Regency Affiliates, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2014 and 2013

Regency Affiliates, Inc. and Subsidiaries
Index to the Financial Statements

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Regency Affiliates, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Regency Affiliates, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

ACCOUNTANTS + ADVISORS

ROSENBERG RICH BAKER BERMAN & COMPANY

To the Board of Directors and Shareholders of
Regency Affiliates, Inc. and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Regency Affiliates, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of its consolidated operations, changes in shareholders' equity and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
July 14, 2015

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$ 8,217,616	$ 8,488,930
Prepaid expenses	273,827	225,330
Income tax refund receivable	219,179	68,783
Rent receivable	13,500	7,500
Total Current Assets	8,724,122	8,790,543
Property, plant and equipment, net	2,067	4,139
Investments in partnerships / LLC	28,830,436	25,122,409
Other assets	3,031	3,031
Total Assets	37,559,656	33,920,122
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	67,720	76,461
Income taxes payable	185,146	406,310
Dividends payable	199,571	176,428
Preferred Series D redemptions payable	25,510	29,630
Total Current Liabilities	477,947	688,829
Total Liabilities	477,947	688,829
Commitments and contingencies		
Shareholders' Equity		
Serial preferred stock, par value $0.10; 2,000,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, par value $0.01; 8,000,000 shares authorized; 3,628,559 shares in 2014 and 3,528,559 shares in 2013, issued and outstanding	36,286	35,286
Additional paid in capital	4,912,696	4,712,696
Retained earnings	32,132,727	28,483,311
Total Shareholders' Equity	37,081,709	33,231,293
Total Liabilities and Shareholders' Equity	$ 37,559,656	$ 33,920,122

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31, 2014	2013
Net Sales	$ -	$ -
Costs and expenses		
General and administrative expenses	(1,069,675)	(1,120,229)
Loss from operations	(1,069,675)	(1,120,229)
Other income (expense)		
Income from equity investments in partnerships / LLC	6,749,812	6,391,711
Rental income	6,000	6,000
Interest and dividend income	261	236
Net income before income taxes	5,686,398	5,277,718
Income tax expense	1,274,984	1,267,000
Net Income	$ 4,411,414	$ 4,010,718

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional Paid in	Retained	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balance – January 1, 2013	-	$ -	3,353,559	$ 33,536	$ 4,436,121	$ 24,825,449	$ 29,295,106
Common stock options exercised	-	-	175,000	1,750	276,575	-	278,325
Cash dividends paid	-	-	-	-	-	(176,428)	(176,428)
Cash dividends declared	-	-	-	-	-	(176,428)	(176,428)
Net income	-	-	-	-	-	4,010,718	4,010,718
Balance - December 31, 2013	-	-	3,528,559	35,286	4,712,696	28,483,311	33,231,293
Common stock options exercised	-	-	100,000	1,000	200,000	-	201,000
Cash dividends paid	-	-	-	-	-	(562,427)	(562,427)
Cash dividends declared	-	-	-	-	-	(199,571)	(199,571)
Net income	-	-	-	-	-	4,411,414	4,411,414
Balance - December 31, 2014	-	$ -	3,628,559	$ 36,286	$ 4,912,696	$ 32,132,727	$ 37,081,709

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash flows from operating activities		
Net income	$ 4,411,414	$ 4,010,718
Adjustments to reconcile net income to net cash used in operating activities		
Income from equity investment in partnerships / LLC	(6,749,812)	(6,391,711)
Depreciation and amortization	2,072	1,036
Deferred tax asset	-	780,000
Changes in assets and liabilities		
(Increase) in prepaid expenses	(42,589)	(173,526)
(Increase) in income tax refund receivable	(150,396)	(65,748)
(Increase) in rent receivable	(6,000)	(5,000)
(Increase) in other assets	-	(241)
Increase (decrease) in accounts payable and accrued expenses	(8,741)	27,864
Increase (decrease) in income taxes payable	(221,164)	352,378
(Decrease) in deferred rent	(5,908)	(5,908)
Net cash used in operating activities	(2,771,124)	(1,470,138)
Cash flows from investing activities		
Purchase of fixed assets	-	(5,175)
Distribution of earnings from partnership	3,041,785	2,823,652
Net cash provided by investing activities	3,041,785	2,818,477
Cash flows from financing activities		
Proceeds from exercise of common stock options	201,000	278,325
Payments for redemptions of preferred stock	(4,120)	(65,930)
Dividends paid to common shareholders	(738,855)	(176,428)
Net cash provided by (used in) investing activities	(541,975)	35,967
Increase (decrease) in cash and cash equivalents	(271,314)	1,384,306
Cash and cash equivalents – beginning	8,488,930	7,104,624
Cash and cash equivalents – ending	$ 8,217,616	$ 8,488,930
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ -	$ -
Income taxes	$ 1,931,044	$ 392,027

