

**BLUE RIDGE REAL ESTATE COMPANY**

5 Blue Ridge Court  
P O Box 707  
Blakeslee, PA 18610

**2018**

**THIRD QUARTER REPORT**

As of July 31, 2018 (Unaudited) and October 31, 2017 (Audited)  
and for the Three and Nine Months Ended July 31, 2018 and 2017 (Unaudited)

The accompanying unaudited interim financial statements have been prepared by the Company's management.  
Independent auditors have performed a review of these financial statements.

**BLUE RIDGE REAL ESTATE COMPANY AND SUBSIDIARIES**  
**QUARTERLY REPORT**

**1) Name of the issuer and its predecessors (if any)**

The name of the issuer is Blue Ridge Real Estate Company (“Blue Ridge”, the “Company”, “we”, “our,” or “us”).

**2) Address of the issuer’s principal executive offices**Company Headquarters

Blue Ridge Real Estate Company

5 Blue Ridge Court

P O Box 707

Blakeslee, PA 18610

Phone: (570) 443-8433

Fax: (570) 443-8412

Website: [www.brreco.com](http://www.brreco.com)IR Contact

Not Applicable

**3) Security Information**

Trading Symbol:	BRRE
Exact title and class of securities outstanding:	Common Stock
CUSIP:	096005301
Par or Stated Value:	\$0.30 per share
Total shares authorized:	6,000,000 as of July 31, 2018
Total shares outstanding:	2,443,488 as of July 31, 2018

**Transfer Agent**

Mailing Address:  
 American Stock Transfer & Trust Company, LLC  
 Operations Center  
 6201 15th Avenue  
 Brooklyn, NY 11219

Shareholder Services: 888-509-4619  
 Website: [www.astfinancial.com](http://www.astfinancial.com)  
 Email: [help@astfinancial.com](mailto:help@astfinancial.com)  
 Fax: (718) 236-2641

American Stock Transfer & Trust Company is a registered transfer agent under the Securities and Exchange Act of 1934, as amended, and is regulated by the Securities and Exchange Commission.

List any restrictions on the transfer of security: None.

Describe any trading suspension orders issued by the SEC in the past 12 months. None.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: None.

**4) Issuance History**

The Company has not issued any shares of the Company’s common stock in exchange for services during the past two fiscal years or any interim period.

During the fiscal year ended October 31, 2017, the Company repurchased 224 shares of its common stock. Upon transfer, all shares were cancelled and returned to the status of authorized but unissued. During the nine months

ended July 31, 2018, the Company repurchased 112 shares of its common stock. Upon transfer, all shares were cancelled and returned to the status of authorized but unissued.

## 5) Financial Statements

The following financial statements of the Company are included in this Quarterly Report at the pages noted below:

	Page
<a href="#">Balance Sheets</a> as of July 31, 2018 (Unaudited) and October 31, 2017	7
<a href="#">Statements of Operations</a> for the Three and Nine months ended July 31, 2018 and 2017 (Unaudited)	8
<a href="#">Statements of Comprehensive Loss</a> for the Nine months ended July 31, 2018 and 2017 (Unaudited)	9
<a href="#">Statements of Changes in Shareholders' Equity</a> for the Nine months ended July 31, 2018 (Unaudited)	10
<a href="#">Statements of Cash Flows</a> for the Nine months ended July 31, 2018 and 2017 (Unaudited)	11
<a href="#">Notes to Financial Statements</a> (Unaudited)	12
<a href="#">Management's Discussion and Analysis</a>	22

## 6) Describe the Issuer's Business, Products and Services

Blue Ridge Real Estate Company, or Blue Ridge, was incorporated in Pennsylvania on August 8, 1911. Blue Ridge owns investment properties in Eastern Pennsylvania, New Jersey and Minnesota.

Blue Ridge's year end date is October 31<sup>st</sup>.

Blue Ridge's primary SIC code is 6500.

Blue Ridge and its wholly-owned subsidiaries, operate through three business segments which consist of Resort Operations, Real Estate Management/Rental Income and Land Resource Management. Our business segments were determined from our internal organization and management reporting, which are based primarily on differences in services we provide.

### *Resort Operations (SIC Code 6512)*

Resort Operations consists of: amenities surrounding Big Boulder Lake – Boulder View Tavern and Boulder Lake Club; the Jack Frost National Golf Course; and The Stretch fishing club.

### *Real Estate Management/Rental Income (SIC Code 6519)*

Real Estate Management/Rental Income consists of: investment properties leased to others located in Eastern Pennsylvania, New Jersey and Minnesota; services to the trusts that operate resort residential communities; and rental of communication towers and signboards.

### *Land Resource Management (SIC Code 6552)*

Land Resource Management consists of: land sales; land purchases; timbering operations; a real estate development division; and leasing of land and land improvements. Timbering operations consist of selective timbering on our land holdings. Contracts are entered into for parcels that have had the timber selectively

marked. The real estate development division is responsible for the residential land development activities which include overseeing the construction of single and multi-family homes and development of infrastructure.

#### **7) Describe the Issuer's Facilities**

At July 31, 2018, the properties of Blue Ridge and its subsidiaries consisted of 9,693 total acres of land owned by Blue Ridge, Northeast Land Company, Flower Fields Motel, LLC, Blue Ridge WNJ, LLC and Blue Ridge WMN, LLC. 9,690 acres of land are located in the Pocono Mountains, along with 3 acres in various other states. Of this acreage, 7,976 acres were held for investment, 1,433 acres were held for development and 284 acres were held for sale. Income is derived from these lands through leases, selective timbering by third parties, sales and other dispositions.

These properties included the Jack Frost National Golf Course, Boulder View Tavern, Boulder Lake Club, a commercial property comprised of 3 acres of vacant land, two retail stores leased to affiliates of Walgreen Company, one single family home held for investment, two sewage treatment facilities, a members-only fly fishing club, a corporate headquarters building and other miscellaneous facilities.

The majority of the Company's property located in the Pocono Mountains is leased to various hunting clubs.

Blue Ridge owns and leases to its wholly-owned subsidiary, Jack Frost National Golf Course, Inc., an 18-hole golf facility known as Jack Frost National Golf Club, which is located on 203 acres near White Haven, Carbon County, Pennsylvania. The golf course is managed by Billy Casper Golf, LLC, an unaffiliated third-party operator.

Blue Ridge owns the Boulder View Tavern, a restaurant which consists of 8,800 square feet and is located on the eastern shore of Big Boulder Lake, Kidder Township, Carbon County, Pennsylvania. Lake Mountain, LLC, a wholly owned subsidiary of Blue Ridge Real Estate Company, leases the facility. Effective August 1, 2018, the restaurant is managed by Boulder View Management, LLC, a subsidiary of Billy Casper Golf, LLC, an unaffiliated third-party operator. The restaurant has dining capacity for 200 patrons.

Blue Ridge owns the Boulder Lake Club located in Kidder Township, Carbon County, Pennsylvania, which includes the 175-acre Big Boulder Lake, swimming pool, tennis courts, boat docks and accompanying buildings. Lake Mountain, LLC, a wholly owned subsidiary of Blue Ridge Real Estate Company, leases and operates the facility.

Blue Ridge owns one single family home held for investment.

Blue Ridge owns a sewage treatment facility that serves the resort housing at the Jack Frost Mountain Ski Area. The facility has the capacity of treating up to 400,000 gallons of wastewater per day.

Blue Ridge owns a sewage treatment facility that serves the resort housing at the Big Boulder Ski Area. The facility has the capacity of treating 225,000 gallons of wastewater per day.

Blue Ridge owns The Stretch, an exclusive members-only fly fishing club, located along a two-mile stretch of the Tunkhannock Creek in Blakeslee, Pennsylvania.

Blue Ridge owns its corporate headquarters building which is located at 5 Blue Ridge Court in Blakeslee, Pennsylvania.

Northeast Land Company owns 89 acres of vacant land located in the Pocono Mountains, of which 3 acres are held for investment and 86 acres of land are held for development.

Flower Fields Motel, LLC owns approximately 3 acres of vacant commercial property located along Route 611 in Tannersville, Pennsylvania. The property was the former location of a motel and two cottage buildings which were demolished during the summer of 2008.

