Regency Affiliates, Inc. and Subsidiaries

Condensed Consolidated Financial Statements

March 31, 2019

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

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INDEPENDENT AUDITOR'S REVIEW REPORT

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

We have reviewed the accompanying interim condensed consolidated financial statements of Regency Affiliates, Inc. and Subsidiaries, which comprise the interim condensed consolidated balance sheet as of March 31, 2019, and the related interim condensed consolidated statements of income, changes in equity, and cash flows for the three months ended March 31, 2019 and 2018, and the related notes to the interim condensed consolidated financial statements.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim condensed consolidated financial information in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls sufficient to provide a reasonable basis for the preparation and fair presentation of interim condensed consolidated financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim condensed consolidated financial information. A review of interim condensed consolidated financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the consolidated financial information as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
October 30, 2019

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(unaudited)

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,140,228	$ 3,932,474
Restricted cash	455,425	506,251
Prepaid expenses	391,872	421,505
Prepaid insurance	115,714	90,600
Prepaid income taxes	289,789	345,828
Rent receivable	58,088	45,890
Total current assets	6,451,116	5,342,548
Real Estate		
Self-storage properties	35,101,494	35,100,361
Less accumulated depreciation	(2,298,051)	(2,103,592)
Property and equipment, net	20,206	21,503
Investment in partnerships/LLC	56,110,615	56,812,861
Prepaid insurance, net of current portion	263,950	286,600
Other assets	204,360	204,360
Total assets	$ 95,853,690	$ 95,664,641
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 440,827	$ 366,165
Deferred revenue	174,035	156,547
Deferred rent	81,081	81,081
Income tax payable	-	-
Dividends payable	404,124	404,274
Tenant security deposits	7,358	7,433
Total current liabilities	1,107,425	1,015,500
Non-current Liabilities:		
Mortgage note payable, net	25,160,571	25,157,415
Total liabilities	26,267,996	26,172,915
Commitments and contingencies		
Shareholders' Equity		
Serial preferred stock, par value $0.10; 2,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $0.01; 8,000,000 shares authorized; 4,815,058 and 4,815,058 shares issued and outstanding, as of March 31, 2019 and December 31, 2018, respectively	48,151	48,151
Additional paid-in capital	14,043,825	14,039,310
Retained earnings	55,455,513	55,367,342
Total shareholders' equity	69,547,489	69,454,803
Noncontrolling interest	38,205	36,923
Total equity	69,585,694	69,491,726
Total liabilities and shareholders' equity	$ 95,853,690	$ 95,664,641

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See independent auditor's review report and notes to the condensed consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(unaudited)

	For the Three Months Ended March 31,	
	2019	2018
		(restated)
Revenue		
Rental	$ 872,891	$ 830,176
Insurance, late fees and other income	81,189	30,767
Total revenue	954,080	860,943
Operating expenses:		
Self-storage cost of operations	437,581	396,346
Self-storage depreciation expense	194,459	194,070
General and administrative expenses	511,118	532,408
Total operating expenses	1,143,158	1,122,824
Loss from operations	(189,078)	(261,881)
Other income (expense):		
Income from equity investment in partnerships/LLC	797,754	1,949,832
License agreement income	29,113	27,095
Management fee income	51,412	-
Interest income	82,086	45,864
Interest expense	(312,475)	(312,469)
Amortization of debt discount	(3,156)	(3,091)
Total other income (expense)	644,734	1,707,231
Net income before income taxes	455,656	1,445,350
Income tax expense	58,039	235,303
Net income	397,617	1,210,047
Net income (loss) attributable to noncontrolling interest	1,282	(9,007)
Net income allocated to shareholders	$ 396,335	$ 1,219,054

