

Regency Affiliates, Inc. and Subsidiaries

Consolidated Financial Statements

March 31, 2015 and 2014

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

	<u>Page</u>
Independent Accountant's Review Report	1
Financial Statements	
Consolidated Balance Sheets.....	2
Consolidated Statements of Income	3
Consolidated Statements of Changes in Shareholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-17

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Independent Accountant's Review Report

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

We have reviewed the accompanying consolidated balance sheets of Regency Affiliates, Inc. and Subsidiaries as of March 31, 2015 and 2014, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three months then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
July 30, 2015

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31,	
	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,228,008	\$ 8,337,669
Prepaid expenses	260,124	242,908
Income tax refund receivable	78,318	221,394
Rent receivable	15,000	9,000
	8,581,450	8,810,971
Property, plant and equipment, net	1,549	3,621
Investment in partnerships / LLC	29,749,858	25,525,399
Other assets	3,031	3,031
	38,335,888	34,343,022
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	57,962	58,200
Income taxes payable	173,346	131,310
Dividends payable	199,571	181,428
Preferred Series D redemptions payable	25,510	25,510
	456,389	396,448
Total Current Liabilities	456,389	396,448
Total Liabilities	456,389	396,448
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 issued and outstanding	36,286	36,286
Additional paid in capital	4,912,696	4,912,696
Retained earnings	32,930,517	28,997,592
	37,879,499	33,946,574
Total Shareholders' Equity	37,879,499	33,946,574
Total Liabilities and Shareholders' Equity	\$ 38,335,888	\$ 34,343,022

See independent accountant's review report and accompanying notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Income

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Net sales	\$ <u> -</u>	\$ <u> -</u>
Costs and expenses		
General and administrative expenses	<u> 304,461</u>	<u> 263,469</u>
Loss from operations	<u> (304,461)</u>	<u> (263,469)</u>
Other income		
Income from equity investment in partnerships / LLC	1,619,422	1,102,990
Rental income	<u> 1,500</u>	<u> 1,500</u>
Net income before income taxes	1,316,461	841,021
Income tax expense	<u> 319,100</u>	<u> 145,312</u>
Net income	\$ <u><u> 997,361</u></u>	\$ <u><u> 695,709</u></u>

See independent accountant's review report and accompanying notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2014 and
the Three Months Ended March 31, 2015

	Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance - January 1, 2014	-	\$ -	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	35,286	4,912,696	32,132,727	37,081,709
Cash dividends declared	-	-	-	-	-	(199,571)	(199,571)
Net income	-	-	-	-	-	997,361	997,361
Balance - March 31, 2015	-	\$ -	3,628,559	\$ 36,286	\$ 4,912,696	\$ 32,930,517	\$ 37,879,499

See independent accountant's review report and accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 997,361	\$ 695,709
Adjustments to reconcile net income to net cash used in operating activities:		
Income from equity investment in partnerships / LLC	(1,619,422)	(1,102,990)
Depreciation	518	518
Changes in assets and liabilities		
(Increase) decrease in prepaid expenses	13,703	(17,578)
(Increase) decrease in income tax refund receivable	140,861	(152,611)
(Increase) in rent receivable	(1,500)	(1,500)
(Decrease) in accounts payable and accrued expenses	(9,758)	(18,261)
(Decrease) in income taxes payable	(11,800)	(275,000)
Net cash used in operating activities	(490,037)	(871,713)
Cash flows from investing activities:		
Distribution of earnings from partnership	700,000	700,000
Net cash provided by investing activities	700,000	700,000
Cash flows from financing activities:		
Proceeds from exercise of common stock options	-	201,000
Payment for redemption of preferred stock	-	(4,120)
Dividends paid to common shareholders	(199,571)	(176,428)
Net cash provided by (used in) financing activities	(199,571)	20,452
Increase (decrease) in cash and cash equivalents	10,392	(151,261)
Cash and cash equivalents – beginning	8,217,616	8,488,930
Cash and cash equivalents – ending	\$ 8,228,008	\$ 8,337,669
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income taxes	\$ 195,539	\$ 642,492

Schedule of Non-Cash Investing and Financing Activities:

In March 2015, a common stock dividend of \$199,571 was declared but not paid until April 2015.

