Regency Affiliates, Inc. and Subsidiaries

Consolidated Financial Statements

March 31, 2016 and 2015

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

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Independent Accountant's Review Report

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

We have reviewed the accompanying consolidated financial statements of Regency Affiliates Inc. and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of income, changes in shareholders equity and cash flows for the three months then ended, and the related notes to the consolidated financial statements. 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's Responsibility for the 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
October 13, 2016

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2016	March 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 7,152,730	$ 8,228,008
Prepaid expenses	303,930	260,124
Prepaid insurance	90,600	-
Prepaid income taxes	410,140	78,318
Rent receivable	-	15,000
Total Current Assets	7,957,400	8,581,450
Property, plant and equipment, net	-	1,549
Investment in partnerships / LLC	32,829,022	29,749,858
Prepaid insurance, net of current portion	535,750	-
Other assets	222,958	3,031
Total Assets	$ 41,545,130	$ 38,335,888
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 273,600	$ 57,962
Income taxes payable	84,933	173,346
Dividends payable	217,346	199,571
Preferred Series D redemptions payable	-	25,510
Total Current Liabilities	575,879	456,389
Total Liabilities	575,879	456,389
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; 3,699,511 and 3,628,559 issued and outstanding, respectively	36,995	36,286
Additional paid in capital	5,056,987	4,912,696
Retained earnings	35,875,269	32,930,517
Total Shareholders' Equity	40,969,251	37,879,499
Total Liabilities and Shareholders’ Equity	$ 41,545,130	$ 38,335,888

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Income

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net Sales	$ -	$ -
Costs and expenses		
General and administrative expenses	711,070	304,461
Loss from operations	(711,070)	(304,461)
Other income		
Income from equity investment in partnerships / LLC	1,178,478	1,619,422
Rental income	1,500	1,500
Interest income	2,384	-
Total other income	1,182,362	1,620,922
Net income before income taxes	471,292	1,316,461
Income tax expense (benefit)	(39,817)	319,100
Net Income	$ 511,109	$ 997,361

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
For the Year Ended December 31, 2015 and
the Three Months Ended March 31, 2016

	Preferred Stock		Common Stock		Additional Paid in	Retained	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balance - January 1, 2015	-	$ -	3,628,559	$ 36,286	$ 4,912,696	$ 32,132,727	$ 37,081,709
Common stock options exercised	-	-	50,000	500	144,500	-	145,000
Cash dividends paid	-	-	-	-	-	(618,007)	(618,007)
Cash dividends declared	-	-	-	-	-	(216,115)	(216,115)
Net income	-	-	-	-	-	4,282,901	4,282,901
Balance - December 31, 2015	-	-	3,678,559	36,786	5,057,196	35,581,506	40,675,488
Cashless exercise of common stock options	-	-	20,952	209	(209)	-	-
Cash dividends declared	-	-	-	-	-	(217,346)	(217,346)
Net income	-	-	-	-	-	511,109	511,109
Balance - March 31, 2016	-	$ -	3,699,511	$ 36,995	$ 5,056,987	$ 35,875,269	$ 40,969,251

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

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 511,109	$ 997,361
Adjustments to reconcile net income to net cash used in operating activities:		
Income from equity investment in partnerships / LLC	(1,178,478)	(1,619,422)
Depreciation	-	518
Bad debt expense	21,000	
Changes in assets and liabilities		
(Increase) decrease in prepaid expenses	(194,526)	13,703
(Increase) decrease in prepaid income taxes	(210,571)	140,861
(Increase) decrease in rent receivable	(1,500)	(1,500)
(Increase) in prepaid insurance	(626,350)	-
(Increase) in other assets	(201,329)	-
Increase (decrease) in accounts payable and accrued expenses	142,247	(9,758)
Increase (decrease) in income taxes payable	19,912	(11,800)
Net cash used in operating activities	(1,718,486)	(490,037)
Cash flows from investing activities:		
Distribution of earnings from partnership	800,000	700,000
Net cash provided by investing activities	800,000	700,000
Cash flows from financing activities:		
Dividends paid to common shareholders	(216,115)	(199,571)
Net cash used in financing activities	(216,115)	(199,571)
Increase (decrease) in cash and cash equivalents	(1,134,601)	10,392
Cash and cash equivalents – beginning	8,287,331	8,217,616
Cash and cash equivalents – ending	$ 7,152,730	$ 8,228,008

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ 169,342	$ 195,539

Schedule of Non-Cash Investing and Financing Activities:

Common stock dividends declared	$ 217,346	$ 199,571
Cash less exercise of stock options	$ 209	$ -

See independent accountant's review report and accompanying 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 March 31, 2016 and 2015:

	2016	2015
Machinery and equipment	$ 11,752	$ 11,752
Less: Accumulated depreciation	11,752	10,203
	$ -	$ 1,549

Depreciation expense was $-0- and $518 for three months ended March 31, 2016 and 2015, 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 refund 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 October 13, 2016, 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 that 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 three months ended March 31, 2016 and 2015, the Company's income from its equity investment in Security Land was $940,143 and $862,846, 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 2015, Security Land remitted $18,343 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:

	2016	2015
Balance Sheet Data		
Cash and cash equivalents	$ 209,194	$ 243,854
Restricted cash	3,286,170	2,846,676
Real estate, net	9,414,929	11,900,195
Deferred charges, net	1,295,266	1,922,013
Receivables and other assets	1,139,022	1,140,285
Total Assets	$ 15,344,581	$ 18,053,023
Accounts payable and accrued expenses	$ 108,603	$ 139,337
Project note payable	30,085,149	36,989,673
Accrued interest payable	61,962	76,182
Total Liabilities	30,255,714	37,205,192
Partners' capital (deficit):		
Total Partners' Capital (Deficit)	(14,911,133)	(19,152,169)
Total Liabilities and Partner's Capital (Deficit)	$ 15,344,581	$ 18,053,023
Statement of Operations Data		
For the three months ended March 31,:		
Revenues	$ 3,482,162	$ 3,458,549
Expenses	1,645,747	1,703,499
Net income from operations	1,836,415	1,755,050
Other expenses	(846,791)	(846,791)
Net income	$ 989,624	$ 908,259

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 $2,474 and $2,271 for the three months ended March 31, 2016 and 2015, respectively, from this investment. In September 2015, Security Land remitted $12,388 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 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 pursuant to an Amended and Restated Tissue Mill and Energy Services and Site Coordination Agreement that expires on or about April 30, 2019. 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 $235,861 and $754,305 for the three months ended March 31, 2016 and 2015, respectively, from this investment.

Note 3. Investment in MESC Capital LLC (continued)

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

	2016	2015
Balance Sheet Data		
Cash and cash equivalents	$ 583,928	$ 1,803,922
Restricted cash	6,830,302	8,646,249
Trade receivable	3,059,570	1,527,080
Current portion of net investment in direct financing lease	2,518,708	2,327,145
Inventory	4,025,998	4,079,213
Prepaid expenses and other current assets	73,479	86,016
Total current assets	17,091,985	18,469,625
Debt issuance costs	117,702	196,273
Property, plant and equipment, net	17,576	25,621
Investment in direct financing lease, net of current portion	5,923,916	8,442,623
Total assets	$ 23,151,179	$ 27,134,142
Accounts payable	$ 1,540,308	$ 1,092,043
Accrued liabilities	106,575	103,257
Current portion of long-term debt	2,679,000	2,496,600
Total current liabilities	4,325,883	3,691,900
Long-term debt, net of current portion	7,669,000	10,348,000
Total liabilities	11,994,883	14,039,900
Members’ equity	11,156,296	13,094,242
Total liabilities and members’ equity	$ 23,151,179	$ 27,134,142
Statement of Operations Data		
For the three months ended March 31,:		
Revenues	$ 3,950,676	$ 4,003,255
Expenses	3,478,954	2,494,644
Income from operations	471,722	1,508,611
Other income (expense)	-	-
Net income	$ 471,722	$ 1,508,611

Note 4. Serial Preferred Stock

At March 31, 2016 and 2015, 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 was 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. From and after the redemption effective date in 2009, the Series D Preferred Stock is no longer deemed outstanding, and all rights of the holders thereof as stockholders of the Company ceased. As of March 31, 2016 and 2015, the Company has paid $256,940 and $231,430, respectively, to stockholders for the redemptions. As of March 31, 2015, the Company owed $25,510 to Series D Preferred stockholders who had not yet redeemed their shares. All redemption proceeds were paid in full as of December 31, 2015.

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, 2016 or 2015.

In March 2016, a corporate officer exercised 50,000 common stock options with a strike price of $6.27 nearing expiration, on a cashless basis. Total common shares issued amounted to 20,952.

No options were exercised during the three months ended March 31, 2015.

As of March 31, 2016, 110,000 shares remain available for issuance under the 2003 Plan.

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, 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	$ 2.60 - 6.50	255,000	$ 4.95	3.71
Vested and Exercisable at 3/31/15	$ 2.60 - 6.50	255,000	$ 4.95	3.71

The following is a summary of the status of the Company's options for the three months ended March 31, 2016:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at 1/1/16	$ 2.60 - 6.50	205,000	$ 5.45	2.86
Issued	-	-	-	-
Exercised, forfeited or expired	6.27	50,000	6.27	-
Outstanding at 3/31/16	$ 2.60 - 6.50	155,000	$ 5.18	3.45
Vested and Exercisable at 3/31/16	$ 2.60 - 6.50	155,000	$ 5.18	3.45

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.