Blue Ridge WNJ, LLC owns and leases to Walgreen Eastern Co., Inc., a retail store in Toms River, New Jersey. The property consists of a free standing Walgreens store, including 2 acres of land, with approximately 14,820 square feet of leasable space.

Blue Ridge WMN, LLC owns and leases to Walgreen Co., Inc., a retail store located in White Bear Lake, Minnesota. The property consists of a free standing Walgreens store, including 2 acres of land, with approximately 14,820 square feet of leasable space.

## 8) Officers, Directors, and Control Persons

### A. Names of Officers, Directors, and Control Persons.

The following sets forth the names of each of the executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the Company's equity securities) of the Company as of the date of this information statement.

Bruce Beaty	Chairman of the Board, President and Chief Executive Officer
Paul A. Biddelman	Director
Raymond Edwards	Director
David Domb	Director
Cynthia A. Van Horn	Chief Financial Officer and Treasurer
KRSX Merge, LLC 3333 New Hyde Park Road, Suite 100 New Hyde Park, NY 10042-0020	Principal Stockholder

### B. Legal/Disciplinary History.

1. There have been no criminal actions against any of the above members.
2. There has been no order, judgment, or decree by a court against any of the above members.
3. There have been no findings or judgment from the SEC, CFTC or state securities regulator against any of the above members.
4. There has been no order barring, suspending, or otherwise limiting any of the above persons' involvement in any type of business or securities activities.

### C. Beneficial Shareholders.

The following company holds more than 10% of Blue Ridge common shares. The information is accurate as of the issuance date of this report.

<u>Name of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned (1)</u>
KRSX Merger, LLC Conor C. Flynn, Director Glenn G. Cohen, Director Ross Cooper, Director 3333 New Hyde Park Road, Suite 100 New Hyde Park, NY 10042-0020	1,425,153

- (1) Shares are beneficially owned when a person, directly or indirectly, has or shares the voting power thereof (that is, the power to vote, or direct the voting, of such shares) and investment power thereof (that is, the power to dispose, or to direct the disposition, of such shares).

**9) Third Party Providers**

Legal Counsel

Joanne R. Soslow, Esquire  
Morgan, Lewis & Bockius  
1701 Market Street  
(215) 963-5000

Investor Relations Consultant

Not Applicable

Accountant or Auditor

Kevin Foley, CPA  
Kronick Kalada Berdy & Co.  
190 Lathrop Street  
Kingston, PA 18704  
(570) 283-2727

Other Advisor:

Not Applicable

**10) Issuer Certification**

I, Bruce Beaty certify that:

1. I have reviewed this quarterly disclosure statement of Blue Ridge Real Estate Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: September 14, 2018

/s/ Bruce Beaty

Bruce Beaty

Chief Executive Officer and President

I, Cynthia A. Van Horn certify that:

1. I have reviewed this quarterly disclosure statement of Blue Ridge Real Estate Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: September 14, 2018

/s/ Cynthia A. Van Horn

Cynthia A. Van Horn

Chief Financial Officer and Treasurer

(Principal Financial Officer)

**BLUE RIDGE REAL ESTATE COMPANY and SUBSIDIARIES****BALANCE SHEETS**

	(Unaudited)	
<b>ASSETS</b>	<b>07/31/18</b>	10/31/17
Land and land development costs (1,433 acres per land ledger)	<b>\$6,863,546</b>	\$6,863,526
Land improvements, buildings and equipment, net	<b>9,609,452</b>	9,990,161
Land held for investment, principally unimproved (7,976 acres per land ledger)	<b>4,087,290</b>	4,087,290
Long-lived assets held for sale (284 acres per land ledger)	<b>65,657</b>	65,657
Cash and cash equivalents	<b>2,000,526</b>	3,130,601
Marketable securities available for sale	<b>3,785,798</b>	4,440,954
Cash held in escrow	<b>505</b>	505
Prepaid expenses and other assets	<b>338,432</b>	437,640
Deferred tax asset	<b>1,122,151</b>	957,484
Accounts receivable	<b>214,920</b>	43,936
Total assets	<b>\$28,088,277</b>	\$30,017,754
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Debt	<b>\$6,474,884</b>	\$6,704,588
Accounts payable	<b>256,778</b>	206,690
Accrued liabilities	<b>438,631</b>	1,187,456
Deferred income	<b>332,842</b>	129,024
Accrued pension expense	<b>3,427,197</b>	3,256,648
Total liabilities	<b>10,930,332</b>	11,484,406
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock, without par value, stated value \$0.30 per share, Blue Ridge authorized 6,000,000 shares, issued and outstanding 2,443,488 and 2,443,600, respectively	<b>733,046</b>	733,080
Capital in excess of stated value	<b>18,252,368</b>	18,253,174
Earnings retained in the business	<b>439,968</b>	1,464,008
Accumulated other comprehensive loss	<b>(2,267,437)</b>	(1,916,914)
Total shareholders' equity	<b>17,157,945</b>	18,533,348
Total liabilities and shareholders' equity	<b>\$28,088,277</b>	\$30,017,754

See accompanying notes to unaudited financial statements.

**BLUE RIDGE REAL ESTATE COMPANY and SUBSIDIARIES****STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2018 and 2017 (UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	07/31/18	07/31/17	07/31/18	07/31/17
<b>Revenues:</b>				
Resort operations revenue	<b>\$1,558,584</b>	\$1,463,643	<b>\$2,486,139</b>	\$2,374,416
Real estate management revenue	<b>170,353</b>	177,400	<b>511,450</b>	559,602
Land resource management revenue	<b>41,577</b>	37,901	<b>323,850</b>	832,408
Rental income revenue	<b>205,122</b>	223,531	<b>641,667</b>	645,468
Total revenues	<b>1,975,636</b>	1,902,475	<b>3,963,106</b>	4,411,894
<b>Costs and expenses:</b>				
Resort operations costs	<b>1,312,855</b>	1,240,624	<b>2,621,169</b>	2,506,975
Real estate management costs	<b>140,692</b>	165,067	<b>449,917</b>	484,247
Land resource management costs	<b>168,470</b>	134,250	<b>525,857</b>	864,937
Rental income costs	<b>87,011</b>	82,534	<b>258,202</b>	293,918
General and administration expense	<b>448,608</b>	516,598	<b>1,390,151</b>	1,584,763
Total costs and expenses	<b>2,157,636</b>	2,139,073	<b>5,245,296</b>	5,734,840
Operating loss before other income and(expense)	<b>(182,000)</b>	(236,598)	<b>(1,282,190)</b>	(1,322,946)
<b>Other income and (expense):</b>				
Interest and other income	<b>44</b>	55	<b>148</b>	1,211
Interest expense	<b>(111,990)</b>	(117,372)	<b>(339,835)</b>	(353,153)
Interest and dividends on marketable securities, net	<b>51,250</b>	48,352	<b>145,958</b>	130,809
Gain (loss) on disposition of marketable securities	<b>10</b>	6,911	<b>(4,276)</b>	(6,222)
Total other expense	<b>(60,686)</b>	(62,054)	<b>(198,005)</b>	(227,355)
Loss from operations before income taxes	<b>(242,686)</b>	(298,652)	<b>(1,480,195)</b>	(1,550,301)
Benefit for income taxes on continuing operations, net of \$210,000 deferred tax expense for the nine months ended 7/31/18 from enacted Tax Act rate reduction	<b>(56,000)</b>	(101,000)	<b>(135,000)</b>	(527,000)
Net loss	<b>(\$186,686)</b>	(\$197,652)	<b>(\$1,345,195)</b>	(\$1,023,301)
Basic loss per weighted average share	<b>(\$0.08)</b>	(\$0.08)	<b>(\$0.55)</b>	(\$0.42)

See accompanying notes to unaudited financial statements.

**BLUE RIDGE REAL ESTATE COMPANY and SUBSIDIARIES****STATEMENTS OF COMPREHENSIVE LOSS  
FOR THE NINE MONTHS ENDED JULY 31, 2018 AND 2017  
(UNAUDITED)**

	2018	2017
Net loss	<u>(\$1,345,195)</u>	<u>(\$1,023,301)</u>
Other comprehensive income (loss), net of tax		
Unrealized (loss) gain on securities		
Unrealized holding (losses) gains arising during the period	(63,311)	47,877
Reclassification adjustment for net losses included in net loss	4,276	6,222
Deferred tax benefit (provision)	<u>29,667</u>	<u>(21,960)</u>
Net unrealized (loss) gain on securities, net of the deferred tax benefit (provision)	<u>(29,368)</u>	32,139
Defined benefit pension		
Deferred actuarial loss, net of deferred tax expense	<u>0</u>	<u>0</u>
Other comprehensive (loss) income	<u>(29,368)</u>	32,139
Total comprehensive loss	<u>(\$1,374,563)</u>	<u>(\$991,162)</u>

See accompanying notes to unaudited financial statements.