See independent auditor's review report and notes to the condensed consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended March 31, 2019 and 2018
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-		Shareholders'	Noncontrolling	
	Shares	Amount	Shares	Amount	In Capital	Retained Earnings	Equity	Interest	Total Equity
Balance at January 1, 2019	-	$ -	4,815,058	$ 48,151	$ 14,039,310	$ 55,367,342	$ 69,454,803	$ 36,923	$ 69,491,726
Stock options compensation expense	-	-	-	-	4,515	-	4,515	-	4,515
Dividends declared	-	-	-	-	-	(308,164)	(308,164)	-	(308,164)
Net (loss) income	-	-	-	-	-	396,335	396,335	1,282	397,617
Balance at March 31, 2019	$ -	$ -	$ 4,815,058	$ 48,151	$ 14,043,825	$ 55,455,513	$ 69,547,489	$ 38,205	$ 69,585,694
Balance at January 1, 2018 (restated)	-	$ -	4,791,308	$ 47,913	$ 14,016,916	$ 55,794,366	$ 69,859,195	$ 38,785	$ 69,897,980
Stock options compensation expense	-	-	-	-	7,396	-	7,396	-	7,396
Dividend paid to noncontrolling interest	-	-	-	-	-	-	-	(7,134)	(7,134)
Cash dividends declared	-	-	-	-	-	(299,457)	(299,457)	-	(299,457)
Net income (loss) (restated)	-	-	-	-	-	1,219,054	1,219,054	(9,007)	1,210,047
Balance at March 31, 2018 (restated)	-	$ -	4,791,308	$ 47,913	$ 14,024,312	$ 56,713,963	$ 70,786,188	$ 22,644	$ 70,808,832

See independent auditor's review report and notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
	(unaudited)	(restated)
Cash Flows From Operating Activities		
Net Income	$ 397,617	$ 1,210,047
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash expenses		
Depreciation and amortization	195,756	195,299
Income from equity investment in partnerships/LLCs	(1,769,801)	(1,949,832)
Impairment of equity investment in partnerships/LLCs	972,047	-
Stock based compensation	4,515	7,396
Amortization of debt discount	3,156	3,091
Changes in operating assets and liabilities		
Prepaid expenses	29,633	33,731
Prepaid insurance	(2,464)	(2,440)
Prepaid income taxes	56,039	(126,138)
Rent receivable	(12,198)	2,284
Accounts payable and accrued expenses	74,662	103,147
Deferred revenue	17,488	24,898
Income tax payable	-	167,458
Tenant security deposits	(75)	(85)
Total adjustments	(431,242)	(1,541,191)
Net cash used in operating activities	(33,625)	(331,144)
Cash Flows From Investing Activities		
Distributions of earnings from partnerships	1,500,000	1,151,624
Purchase of equipment	(1,133)	(331)
Net cash provided by investing activities	1,498,867	1,151,293
Cash Flows From Financing Activities		
Dividends paid to common shareholders	(308,314)	(299,457)
Dividends paid to noncontrolling shareholder	-	(7,134)
Net cash used in financing activities	(308,314)	(306,591)
Net increase in cash and cash equivalents and restricted cash	1,156,928	513,558
Cash and cash equivalents and restricted cash - beginning	4,438,725	5,594,734
Cash and cash equivalents and restricted cash - ending	$ 5,595,653	$ 6,108,292
Cash and cash equivalents	$ 5,140,228	$ 5,663,505
Restricted cash	455,425	444,787
Total	$ 5,595,653	$ 6,108,292
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 312,469	$ 312,469
Income taxes	$ -	$ 297,648
Non-cash investing and financing activities:		
Common stock dividends declared	$ 308,164	$ 299,457

See independent auditor's review report and notes to the condensed consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as defined in the Financial Accounting Standards Board Accounting Standards Codification (the "Codification") for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. However, in the opinion of the management of the Company, all adjustments necessary for a fair presentation of the financial position and operating results have been included in these statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended December 31, 2018, as posted with OTC Markets on July 29, 2019. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for any subsequent quarters or for the year ending December 31, 2019.

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," ("ASU 2016-18"). ASU 2016-18 requires restricted cash be included with cash and cash equivalents when reconciling the total beginning and ending amounts on the statement of cash flows. The standard also requires companies who report cash and restricted cash separately on the balance sheet to reconcile those amounts to the statement of cash flows. The Company adopted ASU 2016-18 in the first quarter of Fiscal 2019. The other provisions of ASU 2016-18 did not have a material effect on the Company.