Schedule of Non-Cash Investing and Financing Activities:

In December 2014, a common stock dividend of $199,571 was declared but not paid until January 2015.
In December 2013, a common stock dividend of $176,428 was declared but not paid until January 2014.

See notes to the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Nature of Operations – Regency invests in assets that generate attractive, predictable and sustainable returns on capital. The Company's objective is to generate long term value for its shareholders. Management seeks sound investment opportunities to meet its business characteristics and valuation criteria.

The Company holds a limited partnership interest in Security Land and Development Company Limited Partnership ("Security Land"), which owns and operates 34.3 acres of land and rental property of approximately 717,000 square feet in Woodlawn, Maryland, which is occupied by the United States Social Security Administration's Office of Disability and International Operations. In November 2000, the Company acquired a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. Also refer to Note 2, "Investment in Security Land and Development Company Limited Partnership," for additional information.

In addition, Regency Power Corporation ("Regency Power", 100% owned subsidiary of the Company) owns a 50% interest in MESC Capital, LLC, a Delaware limited liability company ("MESC Capital"). MESC Capital owns a 100% interest in Mobile Energy Services Company, LLC, an Alabama limited liability company ("Mobile Energy"), which owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. Also refer to Note 3, "Investment in MESC Capital LLC," for additional information.

Principles of Consolidation - These consolidated financial statements include the accounts of Regency Affiliates, Inc. (the "Company"), and its wholly owned subsidiary, Regency Power, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Stock-Based Compensation - The Company accounts for stock and stock options issued for services and compensation to employees under the fair value method. For non-employees, the fair market value of the Company's stock is measured on the date of stock issuance or the date an option/warrant is granted. The Company determines the fair market value of the options issued under the Black-Scholes Pricing Model. The Company follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718-10, "Compensation – Stock Compensation," which establishes accounting for equity instruments exchanged for employee services. Under the provisions of FASB ASC 718-10, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

Cash and Cash Equivalents - Cash and cash equivalents represent cash and short-term highly liquid investments with original maturities of three months or less. The Company places its cash and cash equivalents with high credit quality financial institutions that may exceed federally insured amounts at times.

Note 1. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment - Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

These items consist of the following at December 31, 2014 and 2013:

		2014		2013
Machinery and equipment	$	11,752	$	11,752
Accumulated depreciation		9,685		7,613
	$	2,067	$	4,139

Depreciation expense for the years ended December 31, 2014 and 2013 was $2,072 and $1,036, respectively.

Investments – The Company uses the equity method of accounting for investments in equity securities in which it has more than a 20% interest, but does not have a controlling interest and is not the primary beneficiary. The Company uses the cost method of accounting for investments in equity securities in which it has a less than 20% equity interest and virtually no influence over the investee's operations.

Income Taxes - The Company utilizes FASB ASC 740-10, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. In some situations FASB ASC 740-10 permits the recognition of expected benefits of utilizing net operating loss and tax credit carryforwards. Valuation allowances are established based upon management's estimate, if necessary. Income tax expense (benefit) is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

Evaluation of Long Lived Assets - Long-lived assets are assessed for recoverability on an ongoing basis. In evaluating the fair value and future benefits of long-lived assets, their carrying value would be reduced by the excess, if any of the long-lived asset over management's estimate of the anticipated undiscounted future net cash flows of the related long-lived asset.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Fair Value of Financial Instruments - The fair values of cash, other current assets, accounts payable and accrued expenses approximate their carrying values because of the short maturity of these financial instruments.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statements. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 1. Summary of Significant Accounting Policies (continued)

Subsequent Events Evaluation – The Company has evaluated subsequent events through July 14, 2015, which is the date these financial statements were available to be issued.

Note 2. Investment in Security Land and Development Company Limited Partnership

In November 1994, the Company purchased, for $350,000, a limited partnership interest in Security Land, which owns and operates an office complex. The Company has limited voting rights and is entitled to allocations of the profit and loss of Security Land and operating cash flow distributions, as amended (see below).