**BLUE RIDGE REAL ESTATE COMPANY and SUBSIDIARIES****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED JULY 31, 2018  
(UNAUDITED)**

	Capital Stock (1)		Capital in Excess of Stated Par	Earnings Retained in the Business	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance, October 31, 2017	2,443,600	\$733,080	\$18,253,174	\$1,464,008	(\$1,916,914)	\$18,533,348
Cancellation of shares purchased in buy back program	(112)	(34)	(806)			(840)
Net loss				(1,345,195)		(1,345,195)
Other comprehensive loss					(29,368)	(29,368)
Deferred tax re- measurement on pension Adoption of ASU 2018-02				321,155	(321,155)	
Balance, July 31, 2018	2,443,488	\$733,046	\$18,252,368	\$439,968	(\$2,267,437)	\$17,157,945

(1) Capital stock, at stated value of \$0.30 per share

See accompanying notes to unaudited financial statements.

**BLUE RIDGE REAL ESTATE COMPANY and SUBSIDIARIES****STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED JULY 31, 2018 AND 2017  
(UNAUDITED)**

	<b>07/31/18</b>	07/31/17
<b>Cash Flows (Used In) Provided By Operating Activities:</b>		
Net loss	<b>(\$1,345,195)</b>	(\$1,023,301)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	<b>501,840</b>	514,103
Amortization of investment premiums	<b>935</b>	17,291
Loss on marketable securities	<b>4,276</b>	6,222
Impairment	<b>0</b>	37,000
Net book value of properties sold	<b>0</b>	128,641
Deferred income taxes	<b>(135,000)</b>	(527,000)
Changes in operating assets and liabilities:		
Accounts and notes receivable	<b>(170,984)</b>	62,607
Prepaid expenses and other assets	<b>99,208</b>	108,459
Land and land development costs	<b>(20)</b>	0
Long-lived assets held for sale	<b>0</b>	18,233
Accounts payable and accrued liabilities	<b>(528,188)</b>	692,768
Deferred income	<b>203,818</b>	192,069
Net cash (used in) provided by operating activities	<b>(1,369,310)</b>	227,092
<b>Cash Flows Provided By (Used In) Investing Activities:</b>		
Purchases of marketable securities	<b>(1,812,072)</b>	(1,209,125)
Proceeds from maturities and sales of marketable securities	<b>2,402,982</b>	2,575,398
Additions to properties	<b>(121,131)</b>	(241,450)
Net cash provided by investing activities	<b>469,779</b>	1,124,823
<b>Cash Flows Provided By (Used In) Financing Activities:</b>		
Proceeds from debt	<b>0</b>	126,776
Payments of debt	<b>(229,704)</b>	(279,247)
Purchase of common stock	<b>(840)</b>	0
Net cash used in financing activities	<b>(230,544)</b>	(152,471)
Net (decrease) increase in cash and cash equivalents	<b>(1,130,075)</b>	1,199,444
Cash and cash equivalents, beginning of period	<b>3,130,601</b>	1,657,990
Cash and cash equivalents, ending of period	<b>\$2,000,526</b>	\$2,857,434

See accompanying notes to unaudited financial statements.

**NOTES TO UNAUDITED FINANCIAL STATEMENTS****1. Basis of Presentation:**

The accompanying unaudited financial statements include the accounts of Blue Ridge Real Estate Company and its wholly-owned subsidiaries (Northeast Land Company, Boulder Creek Resort Company, Moseywood Construction Company, Jack Frost National Golf Course, Inc., BRRE Holdings, Inc., Flower Fields Motel, LLC, Blue Ridge WNJ, LLC, Blue Ridge WMN, LLC and Lake Mountain, LLC) (collectively “Blue Ridge”).

The balance sheet as of October 31, 2017, which has been derived from audited financial statements, and the financial statements as of and for the three and nine month periods ended July 31, 2018 and 2017, which are unaudited, are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. They do not include all information and footnotes required by GAAP for complete financial statements. Accordingly, these financial statements should be read in conjunction with the combined financial statements and notes thereto contained in the Company’s 2017 Annual Report filed with OTC Markets on January 29, 2018. In the opinion of management, the accompanying financial statements reflect all adjustments (which are of a normal recurring nature) necessary for a fair statement of the results for the interim periods. All significant intercompany accounts and transactions are eliminated.

Due to intermittent revenues from land resource management, the results of operations for any interim period are not necessarily indicative of the results expected for the full fiscal year.

**2. Significant Accounting Policies****Use of Estimates and Assumptions:**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, unexpected changes in market conditions or a continued or further downturn in the economy could adversely affect actual results. Estimates are used in accounting for, among other things, land development costs, asset fair value calculations, marketable securities and accounts and notes receivables, legal liability, insurance liability, depreciation, employee benefits, taxes, and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period in which the revisions are determined.

Management believes that its accounting policies regarding revenue recognition, land development costs, long lived assets, deferred income and income taxes among others, affect its more significant judgments and estimates used in the preparation of its financial statements. For a description of these critical accounting policies and estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. There were no significant changes in the Company’s critical accounting policies or estimates since the Company’s fiscal year ended October 31, 2017 (“Fiscal 2017”). Material subsequent events are evaluated and disclosed through the issuance date of this Quarterly Report.

**Statements of Cash Flows:**

For purposes of reporting cash flows, the Company considers cash equivalents to be all highly liquid investments with maturities of three months or less when acquired.

**Cash Concentration of Credit Risk:**

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of temporary cash investments. The Company’s temporary cash investments are held by financial institutions. The Company has not experienced any losses related to these investments. At July 31, 2018, the Company had \$0 working cash on deposit in excess of the FDIC insured limit of \$250,000, however, the Company also had \$1,520,059 invested in money market funds at July 31, 2018, which are not insured by the FDIC.

**Cash Held in Escrow:**

Cash held in escrow consists mainly of funds held in a real estate escrow account.

**Marketable Securities:**

Marketable securities consist of debt securities (3 positions of corporate bonds), investments in preferred stocks (51 positions of financial services, insurance and real estate investment trusts) and two certificates of deposit at July 31, 2018. The debt securities are stated at cost which approximates fair value and are considered available for sale. Investments in preferred stocks are stated at fair value. Debt securities and investments in preferred stocks are not purchased with the intent of selling in the near term. However, from time to time, the Company may decide to sell certain securities for liquidity, tax planning and other business purposes. The cost of securities sold is determined by the specific identification method. Debt investments are adjusted for amortization of premiums and accretion of discounts and recognized as an adjustment of interest income. Unrealized gains and losses on investments in preferred stocks are recorded monthly. Interest and dividends on marketable securities are recognized as income when earned. Contractual maturities on the debt securities range from 1 to 8 months.

**Reclassification:**

Certain reclassifications have been made to prior year's financial information to conform to the July 31, 2018 presentation.

**New Accounting Pronouncements:**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition-Construction-Type and Production-Type Contracts." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These judgments and estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers" ("ASU 2015-14"), which delays the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Consideration (Reporting Revenue Gross versus Net); ASU 2016-10 Revenue from Contracts with Customers (Topic 606): identifying Performance Obligations and Licensing; ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients and ASU 2016-20 Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers are effective for us beginning November 1, 2018, and, at that time, we may adopt the new standard under the full retrospective approach or the modified retrospective approach. We are currently evaluating the method of adoption and the impact the adoption of these pronouncements will have on our financial statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities", which requires equity investments to be measured at fair value with changes in fair value recognized in net income, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and eliminates the requirement to disclose the fair value of the financial instruments measured at amortized cost. ASU No. 2016-01 is effective for us beginning November 1, 2019, and, at that time, we will adopt the new standard. We are currently evaluating the impact that the adoption of ASU 2016-01 may have on our financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and

provide additional disclosures. ASU 2016-02 is effective for us beginning November 1, 2019, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASU 2016-02 may have on our financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-7 Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for us beginning November 1, 2019. We are currently evaluating the impact that the adoption of ASU 2017-07 may have on our financial statements and disclosures.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 allows a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 and also requires entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. We elected to adopt ASU 2018-02 in the current year. See Note 10, Accumulated Other Comprehensive Loss.