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 2014 tax return has recently been selected for examination 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 believes it is no longer subject to income tax examinations for years prior to 2013 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.

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 2015, 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. An investigation or other action by the applicable tax authorities to resolve this difference could have an adverse impact on the Company's operations and financial results.

To safeguard itself from any possible negative impact, in February 2016, the Company purchased an insurance policy and binder to insure against the negative tax consequences should any arise from the disagreement with Security Land regarding reported taxable income allocations (See Notes 3 and 9). The Company paid $633,900 for the policy and binder which provide coverage of up to $10 million over the next seven years in the event the IRS or a state taxing authority were to investigate and reject the Company's tax positions taken. The policy is subject to certain limitations, exclusions and retentions.

For the three months ended March 31, 2016 and 2015, the Company has recorded tax expense (benefit) of ($51,000) and $245,000, respectively, for regular Federal income taxes, and $11,183 and $74,100, respectively, for state income taxes. The Company's applicable statutory tax rates are 34% and 5.5% for federal and state tax purposes. The reconciliation of the statutory effective tax rate for the three months ended March 31, are as follows:

	2016	2015
Expense related to income before income taxes	$ 160,000	$ 448,000
State taxes, net of Federal benefit	26,000	72,000
Permanent differences	(251,000)	(184,000)
Other	25,183	(16,900)
Total income tax (benefit)	$ (39,817)	$ 319,100

Note 7. Employment Agreements

During 2016 and 2015, 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 employment agreement with Mr. Levy has been continued subsequent to the balance sheet date.

The Company's Chief Financial Officer, Marc H. Baldinger, did not have an employment agreement with the Company. Mr. Baldinger earned a base salary, SEP IRA contributions and expense reimbursements. Effective March 2016, Mr. Baldinger resigned from this position.

Effective January 1, 2015, a 3% increase in base salaries for the Company's CEO and CFO was approved by the Board of Directors.

Effective January 1, 2016, 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. This License Agreement was terminated effective September 30, 2015, at which time Regency began paying the monthly New York City office rent of $11,158 directly to the landlord through March 31, 2016. During the three months ended March 31, 2015, Regency expensed $31,500 for this related party License Agreement.

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. Subsequent annual 3% increases have been approved through 2016.

During the three months ended March 31, 2016 and 2015, the Company incurred directors' fees of $10,924 and $5,300, respectively, for services rendered. As of March 31, 2016 and 2015, directors' fees of $-0- and $5,303, respectively, 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 was $500, effective January 1, 2012. Sub-lease rental income from this related party was $1,500 for each quarter ended March 31, 2016 and 2015. In March 2016, the Company terminated the sub-lease rental agreement with the entity, at which time management determined the $21,000 outstanding receivable balance to be uncollectible and charged it to expense.

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 losses 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.

Note 9. Contingencies, Risks and Uncertainties (continued)

(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 2015, 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 (See Note 6). This may result in an investigation or other action by the applicable tax authorities and any action taken by tax authorities to resolve this difference could have an adverse impact on the Company's operations and financial results. In February 2016, the Company obtained an insurance policy to protect against such losses, however, it may not be sufficient under all circumstances to cover all potential losses to the Company in the event of any such adverse determinations.

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.

In September 2015, the Florida office lease was extended for an additional five years. Per the terms of this First Lease Amendment, base rental payments of $26,754, remain the same for 2016, until January 2017 through December 2020, at which time annual base rental payments will increase by the prior year's Consumer Price Index percentage adjustments (See Note 14).

Rent expense was $7,090 and $5,613 for the three months ended March 31, 2016 and 2015, respectively.

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, 2016 and 2015. In March 2016, the Company terminated the sub-lease rental agreement with the entity, at which time, management determined the $21,000 outstanding receivable balance to be uncollectible and charged it to expense.

In January 2016, Regency paid a $201,329 security deposit and entered into a new, seven-year office lease agreement, for a 4,081 square foot space for its New York City location. Base rental payments under this agreement are $74 per square foot per year, with a 1.75% fixed annual escalation. In addition, the Company is responsible to pay the tenant's share of real estate tax increases above the 2016/2017 base year and electricity usage. A rent concession has been granted to waive the first three months' rent. On the third anniversary of rent commencement, and provided the Company is not in default of any rental obligations, the landlord agrees to reduce the security deposit to six months' base rent, or approximately $151,000. The lease also contains an early termination clause, which is effective after five years, with proper notice and payment of an early termination fee. The office relocated in May 2016, the first month of the lease term.