In March 2014, a common stock dividend of \$181,428 was declared but not paid until April 2014.

Regency Affiliates, Inc. and Subsidiaries
Notes to 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.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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 March 31, 2015 and 2014:

	2015	2014
Machinery and equipment	\$ 11,752	\$ 11,752
Less: Accumulated depreciation	10,203	8,131
	\$ 1,549	\$ 3,621

Depreciation expense was \$518 for each of the three months ended March 31, 2015 and 2014.

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.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Subsequent Events Evaluation – The Company has evaluated subsequent events through July 30, 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.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

For the three months ended March 31, 2015 and 2014, the Company's income from its equity investment in Security Land was \$862,846 and \$705,114, 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, Security Land remitted \$191,378 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 March 31,:

	2015	2014
Balance Sheet Data		
Cash and cash equivalents	\$ 243,854	\$ 132,350
Restricted cash	2,846,676	2,863,857
Real estate, net	11,900,195	14,233,860
Deferred charges, net	1,922,013	2,530,745
Receivables and other assets	1,140,285	1,397,844
Total Assets	18,053,023	21,158,656
Accounts payable and accrued expenses	139,337	354,946
Project note payable	36,989,673	43,581,674
Accrued interest payable	76,182	89,759
Total Liabilities	37,205,192	44,026,379
Partners' capital (deficit):		
Total Partners' Capital (Deficit)	(19,152,169)	(22,867,723)
Total Liabilities and Partner's Capital (Deficit)	\$ 18,053,023	\$ 21,158,656
Statement of Operations Data		
For the three months ended March 31,:		
Revenues	\$ 3,458,549	\$ 3,435,110
Expenses	1,703,499	1,846,094
Income from operations	1,755,050	1,589,016
Other income (expense)	(846,791)	(846,791)
Net income	\$ 908,259	\$ 742,225

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 \$2,271 and \$1,856 for the three months ended March 31, 2015 and 2014, respectively, from this investment. In September 2014, Security Land remitted \$407 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.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3. Investment in MESC Capital LLC

On April 30, 2004, the Company, through a 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 \$754,305 and \$396,020 for the three months ended March 31, 2015 and 2014, respectively, from this investment.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3. Investment in MESC Capital LLC (continued)

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

	2015	2014
Balance Sheet Data		
Cash and cash equivalents	\$ 1,803,922	\$ 1,780,499
Restricted cash	8,646,249	6,110,165
Trade receivable	1,527,080	3,006,753
Current portion of net investment in direct financing lease	2,327,145	2,150,152
Inventory	4,079,213	3,840,237
Prepaid expenses and other current assets	86,016	40,442
Total current assets	18,469,625	16,928,248
Debt issuance costs	196,273	291,988
Property, plant and equipment, net	25,621	32,790
Investment in direct financing lease, net of current portion	8,442,623	10,769,768
Total assets	27,134,142	28,022,794
Accounts payable	1,092,043	1,183,249
Accrued liabilities	103,257	95,375
Current portion of long-term debt	2,496,600	2,317,050
Total current liabilities	3,691,900	3,595,674
Long-term debt, net of current portion	10,348,000	12,844,600
Total liabilities	14,039,900	16,440,274
Unrealized Loss on Interest Rate Swap Contract	-	78,623
Members' equity	13,094,242	11,503,897
Total liabilities and members' equity	\$ 27,134,142	\$ 28,022,794
Statement of Operations Data		
For the three months ended March 31,:		
Revenues	\$ 4,003,255	\$ 3,980,397
Expenses	2,494,644	3,188,356
Income from operations	1,508,611	792,041
Other income (expense)	-	-
Net income	\$ 1,508,611	\$ 792,041

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4. Serial Preferred Stock

At March 31, 2015 and 2014, the Company had 2,000,000 authorized shares of \$0.10 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 March 31, 2015, 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 March 31, 2015, 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 granted during the three months ended March 31, 2015 or 2014.