### **3. Discontinued Operations**

On May 17, 2018, the Company entered into a purchase and sale agreement for the sale of the Walgreens store located in Toms River, New Jersey. On May 22, 2018, a deposit was placed in escrow. The sale was subject to and conditioned upon successful completion of due diligence by the Buyer. On July 6, 2018, the Buyer provided the Company with a notice of termination of the purchase and sale agreement and the escrow money was released to the Buyer. As a result, operating activity for the property is no longer being reported as discontinued operations.

### **4. Segment Reporting**

The Company currently operates in three business segments, which consist of Resort Operations, Real Estate Management/Rental Income and Land Resource Management.

### **5. Income Taxes**

The provision (benefit) for income taxes for the nine months ended July 31, 2018 and 2017 was estimated using a reduced blended rate of 23.33%, due to the new "Tax Cuts and Jobs Act" legislation, and 34% respectively. An estimated tax expense of \$210,000 was recorded in the nine months ended July 31, 2018 related to re-measurement of the deferred tax assets and liabilities.

During nine months ended July 31, 2018, the Company elected to reclassify the stranded tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive loss to retained earnings, based on ASU No. 2018-02, "Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The amount reclassified from Accumulated Other Comprehensive Income to Retained Earnings, which related to the re-measurement of deferred taxes on the defined benefit pension plan, amounted to approximately \$321,000.

The benefit for income taxes for the nine months ended July 31, 2017 was estimated using the estimated annual effective tax rate for the fiscal year ending October 31, 2017. The effective income tax rate specific to federal taxes for the first nine months of Fiscal 2017 was estimated at 34%.

The Company's practice is to recognize interest and/or penalties related to income tax matters as income tax expense in its financial statements. As of and for the three and nine months ended July 31, 2018 and as of October 31, 2017, no interest and penalties have been accrued in the balance sheet and no expense is reflected in the statement of operations. At July 31, 2018, federal and state tax returns for years ending October 31, 2014 and later are subject to future examination by the respective tax authorities.

## 6. Land and Land Development Costs

Land and improvements in progress held for development consist of the following:

	<b>07/31/2018</b>	10/31/2017
Land unimproved designated for development	<b>\$1,981,817</b>	\$1,981,817
Residential development	<b>1,208,201</b>	1,208,201
Infrastructure development	<b>3,673,528</b>	3,673,508
<b>Total Land and Land Development Costs</b>	<b>\$6,863,546</b>	<b>\$6,863,526</b>

## 7. Land Held for Investment

	<b>07/31/2018</b>	10/31/2017
Land held for investment		
Land – Unimproved	<b>\$1,692,278</b>	\$1,692,278
Land – Commercial rental properties	<b>2,395,012</b>	2,395,012
<b>Total land held for investment</b>	<b>\$4,087,290</b>	<b>\$4,087,290</b>

## 8. Marketable Securities

The cost and fair value of marketable securities are as follows:

	<b>July 31, 2018</b>			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale:				
Corporate bonds	<b>\$945,468</b>	<b>\$0</b>	<b>\$0</b>	<b>\$945,468</b>
Preferred stocks	<b>2,527,332</b>	<b>76,884</b>	<b>(17,506)</b>	<b>2,586,710</b>
Certificates of deposit	<b>253,620</b>	<b>0</b>	<b>0</b>	<b>253,620</b>
<b>Total marketable securities</b>	<b>\$3,726,420</b>	<b>\$76,884</b>	<b>(\$17,506)</b>	<b>\$3,785,798</b>

The amortized costs of the available for sale bonds and certificates of deposit at July 31, 2018 maturing within one year was \$945,468 and \$176,620, respectively, and maturing one year through five years was \$0 and \$77,000, respectively. The preferred stocks include investments in 51 public companies in various industries with the largest investment, at market value, in a single company of \$126,900. For the nine months ended July 31, 2018, there were realized gains of \$1,307 and realized losses of \$5,582 on sales of preferred stocks. For the nine months ended July 31, 2017, there were realized gains of \$7,264 and realized losses of \$13,481 on the sale of preferred stocks.

	<b>October 31, 2017</b>			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale:				
Corporate bonds	\$1,595,472	\$0	\$0	\$1,595,472
Preferred stocks	2,473,449	124,058	(5,645)	2,591,862
Certificates of deposit	253,620	0	0	253,620
<b>Total marketable securities</b>	<b>\$4,322,541</b>	<b>\$124,058</b>	<b>(\$5,645)</b>	<b>\$4,440,954</b>

The amortized costs of the available for sale bonds and certificates of deposit at October 31, 2017, maturing within one year, was \$1,595,472 and \$0, respectively, and maturing one year through five years was \$0 and \$253,620, respectively. The preferred stocks include investments in 47 public companies in various industries with the largest investment, at market value, in a single company of \$132,098. For the twelve months ended October 31, 2017, there were realized gains of \$7,488 and realized losses of \$13,486 on the sales of preferred stocks.

## 9. Pension Benefits

Components of Net Periodic Pension Cost:

	Three Months Ended		Nine Months Ended	
	07/31/18	07/31/17	07/31/18	07/31/17
Service Cost	\$26,500	\$26,468	\$79,500	\$75,968
Interest Cost	84,500	88,157	253,500	264,157
Expected return on plan assets	(80,250)	(82,978)	(240,750)	(250,978)
Net amortization and deferral:				
Amortization of accumulated loss	81,500	115,298	244,500	345,798
Net amortization and deferral	81,500	115,298	244,500	345,798
Total net periodic pension cost	\$112,250	\$146,945	\$336,750	\$434,945

The Company expects to contribute \$214,000 to their pension plan in the fiscal year ending October 31, 2018 (“Fiscal 2018”). As of July 31, 2018, the Company made contributions totaling \$166,200 and anticipate contributing the \$47,800 to fund their pension plan in the remaining three months of Fiscal 2018.

## 10. Accumulated Other Comprehensive Loss

The following table presents the changes in the accumulated other comprehensive loss for the nine months ended July 31, 2018 and the twelve months ended October 31, 2017:

	07/31/18		
	Unrealized Gains on Securities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Beginning balance	\$70,345	(\$1,987,259)	(\$1,916,914)
Current period other comprehensive loss	(29,368)	0	(29,368)
Adoption of ASU 2018-02	0	(321,155)	(321,155)
Ending balance	\$40,977	(\$2,308,414)	(\$2,267,437)

We elected to adopt ASU 2018-02 during the nine months ended July 31, 2018. The applicable tax rate was adjusted in response to the Tax Cuts and Jobs Act and the corresponding changes in the U.S. Federal statutory tax rate resulted in a reclassification of \$321,155 from Accumulated other comprehensive loss to Retained earnings as of July 31, 2018.

	10/31/17		
	Unrealized Gains on Securities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Beginning balance	\$40,941	(\$2,377,561)	(\$2,336,620)
Current period other comprehensive income	29,404	390,302	419,706
Ending balance	\$70,345	(\$1,987,259)	(\$1,916,914)

The other comprehensive income (loss) is reported net of tax.

## 11. Fair Value of Financial Instruments and Impairment

The Company uses ASC 820, “Fair Value Measurements” (“ASC 820”), to measure the fair value of certain assets and liabilities. ASC 820 provides a framework for measuring fair value in accordance with GAAP, establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and requires certain disclosures about fair value measurements.

The fair value hierarchy is summarized below:

Level 1: Fair value determined based on quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.

Level 3: Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques.

The estimated recurring fair values of the Company's financial instruments at July 31, 2018 and October 31, 2017 are as follows:

	07/31/18		10/31/17	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>ASSETS:</b>				
Cash and cash equivalents and cash held in escrow	\$2,001,031	\$2,001,031	\$3,131,106	\$3,131,106
Marketable securities available for sale	3,785,798	3,785,798	4,440,954	4,440,954
Accounts receivable	214,920	214,920	43,936	43,936
<b>LIABILITIES:</b>				
Accounts payable	256,778	256,778	206,690	206,690
Accrued liabilities	438,631	438,631	1,187,456	1,187,456
Debt	\$6,474,884	\$6,622,600	\$6,704,588	\$6,863,945

Fair Values were determined as follows:

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities: The carrying amounts approximate fair value because of the short-term maturity of these instruments.

