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REGENCY AFFILIATES INC  
Form 10QSB  
May 23, 2005

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

FORM 10-QSB

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

For the quarterly period ended: March 31, 2005  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-7949  
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REGENCY AFFILIATES, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware -----	72-0888772 -----
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

610 N.E. Jensen Beach Blvd., Jensen Beach, Florida, 34957  
(Address of Principal Executive Office)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

As of May 19, 2005 there were 3,021,412 shares of the \$.01 Par Value Common Stock outstanding.

Transitional Small Business Disclosure Form (check one): Yes  No

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

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Regency Affiliates, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheet  
March 31, 2005

#### Assets

Current Assets	
Cash and cash equivalents	\$ 895,455
Marketable securities	8,991,630
Interest receivable	379,775
Other current assets	20,996
	-----
Total Current Assets	10,287,856
Property and equipment, net	735
Investment in partnerships	8,402,419
Aggregate inventory	832,427
Deferred costs	250,000
Other	1,300
	-----
Total Assets	\$ 19,774,737

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	=====
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable	\$ 196,488
Accrued expenses	356,016
	-----
Total Current Liabilities	552,504
Deferred credit	1,344,236
	-----
Total Liabilities	1,896,740
	-----
Shareholders' equity	
Serial preferred stock not subject to mandatory redemption (Maximum liquidation preference \$24,975,312)	1,052,988
Common stock, par value \$.01; authorized 8,000,000 shares; issued 3,067,912 shares; outstanding 3,020,912 shares	30,209
Additional paid-in capital	8,185,327
Readjustment resulting from quasi-reorganization at December 31, 1987	(1,670,596)
Retained earnings	13,015,704
Note receivable - sale of stock	(2,440,000)
Treasury stock, 47,000 shares	(295,635)
	-----
Total Shareholders' Equity	17,877,997
	-----
Total Liabilities and Shareholder's Equity	\$ 19,774,737
	=====

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

	Three Months Ended March 31,	
	2005	2004
	-----	-----
Net Sales	\$ --	\$ --
Costs and expenses		
Costs of goods sold	--	--
Selling, general and administrative expenses	315,075	1,860,144
	-----	-----
	315,075	1,860,144
	-----	-----
Loss from operations	(315,075)	(1,860,144)
Income from equity investment in partnerships	545,259	399,466
Rental income	--	4,599

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Interest and dividend income	38,377	40,857
Other income, net	48,322	35,948
	-----	-----
Net Income (Loss)	316,883	(1,379,274)
	=====	=====
Net income (loss) per common share:		
Basic and diluted	\$ .10	\$ (0.46)
	=====	=====
Weighted average number of common shares outstanding		
Basic	3,020,912	3,018,412
	-----	-----

See notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
	-----	-----
Cash Flows from operating activities		
Net income (loss)	\$ 316,883	\$ (1,379,274)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	1,164	1,164
Income from equity investment in partnerships	(745,317)	(399,466)
Stock issued for services	2,700	--
Impairment of notes, accrued interest receivable	--	1,182,626
Unrealized gain on marketable securities	(47,099)	(35,948)
Changes in operating assets and liabilities		
Accounts receivable	--	3,077
Accrued interest	(32,533)	(20,986)
Other current assets	20,900	42,190
Accounts payable	(138,322)	(291,128)
Accrued expenses	--	8,095
	-----	-----
Net cash used in operating activities	(621,624)	(889,650)
	-----	-----
Cash flows from investing activities		
Payments received on notes receivable	--	1,563
Proceeds from sales of marketable securities	27,000,000	57,000,000
Purchases of marketable securities	(26,952,274)	(55,464,416)
Net proceeds from sale of property and equipment	--	402,632
	-----	-----
Net cash provided by investing activities	47,726	1,939,779
	-----	-----
Increase (decrease) in cash and cash equivalents	\$ (573,898)	\$ 1,050,129
Cash and cash equivalents - beginning	1,469,353	451,249

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Cash and cash equivalents - ending	\$ 895,455	\$ 1,501,378
------------------------------------	------------	--------------

Three Months Ended March 31,

	2005	2004
Supplemental disclosures of cash flow information:		
Cash paid during the year for		
Interest	\$ --	\$ --
Income taxes	\$ 290	\$ --

See notes to the condensed consolidated financial statements.

