REGENCY AFFILIATES INC
Form 10KSB
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

|X| ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

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

For the transition period from ________________ to ____________________________

Commission file number: 1-7949

REGENCY AFFILIATES, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	72-0888772
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

610 Jensen Beach Boulevard
Jensen Beach, Florida 34957
(Address of Principal Executive Offices)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, par value $0.01 share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act |_|

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: |X| No: |_|

Check mark whether there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. |_|

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

Issuer's revenues for its most recent year were $0.00.

The aggregate market value of the voting and non-voting Common Equity of the Registrant held by non-affiliates as of May 12, 2006 was $7,908,007.

The number of shares outstanding of Common Stock of the Registrant as of May 12, 2006 was 3,123,412.

Transitional Small Business Disclosure: Yes |_| No |X|
Documents incorporated by reference: None

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PART 1

ITEM 1. DESCRIPTION OF BUSINESS

This filing contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" under federal securities laws. All such statements are intended to be subject to the safe harbor protection provided by applicable securities laws. For discussions identifying some important factors that could cause actual Regency Affiliates, Inc. ("Regency" or the "Company" or "we" or the "Registrant") results to differ materially from those anticipated in the forward looking statements contained in this filing, see Regency's "Narrative Description of Business," "Management's Discussion and Analysis and Plan of Operation," and "Notes to Consolidated Financial Statements." Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-QSB to be filed by the Company subsequent to this Annual Report on Form 10-KSB and any Current Reports on Form 8-K filed by the Company.

GENERAL DEVELOPMENT OF BUSINESS

The Company, formerly TransContinental Energy Corporation, was organized as a Delaware corporation in 1980 to be the successor to TransContinental Oil Corporation, which existed since 1947.

In July 1993 we acquired an 80% interest in National Resource Development Corporation ("NRDC"). At the time, NRDC's principal asset consisted of previously quarried and stockpiled rock ("Aggregate") inventory located at a mine site in Michigan. The remaining 20% interest in NRDC is owned by Statesman Group, Inc. ("Statesman"), a former shareholder of Regency. In December 2001, the Aggregate inventory was sold to Iron Mountain Resources, Inc. ("Iron Mountain"), our 75% owned subsidiary, in exchange for an $18,200,000 note. After defaulting on the note, in February 2005 Iron Mountain reconveyed the Aggregate to NRDC in lieu of foreclosure and the note was deemed satisfied. See "NARRATIVE DESCRIPTION OF BUSINESS - National Resource Development Corporation; Iron Mountain Resources, Inc."

On November 18, 1994, we acquired a limited partnership interest in Security Land and Development Company Limited Partnership ("Security Land" or the "Partnership") for an equity investment of $350,000. Security Land owns an office building complex in Woodlawn, Maryland, which is leased to the United States Social Security Administration. In June 2003, Security Land refinanced the existing indebtedness on the property resulting in a distribution of refinancing proceeds to Regency of approximately $41,000,000, approximately $14,125,000 of which was used by the Company to repay existing indebtedness to KBC Bank. See "NARRATIVE DESCRIPTION OF BUSINESS - Security Land and Development Company Limited Partnership". The remaining net proceeds of the Security Land distribution were available for general corporate purposes.

On March 17, 1997, Regency, through Rustic Crafts International, Inc. ("Rustic Crafts"), a wholly-owned subsidiary, acquired the assets and assumed certain liabilities of Rustic Crafts, Co., Inc., a manufacturer of wood and cast marble decorative electric fireplaces and related accessories. On September 30, 2002, Rustic Crafts sold all of its operating assets to RCI Wood Products Inc. ("RCI"), a third party controlled by the former President of Rustic Crafts, in exchange for two promissory notes totaling $1,107,000 and $200,000 cash. See "NARRATIVE DESCRIPTION OF BUSINESS - Rustic Crafts International, Inc."

On October 16, 2002, Regency redeemed all of the shares of our common stock owned by Statesman pursuant to the terms of a Redemption Agreement, dated October 16, 2002, between Regency and Statesman. We funded the redemption from the proceeds of an aggregate of $4,750,000 borrowed from Royalty Holdings LLC ("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 were convertible into shares of our 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 Promissory Note plus accrued interest into 750,000 shares of our common stock. On July 3, 2003, Royalty converted the

remaining principal amount of the note and the $71,378 of accrued and unpaid interest thereon into 1,037,738 shares of our common stock. On the same date, the Company prepaid the full $1,250,000 principal amount of, and all accrued and unpaid interest under, the 9% Promissory Note in accordance with the mandatory prepayment provisions of such note. Also on July 3, 2003, the Company repaid all amounts outstanding under a $300,000 working capital loan facility from Royalty established in March 2003, and terminated such facility. The payment amount consisted of $180,000 of principal and $2,910 of accrued and unpaid interest.

In connection with the redemption of our common stock owned by Statesman, we acquired from Statesman a three year option to purchase the 20% stock interest in NRDC held by Statesman. To exercise the option, we must deliver to Statesman for cancellation a $2,440,000 note issued to Regency by Statesman in October 2001. As consideration for the option, we (i) paid Statesman $250,000, (ii) amended the note and related pledge agreement to limit our recourse under the note and (iii) transferred to Statesman certain office furniture and equipment that we owned. This option expired in October 2005. As part of the redemption, we also entered into an agreement with Statesman providing for (i) an amendment to the Certificate of Designations of the Series C Preferred Stock for Regency and (ii) certain limitations on the ability of Statesman to issue or transfer shares or other beneficial interests in Statesman or to sell, transfer, purchase or acquire any capital stock of Regency, in each case without first receiving our written confirmation that such issuance or transfer would not adversely affect our ability to utilize our tax loss carryforwards. We paid Statesman an aggregate amount of $2,730,000 in consideration of the foregoing agreements.