Marketable securities consist of debt securities (corporate bonds and commercial paper), preferred stocks and 2 certificates of deposit. Fair value of the marketable securities for corporate bonds is determined using significant observable inputs, either quoted prices in active markets for similar assets or quoted prices in markets that are not active – Level 2 hierarchy. Fair value of preferred stocks and certificates of deposit is determined using unadjusted quoted prices in active markets for identical assets – Level 1 hierarchy.

Debt: The fair value of debt is estimated using discounted cash flows based on current borrowing rates available to the Company for similar types of borrowing arrangements - Level 2 hierarchy.

The following tables set forth by level within the fair value hierarchy the Company's marketable securities asset at fair value as of July 31, 2018 and October 31, 2017.

	Investment Assets at Fair Value as of July 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Preferred stocks:</b>				
Real estate investment trust	\$1,384,213			\$1,384,213
Finance	936,190			936,190
Insurance	266,307			266,307
<b>Bonds</b>				
Commercial paper		\$595,178		595,178
Corporate		350,290		350,290
Certificates of deposit	253,620			253,620
<b>Total marketable securities</b>	<b>\$2,840,330</b>	<b>\$945,468</b>		<b>\$3,785,798</b>

	Investment Assets at Fair Value as of October 31, 2017			
	Level 1	Level 2	Level 3	Total
Preferred Stocks:				
Real estate investment trust	\$1,440,955			\$1,440,955
Finance	878,420			878,420
Insurance	272,487			272,487
Bonds				
Corporate		\$1,100,312		1,100,312
Commercial paper		495,160		495,160
Certificate of Deposit	253,620			253,620
Total marketable securities	\$2,845,482	\$1,595,472		\$4,440,954

As of July 31, 2018, the carrying amount net of prior period impairments for land and land development costs is \$6,863,546. The carrying amount net of prior period impairments for land improvements, buildings and equipment is \$9,609,452. The carrying amount net of prior period impairments for land held for investment is \$4,087,290. The carrying amount for long-lived assets held for sale is \$65,657, no impairment was ever expensed on the assets held for sale. There was no impairment expense in the nine months ended July 31, 2018.

As of October 31, 2017, the carrying amount net of prior period impairments for land and land development costs is \$6,863,526. The carrying amount net of prior period impairments for land improvements, buildings and equipment is \$10,018,281, less impairment expense of \$28,120 recorded in Fiscal 2017 for a revised carrying value of \$9,990,161. The carrying amount net of prior period impairments for land held for investment is \$4,096,170, less impairment expense of \$8,880 recorded in Fiscal 2017 for a revised carrying value of \$4,087,290. Lot 5 Maple Terrace located in Saylorsburg, PA was listed for sale in January 2017 with a sale price below the carrying value. After careful consideration by Management as to what would be acceptable as the minimum sale price for the property less closing costs, the total carrying value of \$166,162 was written down by an impairment charge of \$37,000, of which \$28,120 was on the land improvements, buildings and equipment, net and \$8,880 was on the land held for investment. The carrying amount for long-lived assets held for sale is \$65,657, no impairment was ever expensed on this asset held for sale. There was a total of \$37,000 impairment expense for the nine months ended July 31, 2017.

## 12. Per Share Data

Earnings per share ("EPS") is based on the weighted average number of common shares outstanding during the period. The calculation of diluted EPS assumes weighted average options, if any, have been exercised to purchase shares of common stock in the relevant period, net of assumed repurchases using the treasury stock method. For the three and nine months ended July 31, 2018 and 2017, there were no unexercised stock options. As a result, the calculation of diluted EPS has been excluded from the table below since diluted EPS for these periods is equal to EPS.

Weighted average basic shares, taking into consideration shares issued, weighted average options, if any, used in calculating EPS and treasury shares repurchased, shares cancelled and basic loss per weighted average share for the three and nine months ended July 31, 2018 and July 31, 2017 are as follows:

	Three Months Ended		Nine Months Ended	
	07/31/18	07/31/17	07/31/18	07/31/17
Weighted average shares of common stock outstanding used to compute basic earnings (loss) per share	<b>2,443,488</b>	2,443,824	<b>2,443,550</b>	2,443,824

Basic earnings (loss) per weighted average share is computed as follows:

Net loss	<b>(\$186,686)</b>	(\$197,652)	<b>(\$1,345,195)</b>	(\$1,023,301)
Weighted average share of common stock outstanding	<b>2,443,488</b>	2,443,824	<b>2,443,550</b>	2,443,824
Basic loss per weighted average share	<b>(\$0.08)</b>	(\$0.08)	<b>(\$0.55)</b>	(\$0.42)

### 13. Supplemental Disclosure to Statements of Cash Flow

The following are supplemental disclosures to the statements of cash flows for the nine months ended July 31, 2018 and 2017:

	2018	2017
Cash paid during the period for:		
Interest	<b>\$339,835</b>	\$353,248
Income taxes	<b>\$1,648</b>	\$0
Non-cash:		
Marketable securities available for sale and shareholders' equity increased (decreased) resulting from changes in the net unrealized gains and losses	<b>\$29,368</b>	(\$32,139)
Reclassification increasing accumulated other comprehensive loss and increasing retained earnings due to re-measurement of deferred tax on unrealized losses of pension plan	<b>\$321,155</b>	\$0

### 14. Business Segment Information

The following information is presented in accordance with the accounting pronouncement regarding disclosures about segments of an enterprise and related information. The Company's business segments were determined from the Company's internal organization and management reporting, which are based primarily on differences in services.

#### Resort Operations

Resort Operations consists of: amenities surrounding Big Boulder Lake – Boulder View Tavern and Boulder Lake Club; the Jack Frost National Golf Course; and The Stretch fishing club.

#### Real Estate Management/Rental Income

Real Estate Management/Rental Income consists of: investment properties leased to others located in Eastern Pennsylvania, New Jersey and Minnesota; services to the trusts that operate resort residential communities; and rental of communication towers and signboards.

#### Land Resource Management

Land Resource Management consists of: land sales; land purchases; timbering operations; a real estate development division; and leasing of land and land improvements. Timbering operations consist of selective timbering on our land holdings. The real estate development division is responsible for the residential land

development activities which include overseeing the construction of single and multi-family homes and development of infrastructure.

Information by business segment is as follows:

	Three months ended		Nine months ended	
	07/31/18	07/31/17	07/31/18	07/31/17
<b>Revenues from continuing operations:</b>				
Resort operations	<b>\$1,558,584</b>	\$1,463,643	<b>\$2,486,139</b>	\$2,374,416
Real estate management/rental income	<b>375,475</b>	400,931	<b>1,153,117</b>	1,205,070
Land resource management	<b>41,577</b>	37,901	<b>323,850</b>	832,408
<b>Total revenues from operations</b>	<b>\$1,975,636</b>	\$1,902,475	<b>\$3,963,106</b>	\$4,411,894
<b>Operating income (loss) from continuing operations, excluding general and administrative expenses:</b>				
Resort operations	<b>\$245,729</b>	\$223,019	<b>(\$135,030)</b>	(\$132,559)
Real estate management/rental operations	<b>147,772</b>	153,330	<b>444,998</b>	426,905
Land resource management	<b>(126,893)</b>	(96,349)	<b>(\$202,007)</b>	(\$32,529)
<b>Total operating income, excluding general and administrative expenses</b>	<b>\$266,608</b>	\$280,000	<b>\$107,961</b>	\$261,817
<b>General and administrative expenses:</b>				
Resort operations	<b>\$353,907</b>	\$397,437	<b>\$872,072</b>	\$852,897
Real estate management/rental income	<b>85,259</b>	108,868	<b>404,482</b>	432,864
Land resource management	<b>9,442</b>	10,293	<b>113,597</b>	299,002
<b>Total general and administrative expenses</b>	<b>\$448,608</b>	\$516,598	<b>\$1,390,151</b>	\$1,584,763
<b>Interest and other income, net:</b>				
Resort operations	<b>\$38</b>	\$24	<b>\$129</b>	\$900
Real estate management/rental income	<b>4</b>	14	<b>15</b>	246
Land resource management	<b>2</b>	17	<b>4</b>	65
<b>Total interest and other income, net</b>	<b>\$44</b>	\$55	<b>\$148</b>	\$1,211
<b>Interest expense:</b>				
Resort operations	<b>\$1,367</b>	\$1,783	<b>\$4,165</b>	\$2,840
Real estate management/rental income	<b>110,623</b>	115,589	<b>335,670</b>	350,313
Land resource management	<b>0</b>	0	<b>0</b>	0
<b>Total interest expense</b>	<b>\$111,990</b>	\$117,372	<b>\$339,385</b>	\$353,153
<b>Loss from operations before income taxes</b>	<b>(\$242,686)</b>	(\$298,652)	<b>(\$1,480,195)</b>	(\$1,550,301)