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, 2016 and 2015, the Company expensed contributions of $97,588 and $72,293, 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. Private Offering of Common Stock

On March 16, 2016, the Company commenced a private stock offering of up to 1,212,121 shares of common stock at a purchase price of $8.25 per share, to its shareholders of record as of January 22, 2016, who are accredited investors as defined in Rule 501 of Regulation D under the Securities Act of 1933. The offering, originally set to expire on April 7, 2016, was extended to May 12, 2016. At the close of the offering, 1,078,633 common shares were sold for total gross proceeds raised of $8,898,722.

Note 13. 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. In September 2015, the Board again amended the Policy and increased the total annual dividend to common shareholders to $0.235 per share, to be paid in equal, quarterly installments of $0.05875 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 2016.

In March 2016, the Board of Directors declared a quarterly $0.05875 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on March 31, 2016, payable on April 7, 2016. The total dividend of $217,346 was paid from surplus earnings of the Company in April 2016.

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.

Note 14. Subsequent Events

On April 6, 2016, the Company formed a wholly owned subsidiary, RSS Investments, LLC. On April 18, 2016, the Company, through its newly formed wholly owned subsidiary, entered into a majority owned joint-venture interest. Also on this date, the joint-venture interest completed its acquisition of a portfolio of five stand-alone self-storage facilities in the Harrisburg, Pennsylvania vicinity, for a total purchase price of $35 million. The facilities comprise approximately 330,000 square feet of net rentable space consisting of in excess of 2,500 climate and non-climate controlled storage units. The purchase price and related transaction expenses were financed by an $11,231,000 capital contribution by the Company to its joint-venture purchaser and a $25,250,000 non-recourse debt financing with a ten-year term, 4.95% fixed interest rate, and 30-year amortization commencing after a four-year interest only period. The joint venture terms provide the Company with a 7.5% per annum preferred return on its $11,231,000 capital contribution, and a 7.5% per annum preferred return to SSCP Management, LLC, the minority joint-venture partner, on its base contribution amount of $350,000. After satisfaction of the preference amounts, 80% of surplus cash flow is allocated to the Company and 20% to SSCP Management, LLC. The facilities will be managed on a day-to-day basis by a newly engaged third party property management company, who is an affiliate of SSCP Management, LLC. In July 2016, the Company received a $170,801 quarterly distribution from this investment.

In April 2016, the Board of Directors concluded it would be cost-effective to close the Florida office location. Management began negotiations with the landlord for an early release of the office lease term. A settlement of $7,716, plus loss of its $2,500 security deposit held by the landlord, was entered into effective October 1, 2016, thereby releasing Regency from any remaining lease obligations or claims for the Florida location.

In May 2016, the Company's New York City office relocated and its new, seven-year lease term began (See Note 10).

In May 2016, a new License Agreement commenced with an unrelated entity, which provides the use of leased space within the Company's New York City office, for $8,833 per month, plus monthly office service fees, through June 2017. Annual one-year renewal periods are available, with license and service fee increases of 2.25% and 2.5%, respectively, until the expiration of the office Lease.

In May 2016, the Company entered into a consulting agreement with a non-independent member of its Board of Directors, to provide consulting, financial analyses, and due diligence services for any new potential investment available to the Company, and ongoing financial monitoring of existing investments. Terms of the agreement include an initial fee of $7,500, a 25,000 non-qualified common stock option award, exercisable at $9.50 per share with a term of 10 years, and vest and become exercisable over a 5-year period, and $7,200 per month thereafter for the term of the agreement. The Company may terminate the agreement at any time for cause; the consultant may terminate the agreement at will.

In May 2016, the Compensation Committee authorized the issuance of 10,000 non-qualified common stock options, exercisable at $9.50 per share, to its new Chief Financial Officer, under the 2003 Plan. The options granted have a term of 10 years, and vest and become exercisable over a 5-year period.

In May 2016, the Company received gross proceeds of $8,898,722 from the sale of 1,078,633 shares of common stock.

Note 14. Subsequent Events (continued)

In June 2016, the Board of Directors declared a quarterly $0.05875 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on June 30, 2016, totaling $280,716, payable on July 7, 2016. The dividend was paid in July 2016.

In September 2016, the Board of Directors amended its Dividend Policy to increase the total annual dividend to common shareholders by 3.8%, or $0.244 per common share. At the same time, the Board declared a quarterly $0.061 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on September 30, 2016, totaling $291,467, payable on October 7, 2016. The dividend was paid in October 2016.

In September 2016, the Company received an Internal Revenue Service letter indicating its 2014 Federal Form 1120 was selected for examination. Management has recently submitted the initial documentation requested.

Subsequent to March 31, 2016 through the date of this report, the Company received $2,250,000 in distributions from its investment in MESC.