In connection with the redemption of our common stock owned by Statesman, effective October 28, 2002, each of our former directors resigned and the four current directors were appointed to serve as the successor members of the Board of Directors. In addition, simultaneously with the redemption, all of the officers of Regency resigned and were replaced by designees of Royalty. At such time, Regency entered into a Contingent Payment Agreement with William R. Ponsoldt, Sr., the Company's former President and Chief Executive Officer, whereby payment of $1,508,000 of accrued compensation owed to Mr. Ponsoldt by Regency became subject to the satisfaction of certain conditions precedent. On November 25, 2003, following satisfaction of the relevant conditions, we paid Mr. Ponsoldt $1,225,234, such amount reflecting a mutually agreed upon discount from the amount owed. The loans, redemption, and other October 2002 transactions described above are collectively referred to herein as the "Restructuring Transactions."

On September 23, 2003, the Company's Board of Directors authorized the repurchase of our common stock in the aggregate amount not to exceed $1,000,000. The shares may be repurchased from time to time in open market transactions or privately negotiated transactions at the Company's discretion, subject to market conditions and other factors. Under the program, no shares will knowingly be purchased from the Company's officers or directors or from any such person's affiliates. On September 15, 2004 the Company purchased 47,000 shares from an independent, third party at a price per share of $6.25 (the market price). The total cost, including commission and transfer fees was $295,635. On July 28, 2005, the Company purchased 8,000 shares of the Company's common stock for an aggregate price of $42,160 in a privately negotiated transaction.

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 Services Company, LLC, an Alabama limited liability company ("Mobile Energy"). Mobile Energy owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. The acquisition of Mobile Energy was also consummated on April 30, 2004 pursuant to a Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital and Mobile Energy Services Holdings, Inc. The purchase price under the Membership Interest Purchase Agreement, after certain pre-closing adjustments, was $33,600,000. 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. See "NARRATIVE DESCRIPTION OF BUSINESS - Regency Power Corporation".

NARRATIVE DESCRIPTION OF BUSINESS.

Security Land and Development Company Limited Partnership

On November 18, 1994, we acquired a limited partnership interest in Security Land for an equity investment of $350,000. We have no obligation to make any further capital contribution to Security Land. Security Land owns the 34.3-acre Security West complex at 1500 Woodlawn Drive, Woodlawn, MD consisting of a two-story office building and a connected six-story office tower occupied by the United States Social Security Administration Office of Disability and International Operations. The buildings have a net rentable area of approximately 717,000 square feet. The construction of the Security West Buildings was completed in 1972 and the Social Security Administration has occupied the building since 1972.

On November 30, 2000, we invested $10,000 for a 5% Limited Partnership Interest in 1500 Woodlawn Limited Partnership, the General Partner of Security Land.

During 1994, Security Land completed the placement of a $56,450,000 non-recourse project note, due November 15, 2003. The placement of the project note was undertaken by the issuance of 7.90% certificates of participation and was underwritten by Dillon Read & Co., Inc. The net proceeds received from the sale of the certificates were used to refinance existing debt of Security Land related to the project, to finance certain alterations to the project by

Security Land, to fund certain reserves and to pay costs of the project note issue. The project note was a non-recourse obligation of Security Land, interest and principal payments were payable solely from the lease payments from the U.S. Government and the note was self-amortizing.

In March 2003, the General Services Administration agreed to extend the term of its lease at the building owned by Security Land through October 31, 2018. The significant terms of the lease extension include fixed annual gross rent of approximately $12,754,000 (or approximately $17.79 per sq. ft.). Security Land is responsible for all operating expenses of the building. Security Land is also responsible for upgrading some of the building's common areas.

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 General Services Administration and the financing, and to make a distribution to the partners of Security Land. The debt matures October 31, 2018, at which time the loan will have been paid down to a balance of $10,000,000. Security Land has obtained residual value insurance for approximately $10,000,000. The interest cost of the financing is 4.63%.

The Company received approximately $41,000,000 of net refinancing proceeds from the Security Land distribution. In addition, under the terms of the Security Land partnership agreement, as amended in April 2003 in contemplation of the refinancing, the Company is entitled to (i) 95% of Security Land's distributions of cash flow until the Company has received $2,000,000 of such distributions, and thereafter 50% of such distributions and (ii) once the Company has received $2,000,000 of cash flow distributions, a $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, the general partner of Security Land. In connection with the Security Land 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.

Rustic Crafts International, Inc.

Rustic Crafts was until September 30, 2002 a manufacturer of decorative wood and cast marble fireplaces, mantels, shelves, fireplace accessories and other home furnishings. On September 30, 2002, Rustic Crafts sold all of its

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operating assets to RCI for $1,307,000 comprised of (i) a $707,000 note bearing interest at 5% per annum requiring monthly payments of principal and interest of $13,342 and due September 30, 2007, (ii) a $400,000 note which, as restructured in August 2003; bears interest at 7% per annum and requires monthly payments of principal and interest of $5,032 with a balloon payment due September 8, 2006; and (iii) $200,000 cash (the proceeds of which were from a $250,000 loan from Regency to the buyer which was satisfied in January 2003). Additionally, the buyer entered into a three-year lease for the land and building in Scranton, PA owned by Rustic Crafts, with rental payments of $6,500 per month. Payments on the 5% note are contingent upon the quarterly positive net cash flows of the buyer, as defined by generally accepted accounting principles. Prior to the sale of its operating assets, Rustic Crafts had established a $1,000,000 line of credit with PNC Bank that was guaranteed by Regency 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 mortgage loan from PNC Bank in respect of the Scranton, PA property and certain other indebtedness to PNC Bank was restructured to replace such indebtedness with five notes totaling $2,432,782. Each of the restructured notes of which were initially due in June 2004, and a ten year amortization schedule and bore interest at the rate of 10.8% per annum. On June 27, 2003, a payment was made to PNC Bank in the amount of $2,257,952 in full satisfaction of the restructured notes. On January 12, 2004, Rustic Crafts sold the Scranton, PA property for $531,500.