Identifiable assets, net of accumulated depreciation at July 31, 2018 and October 31, 2017 and depreciation expense and capital expenditures for nine months ended July 31, 2018 and the fiscal year ended October 31, 2017 by business segment are as follows:

<b>July 31, 2018</b>	<b>Identifiable Assets</b>	<b>Depreciation and Amortization Expense</b>	<b>Capital Expenditures</b>
Resort operations	<b>\$1,348,745</b>	<b>\$156,940</b>	<b>\$49,084</b>
Real estate management/rental income	<b>17,169,159</b>	<b>320,625</b>	<b>19,610</b>
Land resource management	<b>9,347,595</b>	<b>9,037</b>	<b>0</b>
Other corporate	<b>157,121</b>	<b>15,238</b>	<b>52,437</b>
Assets held for sale	<b>65,657</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>\$28,088,277</b>	<b>\$501,840</b>	<b>\$121,131</b>

<b>October 31, 2017</b>	<b>Identifiable Assets</b>	<b>Depreciation and Amortization Expense</b>	<b>Capital Expenditures</b>
Resort Operations	\$1,583,290	\$221,894	\$249,190
Real estate management/rental income	18,416,301	417,053	4,439
Land resource management	9,816,974	33,448	0
Other corporate	135,532	19,506	33,538
Asset held for sale	65,657	0	0
<b>Total Assets</b>	<b>\$30,017,754</b>	<b>\$691,901</b>	<b>\$287,167</b>

There were no significant sales during the nine months ended July 31, 2018. During the nine months ended July 31, 2017, we closed on the sale of land to the Natural Lands Trust conveying approximately 155 acres for the purchase price of \$412,000 and one single family home held for investment for the purchase price of \$165,000. Both sale transactions are included in the Land Resource Management segment. All asset impairments in Fiscal 2017 relate to the Real Estate Management/Rental Income segment.

### **15. Contingencies and Uncertainties**

The Company is party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business are possible of assertion against the Company.

### **16. Subsequent Events**

The Company has evaluated and disclosed subsequent events from July 31, 2018 through the issuance date of the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion should be read in conjunction with the Financial Statements of Blue Ridge (the "Company") and related notes thereto.

**Overview**

Over the past 35 years, we have developed resort residential communities adjacent to the Jack Frost Mountain and Big Boulder Ski Areas located in Lake Harmony, Kidder Township, Pennsylvania. These communities are located in the Pocono Mountains of Pennsylvania, a popular recreation destination for local and regional visitors, especially from the New York City and Philadelphia metropolitan areas. The scenic hills and valleys of the Pocono Mountains offer many opportunities to enjoy outdoor activities such as golfing, fishing, hunting, skiing, snowboarding and other sports.

At July 31, 2018, we owned 9,690 acres of land in Northeastern Pennsylvania along with 3 acres of land in various other states for a total of 9,693 acres. Of these land holdings, we designated 7,976 acres as held for investment, 1,433 acres as held for development and 284 acres as held for sale. It is expected that all of our planned developments will either be subdivided and sold as parcels of land, or be developed into single and multi-family housing.

The real estate industry is cyclical and is subject to numerous economic factors including general business conditions, changes in interest rates, inflation and oversupply of properties. Any sustained period of weakening business or economic conditions will impact the demand for the type of properties we intend to develop. Management continues to monitor the progress of residential home sales within the Northeast.

In light of the economic environment, we will continue to evaluate our strategic plan and our master development plan. We have reviewed the Company's land inventory, oil, gas and mineral rights and development portfolio with a view to maximize shareholder value. As in the past, we will continue to consider opportunistic asset sales of non-core investment properties as a means of funding future operations.

We also have generated revenue through the selective timbering of our land. We rely on the advice of our forester, who is engaged on a consulting basis and who receives a commission on each stumpage contract, for the timing and selection of certain parcels for timbering. Our forester gives significant attention to protecting the environment and maximizing the value of these parcels for future timber harvests. From March 2012 to March 2017 the Company purposefully slowed timbering activities in order to provide ample time for the regeneration of trees. Since April 2017, the Company has entered into two timber contracts. We consult with our forester who monitors the growth and advises us when it is prudent to resume timbering.

The Jack Frost National Golf Course is managed by Billy Casper Golf, LLC, a nationally-recognized golf course management company. With a continued emphasis on course maintenance, along with the natural maturation of the fairways, Jack Frost National has become one of the premier golf facilities in Northeastern Pennsylvania.

As a result of the Company's focus on real estate activities, we present our balance sheet in an unclassified presentation using the alternate format in order to reflect our assets and liabilities in order of their importance.

**Recent Developments**

On June 1, 2018, KRSX Merge, LLC as successor in interest to Kimco Realty Services, Inc. (“Kimco”), holder of 58.3% of the Company’s outstanding shares of common stock, executed a Partial Written Consent of Shareholders In lieu of Meeting to approve the re-election of Bruce Beaty, Paul A. Biddelman, Raymond Edwards and David Domb as the Company’s Directors. On June 8, 2018, shareholders were notified by mail of the re-election of Directors.

On May 17, 2018, the Company entered into a purchase and sale agreement for the sale of the Walgreens store located in Toms River, New Jersey. On May 22, 2018, a deposit was placed in escrow. The sale was subject to and conditioned upon successful completion of due diligence by the Buyer. On July 6, 2018, the Buyer provided the Company with a notice of termination of the purchase and sale agreement and the escrow money was released to the Buyer.

On July 25, 2018, the Company, through its subsidiary Lake Mountain, LLC, entered into a Management Agreement with Boulder View Management, LLC, a subsidiary of Billy Casper Golf, LLC, for the management of Boulder View Tavern. The management agreement has an initial term of 5 years and shall renew for a successive 5-year term upon a mutually written agreement.

**Results of Operations for the Three and Nine Months Ended July 31, 2018 and 2017**

Operations for the three and nine months ended July 31, 2018 resulted in a net loss of (\$186,656) and (\$1,345,195), or (\$0.08) and (\$0.55) per share, respectively, compared to a net loss of (\$197,652) and (\$1,023,301), or (\$0.08) and (\$0.42) per share, respectively, for the three and nine months ended July 31, 2017.

**Revenues**

Revenue of \$1,975,636 and \$3,963,106 for the three and nine months ended July 31, 2018 represents an increase of \$73,161 and a decrease of (\$448,788) compared to the three and nine months ended July 31, 2017. Resort Operations revenue increased \$94,941 and \$111,723, or 6% and 5%, for the three and nine months ended July 31, 2018 as compared to the three and nine months ended July 31, 2017. Real Estate Management Operations/Rental Income revenue decreased (\$25,456) and (\$51,953), or (6%) and (4%), respectively, for the three and nine months ended July 31, 2018, compared to the three and nine months ended July 31, 2017. Land Resource Management revenue increased \$3,676 and decreased (\$508,558), or 10% and (61%) respectively for the three and nine months ended July 31, 2018, compared to the three and nine months ended July 31, 2017.

**Resort Operations**

Resort Operations consist of the Boulder View Tavern, Boulder Lake Club, Jack Frost National Golf Course, and The Stretch fishing club. Resort operations revenue for nine months ended July 31, 2018 was \$2,486,139 as compared to \$2,374,416 for the nine months ended July 31, 2017, an increase of \$111,723, or 5%. This was primarily attributable to increased revenue at the Boulder View Tavern of \$109,983, or 8% and the Stretch, \$22,500 or 21% and \$1,579, or 1% at the Boulder Lake Club which was offset by a decrease of (\$22,339), or (3%) at the Jack Frost National Golf Course that was weather related.

