REGENCY AFFILIATES INC
Form 10-Q
January 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10 Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission File No. 001-07949

REGENCY AFFILIATES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	72-0888772 (I.R.S. Employer Identification No.)
610 Jensen Beach Boulevard Jensen Beach, Florida (Address of Principal Executive Office)	34957 (Zip Code)

(772) 334-8181
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act, (Check one):

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes o No o

Indicate by check mark whether Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

NUMBER OF SHARES OF COMMON STOCK, PAR VALUE $0.01 PER SHARE
OUTSTANDING AS OF January 4, 2010: 3,468,544

REGENCY AFFILIATES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet

Assets

	September 30, 2009 (Unaudited)	December 31, 2008
Current Assets		
Cash and cash equivalents	$3,288,093	$7,469,213
Marketable securities	3,800,000	2,900,000
Interest receivable, net of allowance of $644,109	-	-
Other current assets	194,575	404,424
Total Current Assets	7,282,668	10,773,637
Property, plant and equipment, net	6,408	9,283
Investment in partnerships/LLC	13,051,940	10,972,900
Deferred tax asset	1,105,000	1,105,000
Other	1,300	1,300
Total Assets	$21,447,316	$22,862,120
Liabilities and Stockholders’ Equity		
Current Liabilities		
Accounts payable and accrued expenses	$331,679	$300,600
Settlement payable	-	3,025,269
Total Liabilities	331,679	3,325,869
Stockholders' equity		
Serial preferred stock Series C and D, 234,544 shares outstanding, not subject to mandatory redemption (Maximum liquidation preference $21,141,940)	486,076	486,076
Common stock, par value $.01; authorized 8,000,000 shares; issued 3,534,812 shares; outstanding 3,468,544 shares	35,349	35,349
Additional paid-in capital	7,376,219	7,281,219
Readjustment resulting from quasi-reorganization at December 1987	(1,670,596)	(1,670,596)
Retained earnings	15,297,439	13,813,053
Note receivable - sale of stock, net of allowance of $2,440,000	-	-
Treasury stock, 66,268 shares at cost	(408,850)	(408,850)
Total Stockholders' Equity	21,115,637	19,536,251
Total Liabilities and Stockholders’ Equity	$21,447,316	$22,862,120

The attached notes are an integral part of these financial statements.

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2009	2008	2009	2008
Net Sales	$-	$-	$-	$-
Costs and expenses				
General and administrative expenses	318,052	555,415	876,156	1,177,946
	318,052	555,415	876,156	1,177,946
Loss from operations	(318,052)	(555,415)	(876,156)	(1,177,946)
Income from equity investment in partnerships	1,594,008	1,233,922	2,429,041	2,447,050
Interest and dividend income	1,470	43,318	43,308	140,693
Interest expense	(1,783)	72	(20,606)	72
Net income before income taxes	1,275,643	721,887	1,536,615	1,409,869
Income tax expense	32,055	37,499	52,229	58,560
Net Income	$1,243,588	$684,388	1,484,386	1,351,309
Net Income per common share				
Basic	$.35	$.19	$.42	$.38
Diluted	$.33	$.18	$.40	$.36
Weighted average number of common shares outstanding				
Basic	3,534,812	3,534,812	3,534,812	3,533,032
Diluted	3,744,489	3,741,954	3,695,811	3,752,528

The attached notes are an integral part of these financial statements.

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2009	2008
Cash Flows from operating activities		
Net income	$ 1,484,386	$ 1,351,309
Adjustments to reconcile net income to		
net cash used in operating activities		
Depreciation and amortization	2,875	2,875
(Income) from equity investment in partnerships	(2,429,040)	(2,447,050)
Stock based compensation	95,000	154,200
Changes in operating assets and liabilities		
Other current assets	209,849	(16,097)
Accounts payable and accrued expenses	31,079	(91,629)
Settlement payable	(3,025,269)	-
Net cash (used in) operating activities	(3,631,120)	(1,046,392)
Cash flows from investing activities		
Proceeds from partnership distributions	350,000	1,375,000
Proceeds from sales of marketable securities	54,600,000	60,000,000
Purchases of marketable securities	(55,500,000)	(57,416,237)
Net cash provided by (used in) investing activities	(550,000)	3,958,763
Increase (decrease) in cash and cash equivalents	$ (4,181,120)	$ 2,912,371
Cash and cash equivalents – beginning	7,469,213	253,566
Cash and cash equivalents – ending	$ 3,288,093	$ 3,165,937