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 Operations. On December 30, 2005 the Company agreed to accept a $125,000 note from RCI as a restructuring of the above named obligation. The note, which bears interest at 6.5%, calls for payments of $1,088 per month until December 2008 at which time the balance will be due and payable.

National Resource Development Corporation; Iron Mountain Resources, Inc.

Until December 2001, our 80%-owned subsidiary, NRDC had as its principal asset approximately 70 million short tons of Aggregate located at the site of the Groveland Mine in Dickinson County, Michigan. NRDC never consummated sales of material amounts of Aggregate. In December 2001, the Aggregate was sold to Iron Mountain, a 75% owned subsidiary of Regency. The purchase price was $18,200,000 and is payable, with interest of 2.46%, in ninety-six equal payments of principal and interest commencing December 2003. The intercompany gain on this transaction has been eliminated in the consolidation process resulting in the Aggregate being carried at its historical cost. Iron Mountain was unsuccessful in its efforts to sell the Aggregate and, in December 2003, defaulted under the note to NDRC. In February 2005, in lieu of foreclosure, Iron Mountain reconveyed the Aggregate to NRDC and the note was deemed satisfied. In June 2005, the Company obtained an appraisal of the Aggregate which concluded that the Aggregate has no value.

Aggregate is primarily sold for railroad ballast, road construction, construction along shorelines and decorative uses. Ownership of the Aggregate is subject to a Royalty Agreement which requires the payment of certain royalties to M.A. Hanna Company, an independent third-party, upon sales of Aggregate. The market for Aggregate stone is highly competitive and, as shipping costs are high, the majority of any sales are likely to be made in the Great Lakes area. Other companies that produce rock and aggregate products are located in the same region as the Groveland Mine and certain of such competitors have greater financial and personnel resources than the Company.

Regency Power Corporation

On April 30, 2004, we, through our wholly-owned subsidiary Regency Power acquired a 50% membership interest in MESC Capital from 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 arms'-length basis between Regency and DTE Mobile. DTE Mobile, which is owned by an unregulated subsidiary of a large energy company that has significant experience in owning, managing and operating electric generation and on-site energy facilities, owns the other 50% membership interest in MESC Capital. MESC Capital was formed to acquire all of the membership interests in Mobile Energy. Mobile Energy owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama.

The acquisition of Mobile Energy was also consummated on April 30, 2004 pursuant to a Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital and Mobile Energy Services Holdings, Inc. The purchase price under the Membership Interest Purchase Agreement, after certain pre-closing adjustments, was $33,600,000, and is subject to certain post-closing adjustments. The purchase price and working capital reserves were funded by the issuance of $28,500,000 of non-recourse debt, a total equity contribution by MESC Capital of $8,600,290, $4,300,145 of which was funded by Regency Power and $4,300,145 of which was funded by DTE Mobile, and a credit of $1,000,000 on account of existing and continuing tax-exempt indebtedness of Mobile Energy.

The terms of the Membership Interest Purchase Agreement were negotiated on an arms'-length basis between MESC Capital and Mobile Energy Services Holdings, Inc. Regency 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. 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, and participate equally in ultimate management authority through equal representation on the MESC Capital Board of Control. DTE Mobile, as managing member, is responsible for day-to-day management of MESC Capital. DTE Mobile will not receive any compensation for serving as managing member, and is subject to removal by the Board of Control with or without cause. 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 energy facility is located on approximately 11 acres of land within the Kimberly-Clark tissue mill in Mobile, Alabama. The facility supplies up to 61 megawatts of co-generated steam and electricity for use in the mill's operations, with a power-house fueled by a combination of coal, biomass and natural gas.

In connection with MESC Capital's acquisition of Mobile Energy, Kimberly-Clark entered into a 15-year agreement with Mobile Energy pursuant to which Mobile Energy will be the exclusive steam supplier to the mill and will provide a substantial portion of the mill's electricity requirements. Under the agreement, Kimberly-Clark is obligated to make monthly fixed capacity payments, monthly fixed and variable operations and maintenance payments, and to reimburse Mobile Energy for fuel costs. Early termination of the agreement by Kimberly-Clark obligates Kimberly-Clark to make a termination payment to Mobile Energy in an amount anticipated to be sufficient to retire the acquisition financing obtained by MESC Capital and to provide a return on the MESC equity investment. In addition, in the event of an early termination by Kimberly-Clark and under certain conditions, DTE Mobile has agreed to make a termination payment to Regency Power.

Mobile Energy operated under the protection of Chapter 11 of the United States Bankruptcy Code from January 1999 until late 2003. During such time, the energy facility was operated by an interim operator. MESC Capital was selected through an auction process conducted by Mobile Energy bondholders to be the acquirer of Mobile Energy. In connection with the acquisition, the interim operator was terminated and DTE Mobile and its affiliate will provide operations, management and maintenance services and asset management support for the investment and energy facility pursuant to agreements with MESC Capital and Mobile Energy.