**Real Estate Management/Rental Income**

Real Estate Management Operations/Rental Income revenue was \$1,153,117 for the nine months ended July 31 2018, compared to \$1,205,070 for the nine months ended July 31, 2017, which resulted in a decrease of (\$51,593), or (4%). Real Estate Management revenue for the nine months ended July 31, 2018 decreased to \$511,450 as compared to \$559,602 for the nine months ended July 31, 2017, a decrease of (\$48,152), or (9%). This was primarily due to decreased trust service fees related to the operation of our resort communities. Rental revenue decreased (\$3,801), or (1%).

**Land Resource Management**

For the nine months ended July 31, 2018, Land Resource Management revenues decreased to \$323,850 compared to \$832,408 for the nine months ended July 31, 2017, a decrease of (\$508,558), or (61%). There were no land sales for the nine months ended July 31, 2018 as compared to two land sales for the nine months ended July 31, 2017.

One was to The Natural Lands Trust conveying approximately 155 acres for the sale price of \$412,000 and the second was an investment property in Saylorsburg Pennsylvania that was sold for \$165,000 in the nine months ended July 31, 2017. For the nine months ended July 31, 2018, we had one timber contract for \$192,155 compared to one timber contract for \$129,013 for the nine months ended July 31, 2017. Hunting revenues decreased by (\$121,304), or (4%).

## **Operating Costs**

### **Resort Operations**

Operating costs associated with Resort Operations for the nine months ended July 31, 2018 increased to \$2,621,169 compared to \$2,506,975 for the nine months ended July 31, 2017, an increase of \$114,194, or 5%. This was primarily related to an increased cost of goods sold of \$42,127, advertising of \$19,505, wages of \$36,877 and insurance of \$8,705 associated with Boulder View Tavern. This was offset by decreased operating costs of \$17,957 for the Jack Frost National Golf Course that was due to the extremely rainy summer season.

### **Real Estate Management/Rental Income**

Operating costs associated with Real Estate Management Operations/Rental Income for the nine months ended July 31, 2018 decreased to \$708,119 as compared to \$778,165 for the nine months ended July 31, 2017, a decrease of (\$70,046), or (9%). This decrease was primarily related to the sale of a Saylorsburg Pennsylvania rental property for the nine months ended July 31, 2017.

### **Land Resource Management**

Operating costs associated with Land Resource Management for the nine months ended July 31, 2018 decreased to \$525,857 compared to \$864,937 for the nine months ended July 31, 2017, a decrease of (\$339,080), or (39%). This decrease was primarily the result for the cost basis of no land sales for the nine months ended July 31, 2018 as compared to two land sales occurring in the nine months ended July 31, 2017.

### **General and Administration**

General and administration costs for the nine months ended July 31, 2018 decreased to \$1,390,151 as compared to \$1,584,763 for the nine months ended July 31, 2017, a decrease of (\$194,612), or (12%). This decrease is primarily related to decreases in pension expense (\$98,195), salaries, wages and benefits (\$41,666), consultants (\$25,623) and insurance (\$24,408), for the nine months ended July 31, 2018 as compared to the nine months ended July 31, 2017.

### **Other Income and Expense**

Interest and other income decreased to \$148 for the nine months ended July 31, 2018, compared to \$1,211 for the nine months ended July 31, 2017, a decrease of (\$1,063), or (88%).

Interest expense for the nine months ended July 31, 2018 decreased to \$339,835 compared to \$353,153 for the nine months ended July 31, 2017, a decrease of (\$13,318), or (4%).

Interest and dividends on marketable securities, net was \$145,958 for the nine months ended July 31, 2018, compared to \$130,809 for the nine months ended July 31, 2017, an increase of \$15,149, or 12%. In the nine months ended July 31, 2018, this amount included \$146,893 of interest income reduced by \$935 of amortized bond premium compared to \$148,099 of interest income which was reduced by \$17,290 of amortized bond premium in the nine months ended July 31, 2017.

### **Tax Rate**

The tax rate specific to federal taxes for the nine months ended July 31, 2018 was a blended rate of 23.33%. The effective rate was 9.1%. The difference between the tax (benefit) provision recognized and the provision based on the statutory blended rate was due to the impact of the Tax Act. The effective tax rate for the nine months ended July 31, 2017 was 34%.

**Liquidity and Capital Resources**

As reflected in the Statements of Cash Flows, net cash used in operating activities was \$1,369,310 for the nine months ended July 31, 2018 versus net cash provided by operating activities of \$227,092 for the nine months ended July 31, 2017. The net decrease is primarily due to payment of the Transition Settlement Agreement with Boulder Lake Village Condominium Association in January 2018, no land sales and one timber sale in the nine months ended July 31, 2018, compared to one timber sale and two property sales in the nine months ended July 31, 2017.

The payment of the Transition Settlement Agreement and the \$192,000 timber sale were the material non-recurring cash items for the nine months ended July 31, 2018. The \$129,000 timber sale and two property sales totaling \$577,000 are the material non-recurring cash items for the nine months ended July 31, 2017.

The Company's investment portfolio includes, corporate obligations with a minimum single A rating and no maturity greater than 2 years and preferred securities with a goal to provide current income with capital preservation over a 3 to 5-year time horizon. At July 31, 2018, the Company's cash and marketable securities totaled \$5,786,324 compared to cash and marketable securities of \$7,571,555 at October 31, 2017.

On April 17, 2017, Blue Ridge Real Estate Company entered into a capital lease agreement which is an addendum to a Master Lease Agreement with PNC Equipment Finance, LLC for the procurement of mowing equipment for the Jack Frost National Golf Course in the amount of \$135,325. The lease is due and payable in 30 non-consecutive monthly installments in the months of May through October, through June 13, 2022. The interest is a fixed rate of 5.08%.

The Company has two certificates of deposit with Mauch Chunk Trust Company. A \$77,000 certificate was purchased in July of 2016 with a maturity of July 6, 2021. A second certificate of deposit in the amount of \$176,620 was purchased in March 2017 with a maturity date of February 5, 2019. Both bank certificates are included in Marketable Securities Available for Sale, which approximates fair value.

On June 12, 2017, Lake Mountain, LLC terminated a revolving commercial line of credit with Mauch Chunk Trust in the amount of \$250,000. The line was established on April 13, 2015 and due to minimal activity in the two-year period, the Company decided to close it.

On November 15, 2017, the Company renewed an irrevocable stand-by Letter of Credit up to an aggregate of \$140,000 in favor of Pennsylvania Department of Environmental Protection (PA-DEP"), Bureau of Waterways Engineering with Mauch Chunk Trust Company. The Letter has a term of one year, renewable annually and is collateralized by the Company's certificate of deposit with Mauch Chunk Trust. The letter was established January 8, 2016 to comply with legislation that requires Blue Ridge as a private owner of 2 dams to post a financial guarantee adequate to breach the dams if we fail to comply with PA-DEP safety requirements.

On April 1, 2016, the Company entered into a loan agreement with Mauch Chunk Trust in the amount of \$50,000. The proceeds were used to purchase docks at the Boulder Lake Club. Payments of \$1,472 were due monthly with a maturity date of April 1, 2019. The interest rate was fixed at 3.75%. The loan was secured by the Company's certificate of deposit. On January 30, 2017, the Company paid the outstanding balance of \$38,034 in full.

The following table sets forth the Company's significant contractual cash obligations for the items indicated as of July 31, 2018, and their expected year of payment or expiration.

Contractual Obligations:	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-Term Debt-Investment Properties	\$6,375,624	\$311,026	\$1,072,418	\$848,294	\$4,143,886
Capital Leases	99,260	24,003	75,257	0	0
Debt Sub-total	6,474,884	335,029	1,147,675	848,294	4,143,886
Fixed Rate Interest	3,332,338	434,696	1,156,981	634,167	1,106,494
Pension Contribution Obligations (1)	47,800	47,800	0	0	0
<b>Total Contractual Cash Obligations</b>	<b>\$9,855,022</b>	<b>\$817,525</b>	<b>\$2,304,656</b>	<b>\$1,482,461</b>	<b>\$5,250,380</b>

- (1) Estimated funding obligations beyond the current fiscal year are not presented because the requirements fluctuate based on the performance of the plan assets, discount rate assumptions and demographics.

