)	<u>(14,640,878.10)</u>	<u>(14,730,585.16)</u>	<u>89,707.06</u>
Total Stockholders' Deficit	<u>(13,940,678.10)</u>	<u>(13,930,385.16)</u>	<u>(10,292.94)</u>
TOTAL LIABILITIES & STOCKHOLDERS' DEFICI	<u>\$ 71,995,947.59</u>	<u>\$ 71,725,797.21</u>	<u>270,150.38</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  
March 31, 2010

	3/31/2010	9/30/2009	YTD Variance
N/P Cur Wash Securities	\$ 200,000.00	200,000.00	0.00
NP Cur Sub Debent	440,000.00	440,000.00	0.00
N/P MetLife	26,925,226.36	27,185,532.39	(260,306.03)
N/P Burke & Herbert - SVR	13,457,404.79	13,562,617.19	(105,212.40)
Key Bank Loan	17,838,448.74	17,963,916.07	(125,467.33)
N/P - TIAA Loan	22,196,038.15	22,250,000.00	(53,961.85)
N/P - Haymount Mezz	8,250,229.83	8,250,229.83	0.00
Total Long Term Debt	\$ 89,307,347.87	89,852,295.48	(544,947.61)

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 Six Months Ending March 31, 2010

	Year to Date Actual	Year to Date Budget	Variance
Rental Activities			
Rent Income	8,172,281.48	7,768,699.00	403,582.48
Rent Expenses	(2,509,982.77)	(2,094,692.00)	(415,290.77)
Real Estate Taxes	(723,314.45)	(774,720.00)	51,405.55
Depreciation	(1,083,830.86)	(937,566.00)	(146,264.86)
Debt Service-Interest	(2,706,531.50)	(2,807,317.00)	100,785.50
Net Rental Income	1,148,621.90	1,154,404.00	(5,782.10)
Revenues			
Total Revenues	0.00	0.00	0.00
Cost of Sales	8,000.00	0.00	8,000.00
Corporate Gross Profit	(8,000.00)	0.00	(8,000.00)
Gross Profit	1,140,621.90	1,154,404.00	(13,782.10)
Operating Expenses			
Auto Expenses	4,069.02	4,800.00	(730.98)
Bank Charges	462.90	3,600.00	(3,137.10)
Computer Consultant	7,939.03	6,000.00	1,939.03
Board Consultant	6,000.00	6,000.00	0.00
Office Administration	40,000.00	30,000.00	10,000.00
Courier	11.64	0.00	11.64
Equipment Rental	15,018.12	13,143.66	1,874.46
General Insurance	23,934.19	30,500.00	(6,565.81)
Legal - General	18,033.34	55,000.00	(36,966.66)
Legal - New Homes	5,298.80	0.00	5,298.80
Legal - Haymount	19,641.32	0.00	19,641.32
Leasing Commission - Corp	17,336.55	17,336.55	0.00
Health Insurance	7,222.00	9,000.00	(1,778.00)
Management Meals	711.03	600.00	111.03
Annual Shareholder Meeting	785.68	2,500.00	(1,714.32)
Office Supplies	2,326.39	1,800.00	526.39
Other Taxes and Licenses	8,769.54	6,250.60	2,518.94
Parking	234.00	0.00	234.00
Payroll Taxes	2,130.00	6,232.00	(4,102.00)
Postage	1,557.89	1,500.00	57.89

For Management Purposes Only

May 19, 2010

WC & AN Miller Companies  
Income Statement  
For the Six Months Ending March 31, 2010

	Year to Date Actual	Year to Date Budget	Variance
Accounting	10,589.00	9,000.00	1,589.00
Review/Audit/Tax Return	70,481.05	65,000.00	5,481.05
Promotion and Entertainment	7,023.56	5,081.00	1,942.56
Rent	48,694.82	36,832.50	11,862.32
Executive Compensation	90,000.00	90,000.00	0.00
Storage	8,831.43	8,500.00	331.43
Telephone	1,053.95	1,500.00	(446.05)
Management Travel	15,182.20	15,000.00	182.20
Payroll Processing Fees	971.20	900.00	71.20
Interest Expense	1.01	0.00	1.01
Board of Directors fees	54,000.00	54,000.00	0.00
RE Tax Exp	2,455.99	4,500.00	(2,044.01)
Board Travel and Meals	11,887.60	14,000.00	(2,112.40)
Total Operating Expenses	502,653.25	498,576.31	4,076.94
Net Operating Income	637,968.65	655,827.69	(17,859.04)
Other Income and Expenses			
Interest Income	10,010.21	18,000.00	(7,989.79)
Debt Service (Interest) Other	(19,239.12)	(19,058.64)	(180.48)
Pr Yr Adj - 2007 Pay Tax Liab	(539,032.68)	0.00	(539,032.68)
Total Other Income and Expenses	(548,261.59)	(1,058.64)	(547,202.95)
Net Income	89,707.06	654,769.05	(565,061.99)

For Management Purposes Only

May 19, 2010



W.C. and A.N. MILLER COMPANIES  
STATEMENT OF CASH FLOW  
For the Month Ended March 31, 2010

	Current Month	Year to Date
Cash Flows for Operating Activities:		
Net Income	18,865	89,707
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Dividend	(49,999)	(100,000)
2007 Payroll Tax Liability	0	0
Depreciation and amortization	180,989	1,096,445
Loss on disposition of fixed assets		-
Income allocated to minority interest	(220)	(3,464)
Accounts receivable	132,911	(455,968)
Other receivables	10,255	59,468
Inventory	(1,751)	(31,844)
Deferred income taxes		-
Prepaid expenses	25,455	306,194
Current maturities of long term debt		-
Accounts payable	(39,626)	536,827
Accrued income taxes		(35,112)
Accrued expenses	(262,420)	330,611
Security deposits	(10,268)	(26,312)
Prepaid rent income	(88,118)	22,840
Total Adjustments	<u>(102,793)</u>	<u>1,699,686</u>
Net Cash Provided by (Used for) Operating Activities	<u>(83,928)</u>	<u>1,789,393</u>
Cash Flow for Investing Activities:		
Acquisition of fixed assets	(95,542)	(547,127)
Acquisition of deferred financing charges	(14,084)	(70,075)
Acquisition of real estate tax escrow	80,633	(254,719)
Acquisition of water escrow	9,680	9,680
Disposition of guaranty reserve	-	-
Disposition of deposit	-	-
Net Cash Used for Investing Activities	<u>(19,314)</u>	<u>(862,241)</u>
Cash Flow for Financing Activities:		
Disposition of long term debt	(103,721)	(544,948)
Acquisition of long term debt	-	-
Net Cash Used for Financing Activities	<u>(103,721)</u>	<u>(544,948)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(206,962)	382,204
Cash and cash equivalents, Beginning of Period	<u>2,548,576</u>	<u>1,959,410</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>2,341,614</u>	<u>\$ 2,341,614</u>