Security Land was organized to own and operate two buildings containing approximately 717,000 net rentable square feet consisting of a two-story office building and a connected six-story office tower. The buildings were purchased by Security Land in 1986 and are located on approximately 34.3 acres of land which is also owned by Security Land. The buildings have been occupied by the United States Social Security Administration's Office of Disability and International Operations for approximately 30 years under leases between the United States of America, acting by and through the General Services Administration ("GSA"). Effective November 1, 1994, Security Land and the GSA entered into a nine-year lease for 100% of the building. In March 2003, the General Services Administration agreed to extend the terms of the lease through October 31, 2018. Security Land has received an opinion of the Assistant General Counsel to the GSA that lease payments are not subject to annual appropriation by the United States Congress and the obligations to make such payments are unconditional general obligations of the United States Government.

In April 2003, the Company entered into an amendment to the Security Land partnership agreement. The amendment provides for the distribution of the net proceeds of a loan to Security Land to the Company and the non-Company partners on a 50/50 basis, provided that such allocation would result in a minimum distribution to the Company of $39,000,000 (a "qualified financing"). This qualified financing was obtained in June 2003 (see below). The amendment also provides that, following the qualified financing, the Company will be entitled to (i) 95% of Security Land's distributions of cash flow until it has received $2,000,000 of such distributions, and thereafter 50% of such distributions, and (ii) once it has received $2,000,000 of cash flow distributions, it will receive an $180,000 annual management fee from Security Land. The foregoing percentages are inclusive of the Company's interest as a limited partner in 1500 Woodlawn Limited Partnership, the general partner of Security Land.

The refinancing of Security Land’s property at 1500 Woodlawn Drive, Woodlawn, Maryland closed on June 24, 2003. US SSA LLC (a single purpose entity owned by Security Land) borrowed $98,500,000 through a public debt issue underwritten by CTL Capital, LLC. Proceeds of the refinancing were used to repay the outstanding balance of Security Land's 1994 indebtedness, to establish reserves to make capital improvements to the property, to provide reserves required by the new debt, to pay costs and expenses related to issuing the debt, to pay fees related to the lease extension with the GSA and the financing, and to make a distribution to the partners of Security Land. The debt is for a term of 15.3 years maturing October 31, 2018 at which time the loan will have been paid down to a balance of $10,000,000.

Security Land also obtained residual value insurance for approximately $10,000,000. The interest cost of the financing is 4.63%. The financing is non-recourse to the Company.

Note 2. Investment in Security Land and Development Company Limited Partnership (continued)

For the years ended December 31, 2014 and 2013, the Company's income from its equity investment in Security Land was $3,499,399 and $3,343,396, respectively. These funds, however, are principally committed to the amortization of the outstanding principal balance on Security Land's real estate mortgage. Security Land does not currently provide liquidity to the Company. However, in September 2014 and 2013, Security Land remitted $191,378 and $173,284, respectively, to the State of Maryland for Regency's allocable portion of non-resident partner withholding taxes, classified as a distribution from this investment to the Company.

Summarized financial information for Security Land is as follows as of December 31,:

		2014		2013
Balance Sheet Data				
Cash and cash equivalents	$	214,253	$	132,285
Restricted cash		2,648,952		2,671,603
Real estate, net		12,655,244		14,974,075
Deferred charges, net		2,076,295		2,750,968
Receivables and other assets		1,463,776		1,478,544
Total Assets		19,058,520		22,007,475
Accounts payable and accrued expenses		377,950		280,843
Project note payable		38,672,860		45,189,079
Accrued interest payable		79,649		93,069
Total Liabilities		39,130,459		45,562,991
Partners' capital:				
Regency Affiliates, Inc.		19,951,323		16,643,303
Other partners		(40,023,262)		(40,198,819)
Total Partners' Capital		(20,071,939)		(23,555,516)
Total Liabilities and Partner's Capital	$	19,058,520	$	22,007,475
Statement of Operations Data				
For the year ended December 31,:				
Revenues	$	13,812,952	$	13,814,883
Expenses		6,730,702		6,962,787
Net operating income		7,082,250		6,852,096
Other expenses		(3,398,673)		(3,332,732)
Net income	$	3,683,577	$	3,519,364

Effective November 30, 2000 the Company invested $10,000 for a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. The Company recognized income of $9,209 in 2013 and $8,797 in 2013 from this investment. In September 2014 and 2013, Security Land remitted $407 and $368, respectively, to the State of Maryland for Regency's allocable portion of non-resident partner withholding taxes, classified as a distribution from this investment to the Company.

