

December 11, 2009

Dear Fellow Shareholders:

The Board has recently completed its financial projections for year-end 2009 and has adopted an operating budget for 2010.

We are pleased to report that 205 West End will finish this year with a very small operating deficit. Thanks to conservative financial management, the efficiencies brought by our cogeneration initiative, and a bit of luck, we have successfully completed another year.

We have now completed the five-year capital improvement plan that we began in 2005. This includes exterior work related to the balconies and Local Law 11 compliance, the repair of façade leaks, hallway renovations, and the restoration of the lobby. The lobby restoration was funded entirely from the capital we raised at the beginning of the plan, along with the accumulated surpluses from prior years' budgets.

Variations between budgets and projected year-end actual expenditures

As you know, many of the cooperative's expenses are not easily under the board's control. Labor costs are dictated by union contracts, insurance rates are set by carriers, energy prices by the market, and taxes by the city. That said, we make every effort to control all other costs. While 2009 final numbers still have to be confirmed, audited by our accountant, and reviewed by you at the time of our annual shareholders' meeting in the spring, here is how 2010 looks:

Real Estate Taxes, budgeted for 2009 at \$3,424,700, are projected to end the year 1.5% over budget at \$3,474,500. In 2010 we expect to pay real estate taxes of \$3,765,200, an increase of 8.4% over the 2009 forecast. If it were not for this property tax increase, we would not need to raise maintenance for 2010 at all. This is the second year in a row that our maintenance increase has been essentially determined by the increase in property tax.

Energy (electric, steam, and cogen gas), were budgeted at a combined cost of \$1,547,700 for 2009. While all final bills are still to be presented, the projected energy expenditures in these categories are forecast to be approximately \$1,437,500. Our projections for next year are for an aggregate cost of \$1,420,000, estimating relatively flat consumption and prices due to the depressed economy. As we have noted in our last four annual reports, the 2010 budget continues to reflect the savings from producing a significant portion of our electricity and steam needs from our cogeneration plant.

Note: Although we have submetered the co-operative, the budget for the condominium must reflect the total of electrical payments to our suppliers. About 35% of the building's electrical consumption, that which we provide to the common areas, is applied to our maintenance calculation. The remaining 65% of our electrical usage is paid directly by tenants and shareholders according to measured consumption, and does not affect base maintenance charges.

Insurance costs for 2009 were budgeted at \$229,600, and will end this year at \$211,300. For 2010, we are forecasting a small increase of about 2.6% and are budgeting \$216,800.

LTCA Dues will be increased relative to 2009 actual payments of \$538,300 to \$569,700, an increase of 5.8%.

Staff Payroll - wages, benefits, workers compensation, and disability insurance – will be going from \$1,123,600 in 2009 to 1,142,200 in 2010, an increase mandated by our union contractual obligations.

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Note: The 2010 budget uncertainty is slightly larger than last year because the union contract is due to be renegotiated in the spring of 2010. We have estimated what we believe is a likely upper range for the settlement, but the final contract will determine the actual numbers.

Maintenance and Repairs remain within reasonable expectations. Our anticipated expenditures in 2009 appear to be coming in at about \$532,800. Based on recommendations from our Resident Manager and AKAM, we are budgeting \$489,000 for 2010.

Water and Sewer will be increasing from a 2009 forecast expenditure of \$297,000 to a 2010 budgeted number of \$335,000, a 13% increase, representing our expectation that the city will hike rates again. The city has been ramping up these charges at about a 13% to 14% per year rate for the last several years.

Mortgage Interest and Amortization on our prime and secondary mortgage will remain constant from 2009 to 2010 at a combined \$1,492,300.

Accordingly, for 2010, shareholders can expect a 4.98% maintenance increase, resulting in a monthly maintenance cost of \$3.23 per share.

As in previous years, we will be recouping some of the increased operating costs by holding back the NYC real estate tax rebate due most shareholders in the first quarter of 2010. You will see a credit/debit journal entry on your March statement. From an accounting standpoint this is treated as an operating assessment, and will allow us to hold the maintenance increase to 4.98%.

From the start, we have tried to be both prudent in our expenditures and, whenever possible, to make full use of opportunities that would contribute to our building's overall financial health. This includes lowering costs whenever possible. 205 West End Avenue remains one of the most financially competitive buildings in the Lincoln Towers complex, measured by maintenance increases, maintenance per share, general balance sheet, and capital improvement measures.

We appreciate your confidence and ongoing feedback and the entire Board joins me in wishing you and your family a very good holiday season and a happy, healthy New Year.

Sincerely,

Marc Donner, President

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