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

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB/A for the year ended December 31, 2004.

Principles of Consolidation - The consolidated financial statements include the accounts of Regency Affiliates, Inc. (the "Company" or "Regency"), its wholly owned subsidiary, Rustic Crafts International, Inc. ("Rustic Crafts") through September 20, 2002 the date that its operating assets were disposed of, its 75% owned subsidiary, Iron Mountain Resources, Inc. ("IMR"), and its 80% owned subsidiary, National Resource Development Corporation ("NRDC"). All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2. Earnings Per Share

Basic earnings per share are computed by dividing net income attributable to common shareholders (net income less preferred stock dividend requirements and periodic accretion if applicable) by the weighted average number of common shares outstanding during the year. Diluted per share computations assume conversion of convertible debt and stock options outstanding that are "in the money".

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### Note 3. Property and Equipment

On January 12, 2004, the Company sold its rental property located in Scranton, PA for \$531,500, less costs to sell of approximately \$48,000. No gain or loss was recognized on the transaction as the property was written down to fair value at December 31, 2003. Property and equipment at March 31, 2005 was as follows:

Machinery and equipment	\$ 43,708
Less: Accumulated depreciation	(42,973)
	-----
	\$ 735
	=====

Depreciation expense for the three months ended March 31, 2005 and 2004 was \$1,164 and \$1,164, respectively.

### Note 4. Notes Receivable

At March 31, 2004, the Company held notes receivable totaling \$1,127,708, which were deemed uncollectible due to lack of cash flows generated and continual default on payment terms by the issuer. Management determined to record full impairment of the notes and any accrued interest thereon, resulting in an impairment charge of \$1,182,626, which was included in the selling, general & administrative expenses in the statements of operations.

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

### Note 5. Related Party Transactions

In December 2001, the Company's 80% owned subsidiary, NRDC, sold its inventory of stockpiled rock to the Company's 75% owned subsidiary, IMR, for a purchase price of \$18,200,000 in the form of a note. The note has been in default since December 31, 2003. On February 9, 2005, in lieu of foreclosure, IMR re-conveyed the inventory to NRDC and the note was deemed satisfied.

During the quarter ending March 31, 2005, two directors of the Company each received 250 shares of common stock for services. The fair market value of the stock issued was \$2,700 and this expense is included in selling, general and administrative expenses in the statement of operations.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

#### Forward-Looking Statements and Associated Risk

Certain statements contained in this Quarterly Report on Form 10-QSB, including, but not limited to those regarding the Company's financial position, business strategy, acquisition strategy and other plans and objectives for future operations and any other statements that are not historical facts constitute "forward-looking statements" within the meaning of federal securities laws and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ materially from any future results, performance or achievements expressed or implied by

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such forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected effect on its business or operations. These forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors (including, but not limited to, those specified below) which are difficult to predict and, in many instances, are beyond the control of the Company. Such factors include:

- A default in the lease or sudden catastrophe to the property owned by Security Land and Development Company Limited Partnership ("Security") or the operating facilities owned by Mobile Energy Services Company, LLC ("Mobile Energy") from uninsured acts of God or war could have a materially adverse impact upon our investment in Security or Mobile Energy, respectively, and therefore our financial position and results of operations;

- Our subsidiaries currently lack the necessary infrastructure at the site of the Groveland mine in order to permit them to make more than casual sales of the rock aggregate located at the Groveland Mine;

- We have 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 our use, retroactively and/or prospectively, of such carryforwards, due to ownership changes or any other reason. The disallowance of the utilization of our net operating loss would severely impact our financial position and results of operations due to the significant amounts of taxable income that has been, and may in the future be, offset by our net operating loss carryforwards;

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### Regency Affiliates, Inc. and Subsidiaries

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION. (continued)

- Royalty Holdings, LLC ("Royalty"), an affiliate of the Company's management, beneficially owns approximately 60% of our 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 our assets; and

- The Company does not expect to pay dividends in the foreseeable future.