Note 3. Investment in MESC Capital LLC

On April 30, 2004, the Company, through its newly-formed, wholly-owned subsidiary called Regency Power Corporation, a Delaware corporation, acquired a 50% membership interest in MESC Capital, a Delaware limited liability company, from DTE Mobile, LLC (“DTE Mobile”), pursuant to an Assignment and Assumption Agreement dated as of April 30, 2004. The purchase price for the 50% membership interest was $3,000,000 and was funded from Regency's working capital. The terms of the Assignment and Assumption Agreement were negotiated on an arm’s length basis between Regency and DTE Mobile. DTE Mobile, which is owned by an unregulated subsidiary of a large energy company that has significant experience in owning, managing and operating electric generation and on-site energy facilities, owns the other 50% membership interest in MESC Capital.

MESC Capital was formed to acquire all of the membership interests in Mobile Energy. Mobile Energy owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. The acquisition of Mobile Energy was also consummated on April 30, 2004 pursuant to a Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital and Mobile Energy Services Holdings, Inc. The purchase price under the Membership Interest Purchase Agreement, after certain pre-closing adjustments, was $33,600,000, and is subject to certain post-closing adjustments. The purchase price and working capital reserves were funded by the issuance of $28,500,000 of non-recourse debt, a total equity contribution by MESC Capital of $8,600,290, $4,300,145 of which was funded by Regency Power and $4,300,145 of which was funded by DTE Mobile, and a credit of $1,000,000 on account of existing and continuing tax-exempt indebtedness of Mobile Energy. The terms of the Membership Interest Purchase Agreement were negotiated on an arms'-length basis between MESC Capital and Mobile Energy. The Company did not participate in negotiations with respect to the Membership Interest Purchase Agreement.

The $28,500,000 acquisition indebtedness was obtained from Allied Irish Banks, P.L.C., which may assign or participate the loan in accordance with the terms of the loan agreement. The loan will be amortized over the fifteen-year term, and is currently held by Bank of America. In connection with the acquisition of the 50% membership interest in MESC Capital, Regency Power and DTE Mobile entered into an Operating Agreement, dated April 30, 2004, which sets forth their respective rights and obligations as members of MESC Capital as well as the duties and authority of DTE Mobile as the managing member of MESC Capital. Under the Operating Agreement, Regency Power will receive 50% of all distributions. Neither Regency Power nor DTE Mobile is obligated to contribute additional capital, or loan or otherwise advance funds, to MESC Capital, and neither member can sell or transfer its interest in MESC Capital without the consent of the other and without first complying with a right of first offer in favor of the non-selling member.

The Company accounts for the Investment in Partnerships using the equity method, whereby the carrying value of these investments are increased or decreased by the Company's allocable share of book income or loss. The Company recognized income of $3,241,204 in 2014 and $3,039,518 in 2013 from this investment.

Note 3. Investment in MESC Capital LLC (continued)

Summarized financial information for MESC Capital LLC is as follows as of December 31,:

	2014	2013
Balance Sheet Data		
Cash and cash equivalents	$ 1,493,120	$ 1,071,850
Restricted cash	8,241,445	8,186,082
Trade receivable	1,844,931	1,729,152
Current portion of net investment in direct financing lease	2,282,614	2,109,008
Inventory	580,084	638,427
Prepaid expenses and other current assets	197,121	151,764
Total current assets	14,639,315	13,886,283
Debt issuance costs	218,646	318,450
Inventory, net of current portion	3,391,477	3,249,333
General plant, net	27,414	34,583
Investment in direct financing lease, net of current portion	9,028,120	11,310,735
Total assets	27,304,972	28,799,384
Accounts payable	226,332	307,897
Accounts payable to related parties	593,970	546,251
Accrued liabilities	58,786	53,368
Current portion of long-term debt	2,451,000	2,274,300
Total current liabilities	3,330,088	3,181,816
Long-term debt, net of current portion	10,989,250	13,440,250
Unrealized loss on interest rate swap contract	-	158,971
Total liabilities	14,319,338	16,781,037
Members' equity	12,985,634	12,018,347
Total liabilities and members' equity	$ 27,304,972	$ 28,799,384
Statement of Operations Data		
For the year ended December 31,:		
Revenues	$ 16,177,100	$ 16,096,631
Expenses	9,213,273	9,289,154
Net operating income	6,963,827	6,807,477
Other income (expense)	(481,418)	(728,440)
Net income	$ 6,482,409	$ 6,079,037

Note 4. Serial Preferred Stock

At December 31, 2014 and 2013, the Company had 2,000,000 authorized shares of $.10 par value Series A preferred stock; none was issued or outstanding.