Nature of Operations

Regency Affiliates, Inc. ("Regency" or "the Company") 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. See Note 3, "Investment in Security Land and Development Company Limited Partnership."

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. See Note 4, "Investment in MESC Capital LLC."

Note. 1. Summary of Significant Accounting Policies (continued)

Nature of Operations, continued

In April 2016, Regency formed a new, wholly owned subsidiary, RSS Investments LLC ("RSS"). RSS acquired a majority ownership (80%) of SSCP Harrisburg Holdings, LLC, a Delaware limited liability company ("Harrisburg Holdings"). Harrisburg Holdings is the sole member of SSCP Harrisburg Intermediate Holdings, LLC, a Delaware limited liability company ("Intermediate Holdings"). Simultaneously with RSS's investment in Harrisburg Holdings, Harrisburg Intermediate Holdings acquired a portfolio of five self-storage facilities in Harrisburg, Pennsylvania. Through our controlling interest of SSCP Harrisburg Holdings, LLC, we are focused on the ownership, operation, and acquisition of self-storage properties located within the Harrisburg, Pennsylvania area.

Principles of Consolidation

These condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Regency Power and RSS. All significant intercompany balances and transactions have been eliminated in consolidation.

Noncontrolling Interest

The Company consolidates its 80% equity interest in Harrisburg Holdings and reports the remaining 20% interest by the third party, SSCP Management LLC, as a noncontrolling interest on the condensed balance sheet. At March 31, 2019 and December 31, 2018, the noncontrolling equity interest was $38,205 and $36,923, respectively. The net income or net loss of Harrisburg Holdings is allocated based on the ownership percentages on the condensed statements of income. For the three months ended March 31, 2019 and 2018, Harrisburg Holdings had net income (loss) of $6,409 and $(45,035), respectively, resulting in net income (loss) attributable to the noncontrolling interest for the three months ended March 31, 2019 and 2018 of $1,282 and $(9,007) respectively.

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. As of March 31, 2019 and December 31, 2018, the Company's cash equivalents were $4,408,676 and $2,508,221, respectively.

Restricted Cash

The self-storage properties hold escrow funds in money market trust accounts for real estate taxes, insurance, and replacement reserves disbursements to be paid when due, pursuant to the terms of the bank financing agreement.

Note 1. Summary of Significant Accounting Policies (continued)

Self-Storage Properties

Self-storage properties are carried at historical cost less accumulated depreciation and any impairment losses. Major replacements and betterments, which improve or extend the life of an asset, are capitalized. Expenditures for ordinary repairs and maintenance are expensed as incurred and are included in self-storage cost of operation. Estimated depreciable lives of self-storage properties are determined by considering the age and other indicators about the condition of the assets at their respective dates of acquisition, resulting in an estimated useful life for assets within each category. All self-storage property assets are depreciated using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 39 years.

When a self-storage property is acquired in a business combination, the purchase price of the acquired self-storage property is allocated to land, buildings and improvements, furniture and equipment, customer in-place leases, assumed real estate leasehold interests, other assets acquired and liabilities assumed, based on the estimated fair value of each component. When a portfolio of self-storage properties is acquired, the purchase price is allocated to the individual self-storage properties based on the fair value determined using an income approach with appropriate risk-adjusted capitalization rates, which take into account the relative size, age and location of the individual self-storage properties.

These items consist of the following at:

	March 31, 2019	December 31, 2018
Land	$ 4,870,000	$ 4,870,000
Building and improvements	30,204,253	30,203,120
Furniture and equipment	27,241	27,241
	35,101,494	35,100,361
Less: Accumulated Depreciation	(2,298,051)	(2,103,592)
	$ 32,803,443	$ 32,996,769

Depreciation expense on these properties was $194,459 and $194,070 for the three months ended March 31, 2019 and 2018, respectively.

Property and Equipment

Property and equipment is carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows: machinery and equipment - 7 years. Repairs and maintenance costs are expensed as incurred.