We currently anticipate that the funds needed for future operations and to implement our land development strategy will be satisfied through operating cash, marketable securities, borrowed funds, public offerings or private placements of debt or equity and reinvested profits from sales.

### **Critical Accounting Policies and Significant Judgments and Estimates**

We have identified the most critical accounting policies upon which our financial reporting depends. The critical policies and estimates were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies identified relate to deferred tax liabilities, the valuation of land development costs and long-lived assets, and revenue recognition.

Revenues are derived from a wide variety of sources, including sales of real estate, management of investment properties, operation of a restaurant and recreational lake club facility, property management services, golf activities, timbering, home construction and leasing activities. Generally, revenues are recognized as services are performed, except as noted below.

We recognize income on the disposition of real estate using the full accrual method. The full accrual method is appropriate at closing when the sales contract has been signed, the buyer has arranged permanent financing and the risks and rewards associated with ownership have been transferred to the buyer. In the few instances that the Company finances the sale, a minimum 20% down payment is required from the buyers. The remaining financed purchase price is not subject to subordination. Down payments of less than 20% are accounted for as deposits.

The costs of developing land for resale as resort homes and the costs of constructing certain related amenities are allocated to the specific parcels to which the costs relate. Such costs, as well as the costs of construction of the resort homes, are charged to operations as sales occur. Land held for resale and resort homes under construction are stated at lower of cost or net realizable value.

Timbering revenues from stumpage contracts are recognized at the time a stumpage contract is signed. At the time a stumpage contract is signed, the risk of ownership is passed to the buyer at a fixed, determinable cost. There is no transfer of title in connection with these contracts. Reasonable assurance of collectability is determined by the date of signing and, at that time, the obligations of the Company is satisfied. Therefore, full accrual recognition at the time of contract execution is appropriate.

Deferred income consists of rents, dues and deposits on land or home sales. These rents, which are not yet earned, are rents from the Company's commercial properties that have been paid in advance. Dues are dues paid in advance related to memberships in the Company's hunting and fishing clubs and golf course memberships paid. Revenues related to the hunting and fishing clubs and golf course memberships are recognized over the seasonal period that the dues cover. We recognize revenue related to the fishing club over a five-month period from May through September, and the golf course over a seven-month period, from April through October. Deposits are required on land and home sales.

Management's estimate of deferred tax assets and liabilities is primarily based on the difference between the tax basis and financial reporting basis of depreciable assets, pension, like-kind exchanges of assets, net operating losses and accruals. Valuation allowances are established when necessary to reduce tax assets to the amount expected to be realized.

Real estate development projects are stated at cost unless an impairment exists, in which case the project is written down to fair value in accordance with GAAP. We capitalize as land and land development costs, the original acquisition cost, direct construction and development costs, property taxes, interest incurred on costs related to land under development and other related costs (engineering, surveying, landscaping, etc.) until the property reaches its intended use. Because the development projects are considered as long-lived assets under GAAP, we are required to regularly review the carrying value of each of the projects and write down the value of those projects when we believe the values are not recoverable. The cost of sales for individual parcels of real estate or condominium units within a project is determined using the relative sales value method. Revenue is recognized upon signing of the

applicable closing documents, at which time a binding contract is in effect, the buyer has arranged for permanent financing and the Company is assured of payment in full. In addition, at the time of closing, the risks and rewards associated with ownership have been transferred to the buyer. Selling expenses are recorded when incurred.

Long-lived assets, namely properties, are recorded at cost. Depreciation and amortization is provided principally using the straight-line method over the estimated useful life of the asset. Upon sale or retirement of the asset, the cost and related accumulated depreciation are removed from the related accounts, and resulting gains or losses are reflected in income. We test our long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In that event, we utilize either or both a discounted cash flow method or comparable sale pricing method to determine a fair market value. If our use of one or both of these methods indicates that the carrying value of the asset is not recoverable, an impairment loss is recognized in operating income. An impairment loss is the difference between the carrying value and the fair value of the asset less cost to sell. An impairment loss is recognized during the period in which the impairment is determined to be probable and reasonably estimable.

Assets are classified as long-lived assets held for sale when they are expected to be sold within the next year. The amount in long lived assets held for sale at July 31, 2018 and October 31, 2017 included 284 acres of land that is the subject of an Agreement of Sale, entered into by the Company on February 12, 2018.

Significant judgment is applied in assessing the realizability of deferred tax assets. In accordance with GAAP, a valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more-likely-than-not that such asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. We assess the need for valuation allowances for deferred tax assets based on GAAP's "more-likely-than-not" realization threshold criteria. In our assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. Forming a conclusion that a valuation allowance is not needed is difficult when there is significant negative evidence such as cumulative losses in recent years. This assessment considers, among other matters, the nature, consistency and magnitude of current and cumulative income and losses, forecasts of future profitability, the duration of statutory carryback or carryforward periods, our experience with operating loss and tax credit carryforwards being used before expiration, and tax planning alternatives.

Our assessment of the need for a valuation allowance on our deferred tax assets includes assessing the likely future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Changes in existing tax laws or rates could affect our actual tax results and our future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Our accounting for deferred tax assets represents our best estimate of future events. The deferred tax assets have been remeasured based on the new Tax Cuts and Jobs Act legislation in the nine months ended July 31, 2018, which includes the enacted date, December 22, 2017.

Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods (carryforward period assumptions), actual results could differ from the estimates used in our analysis. Our assumptions require significant judgment because the residential home building industry and land sales are cyclical and highly sensitive to changes in economic conditions. If our results of operations are less than projected and there is insufficient objectively verifiable positive evidence to support the "more-likely-than-not" realization of our deferred tax assets, a valuation allowance would be required to reduce or eliminate our deferred tax assets.

Our deferred tax assets consist principally of the recognition of losses primarily driven by recognition of net operating losses, defined benefit pension, fixed assets and inventory impairments. In accordance with GAAP, we assessed whether a valuation allowance should be established based on our determination of whether it was "more-likely-than-not" that some portion of all of the deferred tax assets would not be realized, we recorded valuation allowances against our state net operating loss carryforwards for the amount not expected to be used.

The loss carryforwards result from prior year losses incurred for federal income tax purposes.

We file tax returns in the various states in which we do business. Each state has its own statutes regarding the use of tax loss carryforwards. Some of the states in which we do business do not allow for the carry forward of losses while others allow for carry forwards for 5 years to 20 years.

Interest, real estate taxes, and insurance costs, including those costs associated with holding unimproved land, are normally charged to expense as incurred. Interest cost incurred during construction of facilities is capitalized as part of the cost of such facilities. Maintenance and repairs are charged to expense, and major renewals and betterments are added to property accounts.

We sponsor a defined benefit pension plan as detailed in Note 9 to the accompanying unaudited financial statements. The accounting for pension costs is determined by specialized accounting and actuarial methods using numerous estimates, including discount rates, expected long-term investment returns on plan assets, employee turnover, mortality and retirement ages, and future salary increases. Changes in these key assumptions can have a significant effect on the pension plan's impact on the Company's financial statements. We engage the services of an independent actuary and investment consultant to assist us in determining these assumptions and in calculating pension income. The pension plan is currently underfunded and, accordingly, the Company has made contributions to the fund of \$251,050 in Fiscal 2017. On August 1, 2017, the Company amended the Blue Ridge Real Estate Pension Plan to allow eligible participants the option to elect an immediate single lump-sum payment or distribution to an eligible rollover. Sixteen participants chose a lump sum payment or an eligible rollover. The Company contributed \$166,200 and anticipates contributing another \$47,800 to the pension plan in Fiscal 2018. Future benefit accruals under the pension plan ceased as of August 31, 2010. The Company also has a 401(k)-pension plan that is available to all full-time employees. Effective January 1, 2016, the Company matches 100% of employee salary deferral contributions up to 5% of their pay for each payroll period.

The Company recognizes as compensation expense an amount equal to the grant date fair value of the stock options issued over the required service period, if any. Compensation cost was measured using the modified prospective approach.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

#### **Legal Proceedings**

We are presently a party to certain lawsuits arising in the ordinary course of our business. We believe that none of our current legal proceedings will be material to our business, financial condition or results of operations.