On October 19, 2009, the Company redeemed all outstanding shares of its 7% Cumulative Contingent Convertible, Junior Preferred Stock, $10, Series D, $0.10 par value, issued in 1992, ("the Series D Preferred Stock") for $10.00 per share ($256,940 in the aggregate for the 25,694 shares of Series D Preferred Stock outstanding). The redemption price is payable upon presentation and surrender by Series D preferred stockholders of their Series D preferred stock certificates in the manner provided in the notice of redemption. As of December 31, 2014, the Company has paid $231,430 to stockholders for the redemptions. From and after the redemption effective date in 2009, the Series D Preferred Stock is no longer deemed to be outstanding, and all rights of the holders thereof as stockholders of the Company ceased (other than the right to receive the redemption price from the Company). As of December 31, 2014, the Company still owes $25,510 to Series D Preferred stockholders who have not yet redeemed their shares.

Note 5. Stock-Based Compensation

2003 Incentive Stock Plan

Effective as of March 17, 2003, the Company's Board of Directors and Stockholders approved and adopted the 2003 Stock Incentive Plan (the "2003 Plan"). The 2003 Plan allows the Administrator (as defined in the 2003 Plan), currently the Compensation Committee, to determine the issuance of incentive stock options, non-qualified stock options and restricted stock to eligible employees and outside directors and consultants of the Company. The Company has reserved 500,000 shares of common stock for issuance under the 2003 Plan. The exercise price of any option granted under the 2003 Plan is determined by the Administrator, and no option or award exercise date can exceed ten years from the grant date. On August 13, 2008, the Company's Board of Directors approved an amendment to the 2003 Plan that increased the total number of authorized shares available from 500,000 to 750,000. All other terms of the Plan remain in full force and effect.

No options were issued during the years ended December 31, 2014 or 2013.

During 2014, the Company received $201,000 from the exercise of 100,000 common stock options nearing expiration, at $2.01, by two option holders.

During 2013, the Company received $278,325 from the exercise of 175,000 common stock options nearing expiration, by various option holders. Exercise prices ranged from $1.35 to $2.40.

As of December 31, 2014, 110,000 shares remain available for issuance under the 2003 Plan.

Note 5. Stock-Based Compensation (continued)

The following is a summary of the activity and status of the Company's options for the years ended December 31, 2014 and 2013:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at 1/1/13	$ 1.35 - 6.50	530,000	$ 3.28	3.31
Issued	-	-	-	-
Exercised, forfeited or expired	1.35 - 2.40	175,000	1.59	-
Outstanding at 12/31/13	2.01 - 6.50	355,000	4.12	3.68
Issued	-	-	-	-
Exercised, forfeited or expired	2.01	100,000	2.01	-
Outstanding at 12/31/14	$ 2.60 – 6.50	255,000	$ 4.95	3.95

Note 6. Income Taxes

As referred to in Note 1, the Company accounts for income taxes under FASB ASC 740-10, “Income Taxes”. The deferred taxes are the result of long-term temporary differences between financial reporting and tax reporting for depreciation, earnings from the Company’s partnership investment in Security Land and the recognition of income tax carryforward items. Effective December 31, 2013, the Company has utilized its deferred tax assets.

The Company files consolidated income tax returns with its wholly owned subsidiary. As of December 31, 2013, for regular federal and state income tax purposes, the Company has utilized all of its net operating loss carryforwards (NOLs). The Company’s tax returns have not recently been examined by the Internal Revenue Service (“Service”) and there is no assurance that the Service would not attempt to limit the Company’s use of its net operating loss carry forwards. The Company’s 2011, 2012 and 2013 federal and state income tax returns remain subject to examination by the respective taxing authorities. In addition, net operating losses arising from prior years are also subject to examination at the time they are utilized in future years.

The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2014, the Company has reported taxable income (loss) from Security Land in a manner it believes is proper, but which was different than the manner reported by Security Land.