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

General.

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The Company is committed to enhancing the value of the Company's Common Stock by seeking opportunities to monetize certain existing assets and by seeking new business opportunities on an opportunistic basis.

### Liquidity and Capital Resources.

On March 31, 2005, the Company had current assets of \$10,287,856 and Shareholders' Equity of \$17,877,997. On March 31, 2005, the Company had \$9,887,085 in cash and marketable securities, total assets of \$19,774,737 and total current liabilities of \$552,504.

On April 30, 2004, the Company through a newly-formed, wholly-owned subsidiary called Regency Power Corporation, a Delaware corporation ("Regency Power"), acquired a 50% membership interest in MESC Capital, LLC, a Delaware limited liability company ("MESC Capital"), 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 the Company's working capital. 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, an Alabama limited liability company. Mobile Energy owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. The acquisition of Mobile Energy was also consummated on April 30, 2004 pursuant to a Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital and Mobile Energy Services Holdings, Inc. The purchase price under the Membership Interest Purchase Agreement, after certain pre-closing adjustments, was \$33,600,000, and is subject to certain post-closing adjustments. The purchase price and working capital reserves were funded by the issuance of \$28,500,000 of non-recourse debt, a total equity contribution by MESC Capital of \$8,600,290, \$4,300,145 of which was funded by Regency Power and \$4,300,145 of which was funded by DTE Mobile, and a credit of \$1,000,000 on account of existing and continuing tax-exempt indebtedness of Mobile Energy. The \$28,500,000 acquisition indebtedness will be fully amortized over the fifteen year term. Neither Regency Power nor DTE Mobile is obligated to contribute additional capital, or loan or otherwise advance funds, to MESC Capital.

At March 31, 2004, the Company held notes receivable totaling \$1,127,708, which were deemed uncollectible due to lack of cash flows generated and continual default on payment terms by the issuer. Management determined to record full impairment of the notes and any accrued interest thereon, resulting in an impairment charge of \$1,182,626, which is included in the Selling, General & Administrative caption of the accompanying Statements of

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### Regency Affiliates, Inc. and Subsidiaries

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION. (continued)

Operations. Management intends however, to continue to pursue options available to receive payment on the obligations from the debtor.

On June 24, 2003, US SSA LLC, a single purpose entity owned by Security, 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



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Security'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. 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 also successfully 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. The Company received approximately \$41,000,000 from the Security distribution. In addition, under the terms of the Security partnership agreement, the Company is entitled to (i) 95% of Security'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, a \$180,000 annual management fee from Security. The foregoing percentages are inclusive of the Company's interest as a limited partner in 1500 Woodlawn, the general partner of Security. In connection with the Security refinancing and distribution, the Company was required to repay its KBC Bank loan. The payoff amount was approximately \$14,125,000, which included a release fee and make-whole premium.

In order to satisfy the Company's working capital needs, in April 2003 the Company obtained a loan facility from Royalty, an affiliate of Messrs. Levy and Hasson, pursuant to which the Company could have borrowed up to an aggregate of \$300,000 from Royalty. Amounts borrowed were evidenced by a demand note bearing interest of 8% per annum. On July 3, 2003, the Company repaid all amounts outstanding under the \$300,000 working capital loan facility from Royalty, and terminated the facility. The payment amount consisted of \$180,000 of principal and \$2,910 of accrued and unpaid interest.

On October 16, 2002, the Company redeemed all the shares of Common Stock owned by Statesman Group, Inc. ("Statesman"), a former shareholder of the Company. The Company funded the redemption from the proceeds of an aggregate of \$4,750,000 borrowed from Royalty, an affiliate of current management, in exchange for two notes - a \$3,500,000 5% Convertible Promissory Note due October 16, 2012 and a \$1,250,000 9% Promissory Note due October 16, 2007. Both notes allowed interest to accrue without current payment. The principal and interest under the Convertible Promissory Note could be converted into Common Stock at a conversion rate of \$2.00 per shares.