FILING OF GOING PRIVATE PROXY STATEMENT

On December 14, 2005, the Company filed with the SEC a preliminary Schedule 13E-3 Transaction Statement with respect to a going private transaction and a preliminary Schedule 14A Proxy Statement soliciting stockholders to vote on amending the Company's certificate of incorporation to provide for a 1-for-100 reverse stock split (the "Reverse Stock Split") followed immediately by a 50-for-1 forward stock split of the Company's common stock (the "Forward Stock Split"), which would result in the reduction of the number of common

stockholders of record of the Company to fewer than 300. This will permit the Company to discontinue the filing of annual and periodic reports and other filings with the SEC. Once the Schedule 13E-3 Transaction Statement and Schedule 14A Proxy Statement are approved in a definitive form by the SEC, the Company will mail copies to its stockholders. The Company currently intends to effect the Reverse Stock Split and Forward Stock Split as soon as possible after such distribution.

COMPETITION

Other than as discussed in "ITEM 1. DESCRIPTION OF BUSINESS - NARRATIVE DESCRIPTION OF BUSINESS - National Resource Development Corporation; Iron Mountain Resources, Inc.", our business is not materially subject to competitive forces.

ENVIRONMENTAL REGULATIONS

Federal, state and local provisions that regulate the discharge of materials into the environment do not currently materially affect our capital expenditures, earnings or competitive position.

EMPLOYEES

As of December 31, 2005, Regency employed three people.

SPECIAL INVESTMENT CONSIDERATIONS

The Company's business, financial condition and prospects could be adversely affected by a number of factors that should be considered by stockholders and persons considering investing in Regency. Some of such factors include:

- A default in the lease or sudden catastrophe to property owned by Security Land or the operating facilities owned by Mobile Energy from uninsured acts of God or war could have a materially adverse impact upon our investment in Security Land and 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 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 have been, and may in the future be, offset by our net operating loss carryforwards;

- If the Company consummates the Reverse Stock Split and Forward Stock Split and becomes a privately held company, stockholders will own shares in a private company and may not have the ability to sell their shares in the public market. Furthermore, the Company would not file current, quarterly or annual reports or be subject to the proxy requirements of the federal securities laws. Stockholders may therefore find it more difficult to obtain information about the Company and its financial performance.

- 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;

- Regency does not expect to pay dividends in the foreseeable future; and

- 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.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are available to the public over the Internet at the SEC's web site at http://www.sec.gov. You may also read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The Company's Internet address is www.regencyaffiliates.com. We make available on our web site, free of charge, our Annual Report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and beneficial ownership reports on Forms 3, 4, and 5 and amendments to those reports as soon as reasonably practicable after this material is electronically filed or furnished to the Securities and Exchange Commission.

ITEM 2. DESCRIPTION OF PROPERTY

Security Land owns the Security West Building at 1500 Woodlawn Drive, Woodlawn, MD. See "ITEM 1. BUSINESS - NARRATIVE DESCRIPTION OF BUSINESS -

Security Land and Development Company Limited Partnership", which is incorporated by reference herein, for more information on this property.

ITEM 3. 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 January 20, 2004, a purported derivative and class action lawsuit was filed by two dissident Company shareholders, Edward E. Gatz and Donald D. Graham, 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 "Delaware Action"). The complaint alleged various breaches of fiduciary duties by the former directors and Statesman, and that Royalty and its affiliates knowingly participated in certain of the alleged breaches. In November 2004 the Court dismissed all but one claim alleged in the complaint. The Company was not a defendant with respect to the sole surviving claim, which related to the 2001 sale of a cache of previously quarried and piled aggregate rock by NRDC to Iron Mountain (the "Aggregate Sale"). On October 16, 2005, the Court dismissed plaintiffs' sole remaining claim for failure to state a claim for relief. The dismissal was without prejudice and the plaintiffs were given leave to file an amended complaint attacking the Aggregate Sale.

On January 30, 2006, plaintiffs filed an amended complaint challenging the Aggregate Sale and alleging that the Aggregate Sale negatively impacted the Company's common stockholders. The Company is not a defendant with respect to this claim. Plaintiffs seek damages in excess of $5,400,000 with respect to the claim related to the Aggregate Sale. Defendants have moved to dismiss the amended complaint but briefing on the motion has not been completed. The Company has been advised that the defendants intend to vigorously defend the claim asserted against them in the Delaware Action.

The defendants in the Delaware Action, other 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, the Company's insurance carrier contends that none of the claims contained in the Delaware Action are covered by insurance on the basis of the "insured vs. insured" exclusion since one of the 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 proceeding 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), options to purchase additional stock of the Company, punitive damages, interest, fees and costs associated with the arbitration. On May 4, 2006, the parties settled the disputes between them without admitting any liability, fault or wrongdoing, and entered into a settlement agreement providing for, among other things, payment of $950,000 by the Company to Mr. Nuttall and the purchase by the Company of the 29,134 shares of Company common stock owned by Mr. Nuttall, at a purchase price of $6.50 per share.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded in the over-the-counter market on the OTC Bulletin Board. The symbol for the listing is "RAFIE.OB". The following table sets forth the high and low bid prices for each calendar quarter during the last two fiscal years of Regency. On May 12, 2006 the closing sale price of our common stock was $6.65. As of May 12, 2006, there were approximately 2,318 common stockholders of record.