	Nine Months Ended September 30, 2009	2008
Supplemental disclosures of cash flow information:		
Cash paid during the period for		
Interest	$ 20,606	$ -
Income taxes	$ 139,905	$ 103,814

The attached notes are an integral part of these financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q of Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Principles of Consolidation - The consolidated financial statements include the accounts of Regency Affiliates, Inc. (the "Company"), its wholly owned subsidiaries, Regency Power, Inc. and Rustic Crafts International, Inc. ("Rustic Crafts"), its 75% owned subsidiary, Iron Mountain Resources, Inc. ("IMR"), and its 80% owned subsidiary, National Resource Development Corporation ("NRDC"). All significant intercompany balances and transactions have been eliminated in consolidation.

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 and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Reclassifications – Certain items in the financial statements for 2008 have been reclassified to conform with the current 2009 period presentation. Such reclassification had no effect on net income.

Note 2. Related Party Transactions

In December 2005, the Company's wholly owned subsidiary, Rustic Crafts, entered into a stipulation of settlement with RCI Wood Products ("RCI") regarding outstanding indebtedness with RCI. Under the terms of this settlement, RCI agreed to pay to Rustic Crafts the sum of $125,000 with interest at six and one-half percent per annum, payable in thirty-five (35) monthly installments of $1,088 each, commencing in January 2006. No payments have been received since March 2006. RCI defaulted on the note in April 2006. The Company had initiated an action for collection against RCI and personal guarantor of the note. In June 2008, the Company sold the above mentioned notes to a collection agency for $1,000 plus 50% of any amounts received, less expenses of up to $2,500. To date, the Company has received $1,000 from the collection agency and the collection agency has not received any proceeds on the notes.

During the nine month periods ended September 30, 2009 and 2008, the Company paid $31,500 in each quarter pursuant to a license agreement entered into with Royalty Management, Inc. ("Royalty"), an entity wholly owned by Laurence Levy, the Company's President and Chief Executive Officer, for office space, office supplies and services.

During the nine month period ended September 30, 2009 and 2008, the Company incurred directors' fees of $27,000 and $27,000, respectively for services rendered.

Note 3. Stock Based Compensation

During the nine month period ended September 30, 2009, the Company issued 50,000 options to purchase shares of the Company's common stock to an officer of the Company. The stock options are exercisable at $2.90 per share and expire on April 30, 2019. The fair value of the stock options granted was $95,000.

The fair value of the Company's stock based compensation was estimated using the Black-Scholes option pricing model which uses highly subjective assumptions including the expected stock price volatility. The fair value of the Company's stock options was estimated using the following

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assumptions: no expected dividends, risk free interest rate of 3,16%, expected average life of 8 years and an expected stock price volatility of 60%. The weighted average fair value of options granted was $1.35.

On August 13, 2008, the Company's Board of Directors approved an amendment to the Company's 2003 Stock Incentive Plan, as amended, which increased the number of authorized shares available under the Plan from 500,000 to 750,000. All other terms of the Plan remain in full force and in effect.

During the nine month period ended September 30, 2008, the Company issued 50,000 options to purchase shares of the Company's common stock to an officer of the Company. The stock options are exercisable at $4.20 per share. The fair value of the stock options granted was $154,200.

The fair value of the Company's stock based compensation was estimated using the Black-Scholes option pricing model which uses highly subjective assumptions including the expected stock price volatility. The fair value of the Company's stock options was estimated using the following assumptions: no expected dividends, risk free interest rate of 3.94%, expected average life of 7 years and an expected stock price volatility of 62.08%.

During the nine month period ended September 30, 2008, the Company issued 3,000 shares of the Company's common stock to a director for payment of director fees for the fiscal year ended December 31, 2006, the fiscal year ended December 31, 2007 and for the first three months of the fiscal year ending December 31, 2008. The value of the stock amounted to $14,850.