These items consist of the following at:

	March 31, 2019	December 31, 2018
Machinery and equipment	$ 45,183	$ 45,183
Less: Accumulated depreciation	(24,977)	(23,680)
	$ 20,206	$ 21,503

Depreciation expense was $1,297 and $1,229 for the three months ended March 31, 2019 and 2018, respectively.

Note 1. Summary of Significant Accounting Policies (continued)

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.

Reclassification

Certain amounts in prior periods have been reclassified to conform to current period presentation. These reclassifications had no effect on the previously reported net loss.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and also affect the amounts of revenues and expenses reported for each period. Actual results could differ from those which result from using such estimates. Management utilizes various other estimates, including but not limited to, assessing the collectability of rents receivable, determining the estimated lives of long-lived assets, determining the potential impairment of intangibles, the fair value of stock options, the recognition of revenue, and other legal claims and contingencies. The results of any changes in accounting estimates are reflected in the financial statements in the period in which the changes become evident. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary.

Note 1. Summary of Significant Accounting Policies (continued)

Revenue and Expense Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which was subsequently amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. A full retrospective or modified retrospective approach was required upon adoption. The Company has adopted ASU No. 2014-09 effective January 1, 2018.

Management has determined that all of its rental income leases are operating leases. Substantially all leases may be terminated on a month-to-month basis and rental income is recognized ratably over the lease term using the straight-line method. Rents received in advance are deferred and recognized on a straight-line basis over the related lease term associated with the prepayment. Promotional discounts and other incentives are recognized as a reduction to rental income over the applicable lease term. Other property related revenue consists of ancillary revenues such as tenant insurance related access fees and commissions and sales of storage supplies with are recognized in the period earned.

Property tax expense is based on actual amounts billed, or estimates of anticipated bills or assessments that have not yet been received from the taxing authorities. Cost of operations, general and administrative expense, interest expense, and advertising expenditures are expensed as incurred.

Advertising Expenses

The Company expenses advertising costs when incurred. Advertising and marketing costs totaled $1,741 and $1,591 for the three months ended March 31, 2019 and 2018, respectively.

Note 1. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The carrying amounts of cash, restricted cash, prepaid expenses, accounts payable, accrued liabilities, deferred revenue, and other liabilities approximate their fair value due to the short-term nature of these instruments. Cash equivalents, consisting of U.S. Treasury Bills, are adjusted to fair value at each balance sheet date based on quoted prices which are considered level 1 inputs.

ASC 820 “Fair Value Measurements and Disclosures” provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.

- Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.

- Level 3 Significant unobservable inputs that cannot be corroborated by market data.

Note 1. Summary of Significant Accounting Policies (continued)

Fair Value Measurements, continued

The fair value of the Company's financial instruments is as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Treasury Bills as of March 31, 2019	$ 4,408,676	$ -	$ -	$ 4,408,676
U.S. Treasury Bills as of December 31, 2018	$ 2,508,221	$ -	$ -	$ 2,508,221

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.

Subsequent Events Evaluation

The Company has evaluated subsequent events through October 30, 2019, which is the date these financial statements were available to be issued.

Note 2. Prior Period Financial Statement Correction of a Misstatement

During 2018, the Company identified certain adjustments required to correct balances within some of the Company's investments, Security Land and 1500 Woodlawn, related to depreciation taken in prior periods. The errors discovered resulted in adjustments to the Company's Balance Sheet, Income Statement, Statement of Stockholders' Equity, and Statement of Cash Flows.

Note 2. Prior Period Financial Statement Correction of a Misstatement (continued)

The effect of these restatements on the Company’s consolidated income for the three months ended March 31, 2018 is as follows:

	As previously reported for the three months ended March 31, 2018	Adjustment	As restated for the three months ended March 31, 2018
Income from equity investment in partnerships/LLC	$ 1,645,454	$ 304,378	$ 1,949,832

The effect of these restatements on the Company’s consolidated statements of stockholders’ equity for the three months ended March 31, 2018 is as follows:

	As previously reported at March 31, 2018	Adjustment	As restated at March 31, 2018
Balance at January 1, 2018	$ 54,217,032	$ 15,680,948	$ 69,897,980
Net income	$ 905,669	$ 304,378	$ 1,210,047
Balance at March 31, 2018	$ 54,823,506	$ 15,985,326	$ 70,808,832