YEAR ENDED
DECEMBER 31, 2004

	HIGH ($)	LOW ($)
First Quarter	6.45	6.01
Second Quarter	7.45	6.05
Third Quarter	6.50	6.01
Fourth Quarter	6.02	5.15

YEAR ENDED
DECEMBER 31, 2005

	HIGH ($)	LOW ($)
First Quarter	6.25	5.10
Second Quarter	6.05	5.10
Third Quarter	6.10	5.68
Fourth Quarter	6.25	6.00

DIVIDEND POLICY

We have not paid or declared cash dividends on our common stock during the last two fiscal years. We have no present intention to pay cash dividends on our common stock.

TRANSFER AGENT

Our transfer agent is Transfer On-Line, Inc., which is located at 317 SW Alder Street, Second Floor, Portland, Oregon 97204. Their telephone number is (503) 227-2950 and their website is www.transferonline.com.

RECENT SALES OF UNREGISTERED SECURITIES

The Company awarded 250 restricted shares of common stock to each of Errol Glasser and Stanley Fleishman on July 1, 2005 and October 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.

SMALL BUSINESS ISSUER REPURCHASE OF SECURITIES

None

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Certain statements contained in this Annual Report on Form 10-KSB, including, but not limited to those regarding the Company's financial position, business strategy, acquisition strategy and other plans and objectives for future operations and any other statements that are not historical facts constitute "forward-looking statements" within the meaning of federal securities laws and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected effect on its business or operations. These forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors (including, but not limited to, those 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 property owned by Security Land or the operating facilities owned by Mobile Energy from uninsured acts of God or war could have a materially adverse impact upon our investment in Security Land and 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 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 have been, and may in the future be, offset by our net operating loss carryforwards;

- If the Company consummates the Reverse Stock Split and Forward Stock Split and becomes a privately held company, stockholders will own shares in a private company and may not have the ability to sell their shares in the public market. Furthermore, the Company would not file current, quarterly or annual reports or be subject to the proxy requirements of the federal securities laws. Stockholders may therefore find it more difficult to obtain information about the Company and its financial performance.

- 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;

- Regency does not expect to pay dividends in the foreseeable future; and

- 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 Regency should be read in conjunction with the accompanying financial statements and related notes included in Item 7 of this report.

GENERAL

The Company is committed to enhancing the value of the Company's Common Stock by seeking opportunities to monetize its existing assets and by seeking new business opportunities on an opportunistic basis. To date, the Company has not entered into any binding agreements regarding any such transaction. The Company does not propose to restrict its search for business opportunities to any particular geographical area or industry, and may, therefore, acquire any business, to the extent of its resources. The Company's discretion in the selection of business opportunities is unrestricted, subject to the availability of such opportunities, economic conditions, and other factors. No assurance can be given that the Company will be successful identifying or securing a desirable business opportunity, and no assurance can be given that any such opportunity that is identified and secured will produce favorable results for the Company and its stockholders.

Our Stockholders' Equity at December 31, 2005 was $17,253,209 as compared to $17,558,413 on December 31, 2004, a decrease of 1.7%.

RESULTS OF OPERATIONS

2005 COMPARED TO 2004

Net sales were $0 in both 2005 and 2004.

General and Administrative expenses decreased by $941,081 or 25.47% in 2005 as compared to 2004, primarily due to the write off of a Rustic Craft note in 2004 of $1,182,626 entered into General and Administrative expenses as well as a significant decrease of legal fees and investment banking fees related to the MESC transaction.

Income from equity investment in partnerships increased in 2005 by $1,617,949 or 133.1% as compared to 2004. Increased income from the sale of excess replacement equipment by MESC Capital as well as an increase in operating income was partially offset by an increase in expenses for the maintenance of the Security Land property including significant repairs to the building that were expensed in 2005.

Legal Settlement expense increased by $950,000 from $0 as a result of the accrual for the Nuttall arbitration settlement.

Interest expense was $0 in 2005 and 2004 due to the extinguishment of all long-term debt.

Income tax expense was $138,976 in 2005 and $41,495 in 2004 relating to state income taxes. We do not expect any Federal tax due as a result of previous period operating losses.

Net loss decreased by $1,446,295 or 63.9% in 2005 over 2004. The change was due to a decrease in general and administrative expenses, an increase in income from equity investment in partnerships, partially offset by the accrual of the Nuttall arbitration settlement.

2004 COMPARED TO 2003

Net sales were $0 in both 2004 and 2003.

General and administrative expenses decreased by $1,975,052 or 34.7% in 2004 as compared to 2003, primarily due to a reduction in professional fees associated with litigation defense and elimination of costs associated with long term debt.

Income from equity investment in partnerships decreased in 2004 by $2,267,883 or 65.1% as compared to 2003 due to the increase in interest expenses on the increased principal balance of debt on the Security Land property and an increase in administrative expenses for the maintenance of the Security Land property including significant repairs to the building that were expensed in 2004.

Interest expense decreased by $714,979 in 2004 over 2003 due to the extinguishment of all long-term debt.

Income tax expense decreased $29,229 in 2004 from $70,724 in 2003 due to existing credits from overpayments of state income taxes. We do not expect any Federal tax due as a result of current and previous period operating losses. Net loss decreased by $53,301 or 2.3% in 2004 over 2003. The decrease was due to the decrease in general and administrative expenses and the decrease in income from equity investment in partnerships.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2005, Regency had current assets of $12,148,732 and Shareholders' Equity of $17,253,209. On December 31, 2005, Regency had $11,638,778 in cash and marketable securities, total assets of $19,438,831 and total liabilities of $1,393,133.