.Note 4. Uncertainties and Contingencies

The Company and Security Land and Development Company Limited Partnership ("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. For the years 2004 through 2008, the Company reported to the Internal Revenue Service (the "IRS") taxable income (loss) from Security Land in a manner the Company believes is proper, but which is different than was reported by Security Land. This disagreement has not been resolved. The discrepancy may cause the Company's tax returns to be audited by the IRS. The Company believes that the outcome of any IRS examination will not affect the financial statements of the Company as net operating losses are available to offset any additional income not reported. Effective September 15, 2009, the Company adopted the Financial Accounting Standards Board Accounting Standards Codification (ASC) 740-10, "Accounting for Uncertainty in Income Taxes" which supercedes FIN 48.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon

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initial adoption. The cumulative effect of applying FIN 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN 48 was effective for the Company's fiscal year ended December 31, 2008 and no cumulative effects are reported through September 30, 2009.

On June 15, 2009, the Court of Chancery of the State of Delaware (the "Court") entered an order approving a stipulation of settlement (the "Settlement") of the class action lawsuit (the "Action") filed in the Court and captioned Edward E. Gatz, et al. v. William R. Ponsoldt, Sr., et al., (C.A. No. 174-CC). The period for appeal of the Settlement expired on July 15, 2009.

The terms of the Settlement are in all material respects identical to the terms of the Memorandum of Understanding entered into among the parties to the Action on April 28, 2008. Pursuant to the Settlement, on July 17, 2009, the Company paid $3,045,874.72 into escrow for the benefit of the plaintiff class. The plaintiff class is defined in the Settlement as all record and beneficial owners of Company common stock on October 17, 2002, including any and all of their respective successors in interest, predecessors, representatives, trustees, executors, administrators, heirs, immediate and remote, and any person or entity acting for or on behalf of, or claiming under any of them, and each of them. The plaintiff class does not include the defendants, members of their families, affiliates of the defendants, and those individuals or entities who solely held securities convertible into Company common stock or options to purchase Company common stock. The Company made the settlement payment pursuant to its obligation to indemnify the defendants who are former directors of the Company. In connection with the Settlement, and with the assistance of independent counsel, the Company determined that indemnification of its former directors is appropriate under Delaware law. The Settlement expressly provides that the defendants admit no wrongdoing but have agreed to the Settlement to eliminate the uncertainty, distraction, burden and expense of further litigation.

Regency's insurance carrier has denied coverage with respect to the claims contained in the Action on the basis of the "insured vs. insured" exclusion since one of the plaintiffs, Donald D. Graham, was previously a director of the Company.

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Note 5. Subsequent Events

Effective 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 ("the Series D Preferred Stock") for $10.00 per share ($256,940.00 in the aggregate for the 25,694 shares of Series D Preferred Stock outstanding). As of January 4, 2010 the Company has paid $112,430 to Shareholders for the redemptions.

On December 24, 2009, the Company issued notices of redemption to the holders of its outstanding shares of Cumulative, Senior Preferred Stock $100, Series C, par value $0.10 per share (the "Series C Preferred Stock"), with an effective redemption date of January 11, 2010. From and after the redemption effective date, the Series C Preferred Stock will no longer be deemed to be outstanding, and all rights of the holders thereof as stockholders of the Company shall cease (other than the right to receive the redemption price from the registrant). The redemption price paid for the Series C Preferred Stock (the "Series C Redemption Price") will be satisfied by delivery to each holder of Series C Preferred Stock of a percentage of the common stock of NRDC ("NRDC Common Stock"), currently owned by the Company equal to the percentage of the outstanding shares of Series C Preferred Stock owned by such holder, rounded to the nearest whole share. Following payment of the Series C Redemption Price to all holders of Series C Preferred Stock, the Company will not own any NRDC Common Stock.

Note 6. New Accounting Prononuncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10 Generally Accepted Accounting Principles-Overall ("ASC 105-10"). ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

Effective April 1, 2009, the Company adopted FASB ASC 855-10, Subsequent Events — Overall ("ASC 855-10"). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date — that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Adoption of ASC 855-10 did not have a material impact on the Company's results of operations or financial condition.

Effective July 1, 2009, the Company adopted FASB ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) (“ASU 2009-05”). ASU 2009-05 provided amendments to ASC 820-10, Fair Value Measurements and Disclosures — Overall, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company’s results of operations or financial condition.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to those regarding the Company's financial position, business strategy, acquisition strategy and other plans and objectives for future operations and any other statements that are not historical facts constitute "forward-looking statements" within the meaning of federal securities laws and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected effect on its business or operations. These forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors (including, but not limited to, those described in our Annual Report on Form 10-K under Item 1A – Risk Factors and those specified below) which are difficult to predict and, in many instances, are beyond the control of the Company.