For the years ended December 31, 2014 and 2013, the tax effect of net operating loss carryforwards caused the provision for Federal income taxes to increase by approximately $-0- and $780,000, respectively. At December 31, 2014 and 2013, the Company has also provided $1,001,654 and $283,000, respectively, for regular Federal income taxes, and $273,330 and $204,000, respectively, for state income taxes.

Note 6. Income Taxes (continued)

The provision (benefit) for income taxes is as follows for the years ended December 31,:

	2014	2013
Current	$ 1,274,984	$ 487,000
Deferred	-	780,000
	$ 1,274,984	$ 1,267,000

The difference between income tax benefits in the financial statements and the tax benefit computed at the applicable statutory rates of 34% and 5.5%, for federal and state tax purposes, respectively, at December 31, 2014 and 2013 is as follows:

	2014	2013
Federal expense (benefit) at the statutory rate	34.0%	34.0%
State tax expense	4.0	4.0
Change in valuation allowance	-	-
Benefit of net operating loss carry forward, net	-	(13.2)
Effective tax rate of income tax expense	38.0%	24.8%

Note 7. Employment Agreements

During 2014 and 2013, the Company maintained an employment agreement with its Chief Executive Officer, Laurence S. Levy, the 100% owner of Royalty Management, Inc. (Royalty Management), the entity that controls the Company's majority shareholder, Royalty Holdings, LLC (Royalty). Mr. Levy earns a base annual salary, SEP IRA contributions and expense reimbursements. As detailed below, Mr. Levy's compensation has been subsequently adjusted. SEP IRA contributions of $52,000 and $51,000, respectively, for the benefit of Mr. Levy, are included in the 2014 and 2013 Consolidated Statements of Income. No amounts remain outstanding as of December 31, 2014 or 2013. The employment agreement with Mr. Levy has been continued subsequent to the balance sheet date.

The Company's Chief Financial Officer, Marc H. Baldinger, does not have an employment agreement with the Company. Mr. Baldinger earns a base salary, SEP IRA contributions and expense reimbursements. As detailed below, Mr. Baldinger's compensation has been subsequently adjusted. SEP IRA contributions of $12,930 and $12,360, respectively, for the benefit of Mr. Baldinger, are included in the 2014 and 2013 Consolidated Statements of Income. No amounts remain outstanding as of December 31, 2014 or 2013.

Effective January 1, 2013, the Board of Directors approved a 3% increase in base salaries for the Company's CEO, to $231,750 per annum, and CFO, to $61,800 per annum, and a $51,500 bonus award on December 31, 2013 to Mr. Levy.

Effective January 1, 2014, a 3% increase in base salaries for the Company's CEO and CFO, and $53,045 bonus award in December 2014 to Mr. Levy, was approved by the Board of Directors.

Note 8. Related Party Transactions

Pursuant to a License Agreement entered into in March 2003, Royalty Management, Inc., which is wholly-owned by Laurence Levy, the Company's CEO and President, provides New York City office space, office supplies and services to the Company for $126,000 per year.

Effective June 1, 2012, the Board of Directors authorized the Company to compensate each Board director an annual fee of $20,000, payable $5,000 quarterly, in arrears, for each fiscal quarter served.

Effective January 1, 2014, a 3% increase in quarterly directors' fees was approved for 2014.

During the years ended December 31, 2014 and 2013, the Company incurred directors' fees of $41,200 and $40,000, respectively, for services rendered. As of December 31, 2014 and 2013, no director fees were outstanding.

During 2012, the Company entered into a month to month sub-lease rental agreement with an entity 100% owned by its CFO. Pursuant to the terms of the agreement, monthly sub-lease rental income to the Company will be $500, effective January 1, 2012. Sub-lease rental income from this related party was $6,000 for each of the years ended December 31, 2014 and 2013. During the years ended December 31, 2014 and 2013, $-0- and $1,000, respectively, was collected. As of December 31, 2014 and 2013, $13,500 and $7,500, respectively, was receivable from the related party.

Note 9. Contingencies, Risks and Uncertainties

The Company is subject to numerous contingencies, risks and uncertainties including, but not limited to, the following that could have a severe impact on the Company:

(i) A default in the Lease or sudden catastrophe to the Security West Building from uninsured acts of God or war could have a materially adverse impact upon the Company's investment in Security Land and Development Company Limited Partnership and, therefore, its financial position and results of operations (See Note 2).