On November 7, 2002, Royalty converted \$1,495,902 of the principal amount of the Convertible Note plus accrued interest into 750,000 shares of Common Stock and on July 3, 2003, Royalty converted the remaining \$2,004,098 outstanding principal amount of the Convertible Note and the \$71,378 of accrued and unpaid interest thereon into 1,037,738 shares of the Company's Common Stock. The 9% Promissory Note was required to be prepaid upon our receipt of sufficient proceeds from the Company's investment in Security after discharging certain other indebtedness. Accordingly, on July 3, 2003, the Company repaid the full \$1,250,000 principal amount of, and all accrued and unpaid interest under, the 9% Promissory Note.

On September 30, 2002, our subsidiary, Rustic Crafts International, Inc. ("Rustic Crafts") sold all of its operating assets subject to the assumption of certain of its liabilities. Prior to the sale, Rustic Crafts had established a \$1,000,000 line of credit with PNC Bank which was guaranteed by the Company and expired on May 18, 2002. In conjunction with the Rustic Crafts asset sale, Rustic Crafts' indebtedness under the line of credit together with its \$960,000 mortgage loan from PNC Bank and certain other indebtedness to PNC Bank was restructured to replace such indebtedness with five notes totaling \$2,432,782 and have a ten year amortization schedule. The notes bear interest at the blended rate of 10.8% per annum. As part of the PNC Bank debt restructuring, Rustic Crafts was required to pay down the outstanding loan balance with \$200,000 of the purchase price in the Rustic Crafts asset sale, and was required

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to make a \$540,000 payment in December 2002. A \$40,000 payment was made to PNC

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### Regency Affiliates, Inc. and Subsidiaries

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION. (continued)

Bank in December 2002, but Rustic Crafts and the Company failed to make the balance of the December 2002 payment. Accordingly, the PNC Bank debt was subsequently modified to provide for the payment of the remaining \$500,000 payment on or before June 30, 2003. On June 30, 2003, the Company paid all outstanding principal and interest due to PNC Bank, in satisfaction of the above described obligations.

Management believes that the Company's cash balance and anticipated cash flows from operations will be adequate to fund our cash requirements for at least the next twelve months.

#### Results of Operations.

##### 2005 Compared to 2004

For the three months ended March 31, 2005:

No revenue was generated by the Company in this period.

Selling and administrative expenses decreased by \$1,545,069 or 83.1% in 2005 compared to 2004 due a reduction of professional fees relating to continuing litigation defense and the elimination of expenses associated with the write off of notes receivable in 2004.

Income from equity investment in partnerships increased by \$145,793, 36.5% more than 2004 due to income received from MESOC, partially offset by increased interest expense incurred by Security. There was no interest expense by the Company in either period.

Net income increased by \$1,696,157 in 2005 over 2004 or 123.0%. The increase was primarily due to the reduction in selling and administrative expenses.

The Company's Shareholders' Equity at March 31, 2005 was \$17,877,997 as compared to \$18,727,013 on March 31, 2004, a decrease of \$849,016.

#### Impact of Inflation.

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

#### Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

#### ITEM 3. CONTROLS AND PROCEDURES

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

In connection with the evaluation of the Company's internal controls during the Company's last fiscal quarter, the Company's Chief Executive Officer and Chief Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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### Regency Affiliates, Inc. and Subsidiaries

#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS.

On December 14, 2001, we initiated a proceeding in The Circuit Court of the Nineteenth Judicial Circuit in and for Martin County, Florida, case number 01-1087-CA against Larry J. Horbach, individually and L.J. Horbach & Associates. Larry Horbach was a former interim CFO and Board member. We claim that Larry Horbach, without appropriate authority, borrowed \$100,050 from Mid City Bank in the name of Regency. We further claim that Horbach converted all or part of the proceeds from the loan for his benefit and breached his fiduciary duties as an officer and director. Horbach filed a Motion for the Court to determine whether the claims asserted against him were properly brought in Florida, or whether they should have been filed in Nebraska. The matter was fully briefed, and the Florida Court took the matter under advisement. The Florida Court has not yet rendered its decision on this jurisdictional issue.