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the accompanying financial statements and related notes included in Item 1 of this report.

GENERAL.

We are committed to enhancing the value of our common stock by seeking opportunities to monetize certain existing assets and by seeking new business opportunities on an opportunistic basis. No assurance can be given that we will be successful identifying or securing a desirable business opportunity, and no assurance can be given that any such opportunity that is identified and secured will produce favorable results for us and our stockholders.

LIQUIDITY AND CAPITAL RESOURCES.

On September 30, 2009, we had current assets of $7,282,668 and stockholders' equity of $21,115,637. On September 30, 2009, we had $7,088,093 in cash and marketable securities, total assets of $21,447,316 and total current liabilities of $331,679.

The most significant sources of cash are our equity investment in MESC Capital LLC ("MESC Capital") and interest and dividends earned from existing cash and cash equivalents. In the event that cash flows from operating activities are not sufficient, we could liquidate marketable securities as necessary. We believe our cash flow from operations and existing cash and cash equivalents will be adequate to satisfy our cash needs for the next twelve months.

The most significant uses of cash are for employee compensation and professional fees for legal and accounting services.

Currently, there are no plans for external financing of current operations or holdings.

The Company and 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 2008, the Company reported to the IRS taxable income (loss) from Security Land in a manner the Company believes is proper, but which is different than the manner reported by Security Land. This disagreement has not been resolved. The discrepancy may cause the Company's tax returns to be audited by the IRS. The Company believes that the outcome of any IRS examination will not materially affect the financial statements of the Company as net operating losses are available to offset any additional income not reported.

On September 30, 2002, our subsidiary, Rustic Crafts International, Inc. ("Rustic Crafts") sold all of its operating assets subject to the assumption of certain of its liabilities. Prior to the sale, Rustic Crafts had established a $1,000,000 line of credit with PNC Bank which was guaranteed by the Company and expired on May 18, 2002. In conjunction with the Rustic Crafts asset sale, Rustic Crafts' indebtedness under the line of credit together with its $960,000 mortgage loan from PNC Bank and certain other indebtedness to PNC Bank was restructured to replace such indebtedness with five notes totaling $2,432,782 and have a ten year amortization schedule. The notes bear interest at the blended rate of 10.8% per annum. As part of the PNC Bank debt restructuring, Rustic Crafts was required to pay down the outstanding loan balance with $200,000 of the purchase price in the Rustic Crafts asset sale, and was required to make a $540,000 payment in December 2002. A $40,000 payment was made to PNC Bank in December 2002, but Rustic Crafts and the Company failed to make the balance of the December 2002 payment. Accordingly, the PNC Bank debt was subsequently modified to provide for the payment of the remaining $500,000 payment on or before June 30, 2003. On June 30, 2003, we paid all outstanding principal and interest due to PNC Bank, in satisfaction of the above described obligations. In December 2005, Rustic Crafts agreed to accept a $125,000 note from RCI Wood Products, Inc ("RCI") as a restructuring of the above named obligation. The note bears an interest rate of 6.5% and calls for payments of $1,088 per month until December 2008 at which time the balance will be due and payable. Since the quarter ended March 31, 2006, Rustic Crafts has not received any payments under this obligation. In April 2006, RCI defaulted on the note. We have initiated an action for collection against RCI and the personal guarantor of the note. In June 2008, we sold the above mentioned notes to a collection agency for $1,000 plus 50% of any amounts received, less expenses of up to $2,500. To date, we have received $1,000 from the collection agency and the collection agency has not received any proceeds on the notes.