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

As of March 31, 2015, 110,000 shares remain available for issuance under the 2003 Plan.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5. Stock Based Compensation (continued)

The following is a summary of the status of the Company's options for the three months ended March 31, 2014:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at 1/1/14	\$ 2.01 - 6.50	355,000	\$ 4.12	3.68
Issued	-	-	-	-
Exercised, forfeited or expired	2.01	100,000	2.01	-
Outstanding at 3/31/14	<u>\$ 2.60 - 6.50</u>	<u>255,000</u>	<u>\$ 4.95</u>	<u>4.71</u>

The following is a summary of the status of the Company's options for the three months ended March 31, 2015:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at 1/1/15	\$ 2.60 - 6.50	255,000	\$ 4.95	3.95
Issued	-	-	-	-
Exercised, forfeited or expired	-	-	-	-
Outstanding at 3/31/15	<u>\$ 2.60 - 6.50</u>	<u>255,000</u>	<u>\$ 4.95</u>	<u>3.71</u>

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.

At March 31, 2015 and 2014, the Company had no deferred tax assets. The Company utilized 100% of its net operating loss carry forwards (NOLs) prior to the expiration dates of such NOLs. The Company files consolidated income tax returns with its wholly owned subsidiary. 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 that they are utilized in future years.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6. Income Taxes (continued)

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.

The provision for income taxes is as follows for the three months ended March 31:

		2015		2014
Current	\$	319,100	\$	145,312
Deferred		-		-
	\$	145,312	\$	145,312

Note 7. Employment Agreements

During 2015 and 2014, the Company maintains 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.

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.

Effective January 1, 2014, a 3% increase in base salaries for the Company's CEO and CFO, and a \$53,045 bonus award on December 31, 2014 to Mr. Levy, was approved by the Board of Directors.

Effective January 1, 2015, a 3% increase in base salaries for all employees 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. \$31,500 was paid in each quarter ended March 31, 2015 and 2014.

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, 2015 and 2014, 3% increases in quarterly directors' fees were approved.

During the three months ended March 31, 2015 and 2014, the Company incurred directors' fees of \$5,303 and \$10,300, respectively, for services rendered. As of March 31, 2015 and 2014, directors' fees of \$5,303 and \$-0-, respectively, were outstanding.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8. Related Party Transactions (continued)

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 \$1,500 for each quarter ended March 31, 2015 and 2014. As of March 31, 2015 and 2014, \$15,000 and \$9,000, 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 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.
- (iv) There are many public and private companies that are also searching for operating businesses and other business opportunities as potential acquisition or merger candidates. The Company will be in direct competition with these other companies in its search for business opportunities. Many of these entities have significantly greater financial and personnel resources than the Company.
- (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.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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 \$5,613 for each of the three months ended March 31, 2015 and 2014.

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 \$1,500 for each quarter ended March 31, 2015 and 2014. As of March 31, 2015 and 2014, \$15,000 and \$9,000, 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 three months ended March 31, 2015 and 2014, the Company expensed contributions of \$72,293 and \$70,731, respectively, to the SEP-IRA Plan. The SEP-IRA Plan covers all employees who receive 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.

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, payable on April 7, 2015. The total dividend of \$199,571 was paid from surplus earnings of the Company in April 2015.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12. Dividends (continued)

In March 2014, the Board of Directors declared a quarterly \$0.05 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on March 31, 2014, payable on April 7, 2014. The total dividend of \$181,428 was paid from surplus earnings of the Company in April 2014.

Note 13. Subsequent Events

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 March 31, 2015 through the date of this report, the Company received \$1,400,000 in distributions from its investment in MESC.