On February 7, 2002, a complaint naming Regency as defendant was filed in the District Court of Douglas County, Nebraska, case number 1012. The Plaintiffs are Larry J. Horbach, individually and L.J. Horbach & Associates and they are demanding payment on a loan they purchased from Mid City Bank. The plaintiffs are requesting payment of \$82,512.57 plus accrued interest, costs and attorney fees. We are vigorously defending this litigation.

On May 2, 2002, a lawsuit (the "Federal Action") was filed in the Federal District Court for the District of Nebraska (the "Nebraska Court") by two dissident Company shareholders, Edward E. Gatz and Donald D. Graham, captioned Gatz et al. v. Ponsoldt, Sr., et al, against the former officers and directors of the Company, Statesman and, as a nominal defendant only, the Company. In December 2002, plaintiffs filed a seven-count Amended Complaint to add claims against Royalty and Royalty's control persons. All Defendants moved to dismiss all claims against them on jurisdictional and substantive grounds. On July 7, 2003, the Nebraska Court ruled that venue in the District of Nebraska was improper and granted defendants' motions to transfer the case to the District of Delaware. In connection with the transfer of the case to Delaware, the Court denied as moot the other motions pending before it without prejudice to their reassertion in the

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United States District Court for the District of Delaware (the "Delaware Federal Court"). In September and October 2003, all defendants filed motions to dismiss the Federal Action with the Delaware Federal Court and plaintiffs filed a motion for permission to file an amended and supplemental complaint as well as a preliminary injunction or status quo order seeking, among other things, to prevent the Company from taking any actions outside the ordinary course of business. On December 18, 2003, the Delaware Federal Court issued an opinion and order which, among other things (i) granted defendants' motions to dismiss the amended complaint with respect to certain claims, (ii) denied plaintiffs' motion for leave to file a supplemental and second amended complaint, (iii) denied plaintiffs' request for a preliminary injunction and a status quo order and (iv) dismissed the remainder of the amended complaint for lack of subject matter jurisdiction. As a result of the Delaware Federal Court's opinion and order, the Federal Action was dismissed in its entirety.

On January 20, 2004, a purported derivative and class action lawsuit (the "Delaware State Action") was filed by the same two individual shareholder plaintiffs in the New Castle County Court of Chancery, Delaware (the "Court"), captioned Gatz et al. v. Ponsoldt, Sr., et al, (C.A. No. 174-N) naming as defendants certain current and former directors of the Company, Royalty and certain of its affiliates, Statesman and, nominally, the Company. The complaint alleges, among other things, breaches of fiduciary duties by the former director defendants and Statesman in connection with (i) the exercise by Statesman in 2001 of an option to acquire shares of our common stock, (ii) the 2001 sale of Aggregate by NRDC to IMR and (iii) the October 2002 transactions. The complaint also alleges breaches of fiduciary duties by the current director defendants in connection with the payment by the Company in 2003 of accrued compensation owed to William R. Ponsoldt, Sr. for periods prior to the October 2002

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### Regency Affiliates, Inc. and Subsidiaries

#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS. (continued)

transactions. The complaint also alleges that Royalty and its affiliates knowingly participated in the breaches of fiduciary duties by the former director defendants relating to the October 2002 transactions. In addition to other damages, plaintiffs seek unspecified compensatory and/or rescissory damages against all defendants, a declaration that all Company stock issued to Statesman, William R. Ponsoldt, Sr., Royalty and any person affiliated with the foregoing is void, an order rescinding any payments in any form made by the Company to William R. Ponsoldt, Sr. or any of his affiliates or family members, an order rescinding the October 2002 transactions, and an order rescinding Statesman's 2001 option exercise and rescinding the option itself.

In November 2004 the Court dismissed all but one claim alleged in the complaint. The Company is not a defendant in the sole surviving claim, which relates to the December 2001 sale of assets from one Regency subsidiary to another Regency subsidiary. In dismissing the claims, the Court determined that all of the claims (other than the claim related to the 2001 asset sale) were derivative in nature and that the claims could therefore not be maintained.