In connection with the redemption of our common stock owned by Statesman Inc. ("Statesman"), we acquired from Statesman a three-year option to purchase the 20% stock interest in NRDC held by Statesman. To exercise the option, we were required to deliver to Statesman for cancellation a $2,440,000 note issued to us by Statesman in October 2001. As consideration for the option, we (i) paid Statesman $250,000, (ii) amended the note and related pledge agreement to limit our recourse under the note and (iii) transferred to Statesman certain office furniture and equipment that we owned. This option expired in October 2005. As part of the redemption, we also entered into an agreement with Statesman providing for (i) an amendment to the Certificate of Designations of the Series C Preferred Stock for the Company and (ii) certain limitations on the ability of Statesman to issue or transfer shares or other beneficial interests in Statesman or to sell, transfer, purchase or acquire any capital stock of the Company, in each case without first receiving our written confirmation that such issuance or transfer would not adversely affect our ability to utilize our tax loss carryforwards. We paid Statesman an aggregate amount of $2,730,000 in consideration of the foregoing agreements. As of June 30, 2008, through the date of this Form 10-Q, we have not collected the $2,440,000 note and accrued interest of approximately $644,000 due from Statesman. We have sent demand and default notices to Statesman but we have not received a response to date. Per the terms of the Agreement, upon event of default, overdue principal and overdue interest will bear interest, payable upon demand, at a rate of twelve percent (12%) per annum, and the pledged securities may be transferred into our name, or sold for proceeds to satisfy the obligation and collection costs incurred. We have currently reserved the receivable balance in full while we continue our collection efforts. The reserve adjustment included a charge to impairment of loans as other expense in the 2006 statement of operations, and an allowance against the note within equity.

Filing of Going Private Proxy Statement

On December 14, 2005, we filed with the SEC a preliminary Schedule 13E-3 Transaction Statement with respect to a going private transaction and a preliminary Schedule 14A Proxy Statement soliciting stockholders to vote on amending our certificate of incorporation to provide for a 1-for-100 reverse stock split (the “Reverse Stock Split”) followed immediately by a 50-for-1 forward stock split of our common stock (the “Forward Stock Split”), which would result in the reduction of the number of common stockholders of record of the Company to fewer than 300. This will permit us to discontinue the filing of annual and periodic reports and other filings with the SEC. Once the Schedule 13E-3 Transaction Statement and Schedule 14A Proxy Statement are approved in a definitive form by the SEC, we will mail
copies to stockholders. We currently intend to effect the Reverse Stock Split and Forward Stock Split as soon as possible after such distribution.

RESULTS OF OPERATIONS

Three months ended September 30, 2009 compared to the three months ended September 30, 2008:

No revenue was generated by the Company in these periods.

General and administrative expenses decreased by $237,363 or 42.7% to $318,052 in the third quarter of 2009 compared to $555,415 in the comparable period of 2008 primarily due to a decrease in professional fees of $85,435 and a decrease in salaries, taxes, and stock based compensation expense of $166,626 offset by increases in office supplies and services of $14,698.

Income from equity investments in partnerships increased by $360,086 in 2009, 29.2% higher than in 2008. Our investment in MESC Capital produced income of approximately $1,014,000 in the quarter ended September 30, 2009 as compared to a net income of approximately $762,000 in the quarter ended September 30, 2008 primarily due to increased labor and repairs and maintenance costs that offset an increase in energy sales in the same period in 2009. Our investment in Security Land returned income of approximately $578,000 in the quarter ended September 30, 2009 as compared to $471,000 in the quarter ended September 30, 2008, as revenue increased due to rental income adjustments related to the consumer price index and tenant reimbursements of approximately $140,000 that offset an increase in expenses of approximately $33,000.

Net income increased by $559,200 or 81.7% in the quarter ended September 30, 2009 compared to the quarter ended September 30, 2008. The increase was due to an increase in income from equity investment in partnerships, and the reduction in general and administrative expenses from 2008.

Nine months ended September 30, 2009 compared to the nine months September 30, 2008:

No revenue was generated by the Company in these periods.

General and administrative expenses decreased by $301,790 or 25.6% to $876,156 in 2009 compared to $1,177,946 in 2008 primarily due to a decrease in professional fees of $277,966, a decrease in salaries, taxes, benefits, and stock based compensation of $40,549 offset by an increase in office expenses of $16,725.

Income from equity investment in partnerships decreased by $18,009, 0.7% lower than 2008. Our investment in MESC Capital produced income of approximately $1,066,000 in the nine month period ended September 30, 2009 as compared to a net income of approximately $1,148,000 in the nine month period ended September 30, 2008 primarily due to increased repairs and maintenance costs that offset an increase in energy sales in the same period in 2009. Our investment in Security Land returned income of approximately $1,363,000 in the nine month period ended September

30, 2009 as compared to $1,299,000 in the nine month period ended September 30, 2008, as revenue increased by approximately $175,000 primarily due to rental income increases related to the consumer price index, offset by expenses that increased by approximately $111,000 due to increases in administrative and maintenance costs.