(ii) The Company had significant tax loss and credit carryforwards in past years and no assurance can be provided that the Internal Revenue Service would not attempt to limit or disallow altogether the Company's use, retroactively and/or prospectively, of such carryforwards, due to ownership changes or any other reason. The disallowance of the utilization of the Company's net operating loss would severely impact the Company's financial position and results of operations due to the significant amounts of taxable income (generated by the Company's investment in Security Land) that has in the past been offset by the Company's net operating loss carryforwards (See Note 6).

(iii) Royalty, an affiliate of the company's management, beneficially owns approximately 60% of the Company's common stock. As a result, Royalty has the ability to control the outcome of all matters requiring shareholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of the Company's assets.

(v) The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2014, the Company reported taxable income (loss) from Security Land in a manner the Company believes is proper, but which was different than the manner reported by Security Land.

Note 10. Lease Commitments

In January 2012, Regency's Florida office relocated and entered into a new, four-year lease agreement, for a 1,365 square foot space. Minimum lease payments under this agreement are $26,754 per year. A rent concession has been granted to waive the first and last five months' rent, provided the lease terms have not been breached. As a result, minimum lease payments for each year 1 and 4 amount to $15,607, and for years 2 and 3, $26,754. In addition, the Company is responsible to pay the tenant's share of operating expenses that are estimated to be $6.50 per square foot on an annualized basis.

Rent expense was $22,451 for each of the years ended December 31, 2014 and 2013.

In addition, as discussed in Note 8, during 2012, the Company entered into a month to month sub-lease rental agreement with an entity 100% owned by its CFO. Pursuant to the terms of the agreement, monthly sub-lease rental income to the Company will be $500, effective January 1, 2012. Sub-lease rental income from this related party was $6,000 for each of the years ended December 31, 2014 and 2013. During the years ended December 31, 2014 and 2013, $-0- and $1,000, respectively, was collected. As of December 31, 2014 and 2013, $13,500 and $7,500, respectively, was receivable from the related party.

Note 11. Simplified Employee Pension – Individual Retirement Account (SEP-IRA)

The Company adopted a SEP-IRA Plan in 2004. During the years ended December 31, 2014 and 2013, the Company expensed contributions of $71,343 and $67,120, respectively, to the SEP-IRA Plan. The SEP-IRA Plan covers all employees who received compensation from the Company during the year. Employer contributions are discretionary and determined annually. In addition, the SEP-IRA Plan allows participants to make elective deferral contributions through payroll deductions.

Note 12. Dividends

In September 2013, the Board of Directors adopted a Dividend Policy whereby the Board expects to declare a total annual dividend to common shareholders of $0.20 per share, to be paid in equal, quarterly installments of $0.05 per share, provided that the determination to pay any cash dividends for any quarterly period will be made at the applicable time by the Board, in the Board's sole discretion, in compliance with the requirements of applicable law, and with consideration of the Company's future earnings and financial condition and other factors as may be deemed appropriate for consideration by the Board. In September 2014, the Board amended the Policy and increased the total annual dividend to common shareholders to $0.22 per share, to be paid in equal, quarterly installments of $0.055 per share. The Dividend Policy will remain in effect until the Board determines, in its sole discretion, that it is in the best interests of the Company and its common shareholders to terminate the Dividend Policy.

Dividends have been declared and paid quarterly pursuant to the above from September 2013 through July 2015. Total dividends paid in 2014 and 2013 were $738,855 and $176,428, respectively.

Note 13. Subsequent Events

Effective January 1, 2015, a 3% increase in base salaries for all employees was approved by the Board of Directors. In addition, a 3% increase in quarterly directors' fees was approved for 2015.

On January 7, 2015, the quarterly $0.055 per common stock cash dividend declared in December 2014, for owners of record on December 30, 2014, was paid.

In March 2015, the Board of Directors declared a quarterly $0.055 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on March 31, 2015, totaling $199,571, payable on April 7, 2015. The dividend was paid in April 2015.

In April 2015, the Company received $145,000 from the exercise of 50,000 common stock options due to expire in April 2019, at $2.90, by an option holder.

In June 2015, the Board of Directors declared a quarterly $0.055 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on June 30, 2015, totaling $202,321, payable on July 7, 2015. The dividend was paid in July 2015.

Subsequent to December 31, 2014 through the date of this report, the Company received $2,100,000 in distributions from its investment in MESC.