The effect of these restatements on the Company’s consolidated statement of cash flows for the three months ended March 31, 2018 is as follows:

	As previously reported at March 31, 2018	Adjustment	As restated at March 31, 2018
Net income	$ 905,669	$ 304,378	$ 1,210,047
Income from equity investment in partnerships/LLC	$ (1,645,454)	$ (304,378)	$ (1,949,832)

Note 3. Investment in Security Land and Development Company Limited Partnership

The Company owns a limited partnership interest in Security Land, which owns and operates an office complex. The Company has limited voting rights and is entitled to certain allocations of the profit and loss and operating cash flow distributions of Security Land.

For the three months ended March 31, 2019 and 2018, the Company's income from its equity investment in Security Land was $477,392 and $1,110,841, respectively.

The Company also owns a 5% limited partnership interest in 1500 Woodlawn Limited Partnership (“Woodlawn”), the general partner of Security Land. The Company recognized income of $20,101 and $2,923 for the three months ended March 31, 2019 and 2018, respectively, from this investment.

Note 3. Investment in Security Land and Development Company Limited Partnership (continued)

On December 6, 2018, the Company entered into a second amended and restated limited partnership agreement (the “Amended Partnership Agreement”) with Woodlawn and other limited partners. Among other things, the Amended Partnership Agreement allowed Security Land to enter into a new agreement with the Unites States General Services Administration and refinance its debt, as described below. As part of the Amended Partnership Agreement, the income allocated to the Company was reduced from 95% to 48.969%.

On December 17, 2018, Security Land signed a new ten-year lease with the United States General Services Administration, which became effective as of November 1, 2018 and expires on October 31, 2028. The initial annual rent will be approximately $11,750,000 per annum. Based on the new lease, Security Land arranged for new debt totaling approximately $30,000,000. The new debt will be used to pay off existing debt and provide for capital improvements of the facility. In connection with the new lease and debt, on December 19, 2018, Security Land paid the Company a distribution of $1,214,963.

On December 6, 2018, Security Land entered into an agreement (“Management Agreement”) with Woodlawn and the Company. Pursuant to the Management Agreement, there is an asset management fee payable to the Company at a rate of 1.3% of monthly rental income in the applicable period, payable monthly through the date of sale of the property. For the three months ended March 31, 2019 and 2018, the Company recognized $51,412 and $0 from the management fee agreement.

Summarized Balance Sheet information for Security Land is as follows:

	March 31, 2019	December 31, 2018
Balance Sheet Data		
Cash and cash equivalents	$ 2,116,183	$ 1,524,900
Restricted cash	18,418,560	18,558,401
Real estate, net	19,753,489	20,117,732
Deferred charges, net	2,325,417	459,513
Receivables and other assets	988,703	988,703
Leasing cost, net of accumulated amortization	324,251	1,270,304
Total Assets	$ 43,926,603	$ 42,919,553
Accounts payable and accrued expenses	$ 308,296	$ 306,197
Project note payable	28,828,647	28,852,403
Accrued interest payable	106,369	52,556
Total Liabilities	$ 29,243,312	$ 29,211,156
Partners' capital:		
Total Partners' Capital	14,683,291	13,708,397
Total Liabilities and Partner's Capital	$ 43,926,603	$ 42,919,553

Note 3. Investment in Security Land and Development Company Limited Partnership (continued)

Summarized Statements of Income information for Security Land is as follows:

	For the Three Months Ended March 31,	
	2019	2018 (restated)
Revenues	$ 3,088,300	$ 3,495,286
Expenses	2,113,412	2,006,423
Net income	$ 974,888	$ 1,488,863

Note 4. Investment in MESC Capital LLC

The Company owns a 50% membership interest in MESC Capital, which, through its subsidiary, 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 expired on April 30, 2019.

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 $1,272,309 and $531,690 for the three months ended March 31, 2019 and 2018, respectively, from this investment.