During the preparation of the Company's 2004 federal corporation income tax return, a dispute arose between the Company and Security Land regarding the proper amount of taxable income to be allocated to the Company and reported to the Internal Revenue Service (the "IRS") on Federal Form K-1. This dispute could not be resolved and as such the Company reported a different amount of income on its corporation income tax return than was reported to the IRS by Security. The discrepancy may cause the Company's tax returns to be audited by the IRS. The Company believes that the outcome of any IRS examination will not effect the financial statements of the Company in this year as net operating losses are available to offset any additional income not reported.

In December, 2001 the Aggregate inventory was sold to Iron Mountain at a purchase price of $18,200,000, payable, with interest of 2.46%, in ninety-six equal payments of principal and interest scheduled to commence in December, 2003. The intercompany gain on this transaction has been eliminated in the consolidation process resulting in the Aggregate inventory being carried at its historical cost. On February 9, 2005, in lieu of foreclosure, Iron Mountain reconveyed the Aggregate inventory back to NRDC and the note was deemed satisfied. In June 2005, the Company obtained an appraisal of the Aggregate which concluded that the Aggregate has no value and as such a full valuation allowance of $832,427 was taken in 2005. This impairment is included in the General and Administrative caption of the accompanying Consolidated Statement of Operations.

FILING OF GOING PRIVATE PROXY STATEMENT

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

OFF BALANCE SHEET ARRANGEMENTS

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

Management believes that the Company's cash balances are adequate to fund the Company's cash requirements for at least the next twelve months.

ITEM 7. FINANCIAL STATEMENTS

The Financial Statements required by Item 7 of Part II of Form 10-KSB are presented on page F1 and are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 8A. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

No change occurred in the Company's internal controls concerning financial reporting during the fourth quarter of the fiscal year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following directors were elected at the annual meeting of the stockholders held January 18, 2005 and will serve until the next meeting of stockholders, upon the election and qualification of their successors. Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. The following lists the name, age and principal occupation of each director and executive officer of the Company.

NAME, AGE	POSITIONS AND OFFICES HELD AND PRINCIPAL OCCUPATIONS OR EMPLOYMENT DURING PAST FIVE YEARS
Laurence S. Levy, 49	Mr. Levy is Chairman of the Board of Directors, President, and Chief Executive Officer of the Company. Mr. Levy founded the predecessor to Hyde Park Holdings, LLC in July 1986 and has since served as its Chairman. Hyde Park Holdings, LLC is an investor in middle market businesses. Mr. Levy serves as an officer or director of many companies in which Hyde Park Holdings, LLC or its affiliates invests. Presently, these companies include: Ozburn-Hessey Logistics LLC, a national logistics services company, of which Mr. Levy is a director; Derby Industries LLC, a sub-assembly business to the appliance, food and transportation industries, of which Mr. Levy is Chairman; PFI Resource Management LP, an investor in the Private Funding Initiative program in the United Kingdom, of which Mr. Levy is general partner; Parking Company of America Airports LLC, an owner and operator of airport parking garages, of which Mr. Levy is a director; Warehouse Associates L.P., a provider of warehouse and logistics services, of which Mr. Levy is Chairman. Mr. Levy is also the chairman of the board and chief executive officer of Rand Logistics, Inc. an OTC bulletin board company which provides shipping and

transportation services on the Great Lakes. In addition, from March 1997 to January 2001, Mr. Levy served as Chairman of Detroit and Canada Tunnel Corporation, a company which operates the toll tunnel between Detroit, Michigan and Windsor, Ontario, and from August 1993 until May 1999, Mr. Levy served as Chief Executive Officer of High Voltage Engineering

Corporation, a diversified industrial and manufacturing company. Mr. Levy received a Bachelor of Commerce degree and a Bachelor of Accountancy degree from the University of Witwatersrand in Johannesburg, South Africa. He is qualified as a Chartered Accountant (South Africa). Mr. Levy received a Master of Business Administration degree from Harvard University and graduated as a Baker Scholar.

Neil N. Hasson, 40	Mr. Hasson is a Director and Chief Financial Officer of the Company. In February 2005, Mr. Hasson was appointed as a Director of Citigroup Property Investors ("CPI"). CPI is an international real estate investment manager. Previously, Mr. Hasson was the head of European Real Estate for DLJ Real Estate Capital Partners, a $660 million real estate fund managed by Donaldson, Lufkin and Jenrette ("DLJ"), where he was involved with the acquisition of real estate throughout the world. Mr. Hasson joined DLJ as a Managing Director in New York in January 1995.
Stanley Fleishman, 54	Mr. Fleishman is a Director of the Company. Since 1992, Mr. Fleishman has been President and CEO of Jetro Holdings Inc., a wholesale distributor of dry and perishable retail groceries and food service items.
Errol Glasser, 52	Mr. Glasser is a Director of the Company. Since 1993, Mr. Glasser has been President of Triangle Capital, LLC, a private investment and advisory company based in New York City. Previously, Mr. Glasser was a Managing Director at Kidder, Peabody & Co. with responsibility for its West Coast investment banking activity.
Carol Zelinski, 51	Ms. Zelinski is the Secretary of the Company. Since 1997, Ms. Zelinski has been an analyst at Hyde Park Holdings, LLC, a private investment firm. Ms. Zelinski is not a Director of the Company.

There are no family relationships among any of the directors or executive officers of the Company.

Compliance with Section 16(a) of the Exchange Act

Based solely on a review of reports on Form 3 and 4 and amendments thereto furnished to the Regency during its most recent fiscal year, reports on Form 5 and amendments thereto furnished to us with respect to our most recent fiscal year, we believe that no person who, at any time during 2005, was subject to the reporting requirements of Section 16(a) with respect to Regency failed to meet such requirements on a timely basis except that Laurence S. Levy and Neil Hasson each filed a late Statement of Changes of Beneficial Ownership on Form 4 with respect to options granted on June 14, 2005.