The defendants in the Federal Action and the Delaware State Action, other

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than Statesman, are entitled to be indemnified by the Company for damages, if any, and expenses, including legal fees, they may incur as a result of the lawsuit, subject to certain circumstances under which such indemnification is not available. In addition, none of the claims contained in the Delaware State Action are covered by insurance, as the Company's carrier has declined coverage on the basis of the "insured vs. insured" exclusion since one of the named plaintiffs, Donald D. Graham, was previously a director of the Company.

On May 10, 2004, Gary Nuttall, a former President of the Company, commenced an arbitration against the Company with respect to certain claims allegedly arising under his 1995 Employment Agreement with the Company. Mr. Nuttall is seeking severance and all other compensation and benefits due him under the 1995 Employment Agreement in an amount in excess of approximately \$1,650,000 (\$1,400,000 of which is a financing bonus), 466,667 unrestricted shares of the Company (pre-split) or 46,667 unrestricted shares of the Company (post-split), options to purchase additional stock of the Company, punitive damages, interest, fees and costs associated with the arbitration. The Company believes the claims are without merit and intends to defend them vigorously.

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

The Company awarded 250 restricted shares of common stock to each of Errol Glasser and Stanley Fleishman on January 1, 2005, pursuant to the Company's 2003 Stock Incentive Plan, as amended. Exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), for the issuance of such shares is claimed under Section 4(2) of the Securities Act.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The following matters were submitted to stockholders at the Company's January 18, 2005 Annual Meeting of Stockholders:

1. To elect four directors of Regency to serve until the next Meeting of Stockholders. The vote for the respective nominees for election as directors was as follows:

DIRECTORS -----	FOR ---	AGAINST -----	ABSTAIN -----
Laurence S. Levy	1,813,316	0	380
Neil N. Hasson	1,813,316	0	380
Stanley Fleishman	1,813,316	0	380
Errol Glasser	1,813,316	0	380

2. To ratify the appointment of Rosenberg Rich Baker Berman & Company as independent public accountants. The results of the vote to ratify the appointment of Rosenberg Rich Baker Berman & Company as independent public accountants was:

For: 1,813,531	Against: 57	Abstain: 108
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### ITEM 5. OTHER INFORMATION.

None.

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Regency Affiliates, Inc. and Subsidiaries

ITEM 6. EXHIBITS.

EXHIBIT INDEX

(a) Exhibits

Exhibit Number -----	Description of Exhibit -----
3.1(i)(a)	Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(a) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(b)	Corrected Certificate of Amendment reflecting amendment to Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(c)	Certificate of Amendment of Restated Certificate of Incorporation of Regency Affiliates, Inc. (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on October 27, 2003 and incorporated by reference herein).
3.1(i)(d)	Certificate of Designation - Series B Preferred Stock, \$10 Stated Value, \$.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).
3.1(i)(e)	Amended and Restated Certificate of Designation, Series C Preferred Stock, \$100 Stated Value, \$.10 par value (filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on October 18, 2002, and incorporated herein by reference).
3.1(i)(f)	Certificate of Designation - Series D Junior Preferred Stock, \$10 Stated Value, \$.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).
3.1(i)(g)	Certificate of Designation - Series E Preferred Stock, \$100 Stated Value, \$.10 par value (filed as Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 at page E-1, and incorporated herein by reference).
3.1(ii)(a)	By-laws of the Company (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration Number 2-86906, and incorporated herein by

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reference).

- 3.1(ii)(b) Amendment No. 1 to By-Laws of the Company (filed as Exhibit 3.1(ii)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
- 31.1 Chief Executive Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\*Filed herewith

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGENCY AFFILIATES, INC.  
(Registrant)

Date: May 23, 2005  
-----

/s/ Laurence S. Levy  
-----

(President and Chief Executive Officer)

Date: May 23, 2005  
-----

/s/ Neil N. Hasson  
-----

(Chief Financial Officer)

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- 3.1(i) (b) Corrected Certificate of Amendment reflecting amendment to Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i) (b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
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\* Filed herewith