On April 24, 2017, Kimberly-Clark notified MESC Capital of its intention to not renew the lease upon its expiration on April 30, 2019. On December 31, 2018, the Company recorded an impairment of its investment in MESC in the amount $2,121,437, which represents the book value of the Company’s investment in excess of the remaining payments expected to be received. For the three months ended March 31, 2019, the Company recorded impairment of $972,048. The impairment charge was included in income from equity investment in partnerships/LLC on the Company’s consolidated statement of income.

Note 4. Investment in MESC Capital LLC (continued)

Summarized Balance Sheet information for MESC Capital LLC is as follows:

	March 31, 2019	December 31, 2018
Cash and cash equivalents	$ 1,528,428	$ 5,195,423
Restricted cash	5,070,356	1,000,000
Trade receivable	2,512,064	3,099,392
Current portion of net investment in direct financing lease	-	239,753
Inventory	200	-
Prepaid expenses and other current assets	21,192	127,760
Total current assets	9,132,240	9,662,328
General plant, net	3,548	4,516
Total assets	$ 9,135,788	$ 9,666,844
Accounts payable	$ 28,179	$ 101,961
Accounts payable to related parties	408,524	466,222
Accrued liabilities	111,598	1,000,000
Current debt	1,000,000	55,792
Total current liabilities	1,548,301	1,623,975
Total liabilities	1,548,301	1,623,975
Members' equity	7,587,487	8,042,869
Total liabilities and members' equity	$ 9,135,788	$ 9,666,844

Summarized Income Statement information for MESC Capital LLC is as follows:

	For the Three Months Ended March 31,	
	2019	2018
Revenues	$ 3,800,365	$ 3,948,648
Expenses	1,255,748	2,885,270
Income from operations	2,544,617	1,063,378
Other expense	-	-
Net income	$ 2,544,617	$ 1,063,378

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.

Total stock-based compensation expense recorded within General and Administrative Expenses in the Condensed Statements of Income was $4,515 and $7,396 during the three months ended March 31, 2019 and 2018, respectively. These amounts recognize the vested portion of the requisite grant terms. Unamortized stock-based compensation for these option awards as of March 31, 2019 was $17,479 and will be amortized over a remaining period of 2.1 years.

As of March 31, 2019, 75,000 shares remain available for issuance under the 2003 Plan.

The following is a summary of the status of the Company's options for the three months ended March 31, 2019 and 2018:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at January 1, 2018	$ 2.60-9.50	140,000	$ 6.29	4.11
Issued		-		
Exercised	$ -	-	$ -	
Forfeited	$ -	-	$ -	
Outstanding at March 31, 2018	$ 2.60-9.50	140,000	$ 6.29	3.86
Exercisable at March 31, 2018	$ 2.60-6.50	112,000	$ 5.49	2.80
Outstanding at January 1, 2019	$ 6.50-9.50	85,000	$ 7.74	5.35
Issued		-		
Exercised	$ -	-	$ -	
Forfeited	$ -	-	$ -	
Outstanding at March 31, 2019	$ 6.50-9.50	85,000	$ 7.74	5.11
Exercisable at March 31, 2019	$ 6.50-6.50	64,000	$ 7.16	4.44

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 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 carry-forward items.

The Company files condensed income tax returns with its wholly owned subsidiaries. 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 believes it is no longer subject to income tax examinations for years prior to 2014 by the respective taxing authorities.

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 2018, the Company has reported taxable income and 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.

The Company's 2014 and 2015 tax returns are under examination by the Internal Revenue Service ("IRS").

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 2 and 7). 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.

The Company's applicable statutory tax rates are 21% and 7.5% for federal and state tax purposes, respectively, for the three months ended March 31, 2019. The Company has a deferred tax asset of $287,341 at March 31, 2019 which is fully reserved for. The reconciliation of the Company's income tax expense for the three months ended March 31, 2019 and 2018 is as follows:

	For the Three Months Ended March 31,	
	2019	2018
Income tax at federal statutory rate	94,000	$ 237,828
State taxes, net of federal benefit	34,000	58,335
Other adjustments	(69,961)	(60,860)
Total income tax expense	$ 58,039	$ 235,303