Net income increased by $133,077 in the nine months ended September 30, 2009 over the nine months ended September 30, 2008 or 9.8%, primarily due to a reduction of approximately $136,000 in interest and dividend income and $18,000 in partnership income, offset by the decrease in general and administrative expenses of approximately $301,000 and an increase in interest expense of $20,000 and income taxes of $6,000.

Our Stockholders' Equity at September 30, 2009 was $21,115,637 as compared to $19,536,251 at December 31, 2008, an increase of $1,579,386 which is primarily due to the 2009 year to date net income offset by a stock based compensation adjustment to additional paid in capital of $95,000 recorded in April 2009.

Impact of Inflation.

Although we have not attempted to calculate the effect of inflation, management does not believe inflation has had a material effect on the Company’s results of operations.

Off-Balance Sheet Arrangements.

We have not entered into any off-balance sheet arrangements.

Critical Accounting Estimates.

Accounting estimates and assumptions discussed in this section are those considered most critical to understanding the financial statements because they involve significant judgments and uncertainties. For these estimates, we caution that future events may not develop as forecast, and that the best estimates often require adjustment.

Investments - These assets are reviewed for impairment based on criteria that include the extension which cost exceeds market value, the duration of that decline, and the Company's ability to hold to recovery. Market research and analysis is performed to identify potential impairments on a regular basis.

Note Receivable - These assets are reviewed for collectibility on an ongoing basis. Any notes deemed uncollectible have been offset by an allowance and related accrued interest has been charged to expense.

Income Taxes - As stated above, assumptions have been made that taxable income that may result from a possible IRS examination will be offset by existing net operating losses generated by the Company from prior periods. Other assumptions have been made that these net operating losses will not be limited or disallowed, which could affect the results of operations in future periods.

The Company has significant net operating losses available to offset future taxable income. The losses have been converted into deferred tax assets using an estimated 34% tax rate. These deferred tax assets have been offset with a valuation allowance established to reduce the net deferred tax asset to the amount that will more likely than not be realized. This reduction is necessary due to uncertainty of the Company's ability to utilize the net operating loss and tax credit carry forwards before they expire.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a smaller reporting company as defiined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, and is not required to provide information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of Our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

No change occurred in our internal controls over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no material changes to the disclosure made in our Annual Report on Form 10K for the year ended December 31, 2008 regarding these matters.

ITEM 1A. RISK FACTORS

Part I, Item 1A — “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2008, describes important factors that could materially affect our business, financial condition and/or future results and cause our operating results to differ materially from those indicated, projected or implied by forward-looking statements made in this Quarterly Report or presented elsewhere by management from time to time. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company; additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results and cause our operating results to differ materially from those indicated, projected or implied by forward-looking statements made in this Quarterly Report or presented elsewhere by management from time to time.

There have been no material changes with respect to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

3.1(i)(a)	Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(a) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(b)	Corrected Certificate of Amendment reflecting amendment to Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(c)	Certificate of Amendment of Restated Certificate of Incorporation of Regency Affiliates, Inc. (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on October 27, 2003 and incorporated by reference herein).
3.1(i)(d)	Certificate of Designation - Series B Preferred Stock, $10 Stated Value, $.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).
3.1(i)(e)	Amended and Restated Certificate of Designation, Series C Preferred Stock, $100 Stated Value, $.10 par value (filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on October 18, 2002, and incorporated herein by reference).
3.1(i)(f)	Certificate of Designation - Series D Junior Preferred Stock, $10 Stated Value, $.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).
3.1(i)(g)	Certificate of Designation - Series E Preferred Stock, $100 Stated Value, $.10 par value (filed as Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 at page E-1, and incorporated herein by reference).
3.1(ii)(a)	By-laws of the Company (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration Number 2-86906, and incorporated herein by reference).
3.1.(ii)(b)	Amendment No. 1 to By-Laws of the Company (filed as Exhibit 3.1(ii)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
31.1+	Chief Executive Officer’s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2+	Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Chief Executive Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Chief Financial Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGENCY AFFILIATES, INC.

Date January 6, 2010	By:	/s/ Laurence S. Levy Laurence S. Levy President and Chief Executive Officer
Date January 6, 2010	By:	/s/ Neil N. Hasson Neil N. Hasson Chief Financial Officer

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