Code of Ethics.

We have adopted a Code of Ethics that applies to the Company's chief executive officer and chief financial officer. A copy of the Code of Ethics will be provided without charge to any person who requests it by writing to the address set forth on the cover page to this Form 10-KSB.

Audit Committee

The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, and consists of Errol Glasser and Stanley Fleishman. Each of the current members of the Company's Audit Committee is an "independent director" as determined pursuant to Rule 4200(a)(15) of the National Association of Securities Dealers' (NASD) listing standards.

Audit Committee Financial Expert

Our Board of Directors has determined that the Audit Committee does not have an audit committee financial expert as that term is defined by applicable Securities and Exchange Commission rules. The Board of Directors believes that obtaining the services of an audit committee financial expert is not economically rational at this time in light of the costs associated with identifying and retaining an individual who would qualify as an audit committee

financial expert, the limited scope of our operations and the relative simplicity of our financial statements and accounting procedures.

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the annual and long-term compensation during the last three years for each of the Company's named executive officers.

		ANNUAL COMPENSATION			LONG TERM
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSATION ($)	SECURITIES UNDERLYING OPTIONS ($)
Laurence S. Levy President/CEO	2005	150,000	0	0	50,000
	2004	150,000	0	0	50,000
	2003	181,250	0	0	75,000
Neil N. Hasson					

CFO	2005	50,000	0	0	50,000
	2004	50,000	0	0	50,000
	2003	56,250	0	0	75,000

OPTION/SAR GRANTS

The Option/SAR Grants Table below shows the individual grants of stock options (whether or not in tandem with SARS) and freestanding SARS made during the last completed fiscal year to any of the named executive officers.

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE ($/SH)
Laurence S. Levy	50,000	50%	1.58
Neil N. Hasson	50,000	50%	1.58

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUE

The Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values table shows the following exercises of stock options during the fiscal year ending December 31, 2005 and the value at December 31, 2005 of unexercised stock options held by the named executive officers.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (S)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#) EXERCISABLE/UNEXERCISABLE	VALUE OF OPTIO EXER
Laurence S. Levy	50,000	196,000	125,000/O	
Neil N. Hasson	50,000	196,000	125,000/0	

INCENTIVE STOCK OPTION PLANS

Non Qualified Stock Options.

On June 14, 2005, Messrs. Levy and Hasson were each granted options to purchase 50,000 shares of our common stock at an exercise price of $1.58 per share under the 2003 Stock Incentive Plan, as amended.

LTIP Awards.

There have been no awards under any long-term Incentive Plan during the last completed fiscal year.

Defined Benefit Plans.

We have no defined benefit or actuarial plans.

COMPENSATION OF DIRECTORS

Pursuant to our 2003 Stock Incentive Plan adopted in March 2003, non-management directors receive 250 shares of our common stock for every quarter of a year of service completed. In this regard, each of Messrs. Fleishman and Glasser were issued 1,000 shares of our common stock during the fiscal year ended December 31, 2005. On June 14, 2005, Messrs. Levy and Hasson were each granted options to purchase 50,000 shares of our common stock at an exercise price of $1.58 per share under the 2003 Stock Incentive Plan, as amended. On June 22, 2005 Messrs. Levy and Hasson elected to exercise the options received on June 14, 2005.

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

In connection with the Restructuring Transactions described in Item 1, we entered into an Employment Agreement with Laurence S. Levy, our current President and Chief Executive Officer, and with Neil Hasson, our current Chief Financial Officer. Under each employment agreement, the executive's employment commences on the date of the Restructuring Transactions and terminates upon the date on which the executive attains retirement age, provided that the executive may terminate his employment upon 30 days notice to Regency and he may be removed from office upon death or disability or for just cause. The employment agreements provides for a base annual salary of no less than $150,000 for Mr. Levy and no less than $50,000 for Mr. Hasson, a discretionary bonus and other customary benefits. The employment agreements also provide for the issuance to each of Messrs. Levy and Hasson, of options to purchase 25,000 shares of our common stock for $1.35 per share. Those options were issued in April 2003 pursuant to the Company's 2003 Stock Incentive Plan, as amended.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information.

	(a)	(b)
	NUMBER OF SECURITIES TO BE ISSUED UPON EXCERCISE OF OUTSTANDING OPTIONS,	WEIGHTED-AVERAGE EXCERCISE PRICE OF OUTSTANDING OPTIONS,

PLAN CATEGORY	WARRANTS AND RIGHTS (#)	WARRANTS AND RIGHTS ($)
Equity compensation plans approved by security holders	12,000	0.90
Equity compensation plans not approved by security holders (1)	290,000	1.63
Total	302,000	1.60

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(1) These options were granted under the Company's 2003 Stock Incentive Plan, as amended. The 2003 Stock Incentive Plan, as amended, is administered by the Company's Board of Directors or by a committee thereof. No grants may be made under the 2003 Stock Incentive Plan, as amended, after the 10-year anniversary of the plan. The 2003 Stock Incentive Plan, as amended, provides for the grant of non-qualified stock options in the sole discretion of the Board or a committee thereof. Stock options may be exercised in cash and/or unless otherwise provided in an applicable stock option agreement, with shares of our common stock upon the terms set forth in the 2003 Stock Incentive Plan, as amended. In addition, each non-employee director of the Company is granted 250 shares of our common stock at the end of each calendar quarter for which he or she has served as a director for such entire calendar quarter. Please see the full terms of the 2003 Stock Incentive Plan, as amended, for more detailed information.