Note 7. Related Party Transactions

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 and a fee of $7,200 each month thereafter. In addition, the agreement called for a 25,000 non-qualified common stock option award, exercisable at $9.50 per share with a term of 10 years and vesting of 5,000 options per year over a 5-year period. The Company may terminate the agreement at any time for cause; the consultant may terminate the agreement at will. The fair value of the options granted was $83,400. During the three months ended March 31, 2019 and 2018, the Company recorded stock-based compensation expense of $3,225 and $5,283, respectively, related to this stock option. In addition, under the terms of the agreement, the Company paid $21,600 and $21,600 to the consultant during the three months ended March 31, 2019 and 2018, respectively.

Note 8. 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:

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 3).

Royalty, an affiliate of the Company's management, beneficially owns approximately 49% of the Company's common stock. As a result, Royalty and management have 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.

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.

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 2018, 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.

In September 2016, the Company received an Internal Revenue Service letter indicating its 2014 Federal Form 1120 was selected for examination. In September 2017, the Company received an Internal Revenue Service letter indicating its 2015 Federal Form 1120 was selected for examination. Management has submitted the initial documentation requested.

Note 9. Lease Commitments

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. Rent expense for the three months ended March 31, 2019 and 2018 was $78,179 and $76,912, respectively.

As of March 31, 2019, future minimum payments under this operating lease are as follows:

For the Three Years Ended December 31:		
2019 (remainder of the year)	$	237,228
2020		321,839
2021		327,471
2022		333,202
2023		111,709
Total	$	1,331,449

Note 10. License Agreement

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 2018. 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.

License fee income and related service fees for the three months ended March 31, 2019 and 2018 was $29,113 and $27,095, respectively.

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, 2019 and 2018, the Company expensed contributions of $96,107 and $117,080, 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

The Board of Directors has a dividend policy whereby the Board expects to declare a total annual dividend to common shareholders of $0.25 per share, to be paid in equal, quarterly installments of $0.0625 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. 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.

In September 2018, the Board of Directors increased its annual dividend policy to $0.256 per share of issued and outstanding common stock to be paid in equal quarterly installments of $0.064 per share.

In December 2018, the Company received cash of $96,110 as a return of dividends for which the recipients could not be located by the Company's transfer agent. The Company included this amount in accrued dividends on the Company's consolidated balance sheet and is attempting to locate the parties for whom the dividends were to be paid.

Note 13. Mortgage Note Payable

On April 18, 2016, SSCP, through its five self-storage properties, obtained a $25,250,000 bank note to fund the acquisition. The note is a non-recourse debt financing with a ten year term, 4.95% fixed interest rate, and has a maturity date of May 6, 2026. The note is guaranteed by the owners of SSCP and is secured by all assets of SSCP. The only amount due during the first four years of the note is interest. The Company paid $126,250 in fees for underwriting of the note. These were recorded as a debt discount and are amortized over the life of the note. Amortization expense of debt discount was $3,156 and $3,091 for the three months ended March 31, 2019 and 2018, respectively.

Under the terms of this agreement, the Company is required to meet and maintain certain financial covenants. The covenant at March 31, 2019 is:

Minimum Debt Service Coverage Ratio	1.45 to 1.00
Actual Debt Service Coverage Ratio	1.86 to 1.00

As of March 31, 2019, future minimum principal payments due under the note are as follows:

For the Years Ended December 31:	Amount
2019 (remainder of the year)	-
2020	248,531
2021	388,486
2022	408,158
Thereafter	24,204,825
Total	$ 25,250,000

Note 14. Subsequent Events

Subsequent to March 31, 2019, through the date of this report, the Company received $3,700,261 in distributions from its investment in MESC.

In June 2019, the Board of Directors declared a quarterly cash dividend of $0.0640 per share of issued and outstanding common stock to holders of record as of the close of trading on June 28, 2019, totaling $308,164, payable on July 8, 2019.

In September 2019, the Board of Directors declared a quarterly cash dividend of $0.0655 per share of issued and outstanding common stock to holders of record as of the close of trading on September 30, 2019, totaling $315,386, payable on October 8, 2019.