Security Ownership of Certain Beneficial Owners.

The following table sets forth information regarding ownership of outstanding shares of our common stock as of May 12, 2006 by those individuals or groups who have advised us that they own more than five percent (5%) of such outstanding shares.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT BENEFICIALLY OWNED	PERCENT
Royalty Holdings, LLC and Royalty Management, Inc. 450 Park Avenue New York, New York 10022	1,823,738 (1)	58.
Raffles Associates, L.P. 450 Seventh Avenue New York, New York 10123	173,067 (2)	5.

Laurence S. Levy (1) c/o Hyde Park Holdings, LLC 450 Park Avenue New York, New York 10022	2,048,738 (1)(3)	62.

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(1) Based on information contained in the Statement on Schedule 13D filed by such entities on June 24, 2005.

(2) Based on information contained in the amended Statement on Schedule 13G filed by such entity on January 26, 2006.

(3) Comprised of (i) the 1,823,738 shares that are beneficially owned by Royalty Management, Inc., of which Mr. Levy is the President, sole director and sole stockholder, (ii) 175,000 shares underlying currently exercisable options granted to Mr. Levy under the Company's 2003 Stock Incentive Plan, as amended and (iii) 50,000 shares owned directly.

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The following table sets forth certain information as of May 12, 2006 regarding the ownership of Common Stock by (i) each director and nominee for director, (ii) each individual named in the Summary Compensation Table contained herein, and (iii) all current executive officers and directors of the Company as a group. Except as otherwise indicated, each such stockholder has sole voting and investment power with respect to the shares beneficially owned by such stockholder.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNER	PERCENT OF CLA
Laurence S. Levy (1)	2,048,738 (2)	62.11%
Neil N. Hasson (1)	175,000 (3)	5.39%
Errol Glasser 280 Madison Avenue Suite 600 New York, New York 10016	24,750 (4)	Less than
Stanley Fleishman c/o Jetro, 15-24 132nd Street College Point, New York 10123	20,750 (4)	Less than
All current Directors and Executive Officers as a group	2,269,238	65.62%

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(1) The address of such beneficial owner is c/o Hyde Park Holdings, LLC, 450 Park Avenue, New York, New York 10022.
(2) Comprised of (i) the 1,823,738 shares that are beneficially owned by Royalty Management, Inc., of which Mr. Levy is the President, sole director and sole stockholder, (ii) 175,000 shares underlying currently exercisable options granted to Mr. Levy under the Company's 2003 Stock Incentive Plan, as amended and (iii) 50,000 shares owned directly.
(3) Comprised of 125,000 shares of Common Stock underlying options currently exercisable granted to Mr. Hasson under the Company's 2003 Stock Incentive Plan, as amended and 50,000 shares owned directly.
(4) Includes 17,500 shares of Common Stock underlying stock options currently exercisable or exercisable within sixty days issued to such individual under the Company's 2003 Stock Incentive Plan, as amended.
(5) Based on information contained in the amended Statement on Schedule 13G filed by such entity on January 25, 2006.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

License Agreement

Pursuant to a License Agreement entered into in March 2003, Royalty Management, Inc., which is wholly-owned by Laurence S. Levy, the Company's President, Chief Executive Officer and a director, provides New York City office space, office supplies and office services to the Company for $100,000 per year.

Employment Agreements

See "ITEM 10. EXECUTIVE COMPENSATION - EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS" which is incorporated herein by reference.

Other Arrangements

See "ITEM 1. BUSINESS - NARRATIVE DESCRIPTION OF BUSINESS - "National Resource Development Corporation; Iron Mountain Resources, Inc.", which is incorporated by reference herein.

ITEM 13. EXHIBITS

The following documents are filed as part of this report:

Index of Exhibits

Exhibit No.	Description of Document
3.1(i)(a)	Restated Certificate of Incorporation of the Company (filed as exhibit 3.1(i)(a) to the Company's Form 10-Q dated 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 Form 10-Q, dated November 19, 2002, and incorporated herein by reference).
3.1(i)(c)	Certificate of Amendment to Restated Certificate of Amendment (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on October 27, 2003).
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 Registrant'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 No. 2-86906, and incorporated herein by reference).
3.1(ii)(b)	Amendment No. 1 to By-Laws of the Company (filed as exhibit 3.1(ii)(b) to the Company's Form 10-Q dated November 19, 2002, and incorporated herein by reference).
10.1	2003 Stock Incentive Plan of the Company (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003 and incorporated herein by reference) *

10.2	Amendment No. 1 to 2003 Stock Incentive Plan (filed as Exhibit 8 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference.) *
10.3	Amendment No. 2 to 2003 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB on August 23, 2004, and incorporated herein by reference.) *

10.4	Stock Option Agreement, dated April 1, 2003, between the Company and Stanley Fleishman (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.5	Stock Option Agreement, dated April 1, 2003, between the Company and Errol Glasser (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.6	Stock Option Agreement, dated April 1, 2003, between the Company and Laurence Levy (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.7	Stock Option Agreement, dated April 1, 2003, between the Company and Neil Hasson (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.8	Stock Option Agreement, dated October 1, 2003 between the Company and Laurence Levy (filed as Exhibit 11 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference). *
10.9	Stock Option Agreement, dated October 1, 2003 between the Company and Neil Hasson (filed as Exhibit 12 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference). *
10.10	Stock Option Agreement, dated October 1, 2003 between the Company and Errol Glasser (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-KSB filed on April 14, 2004, and incorporated herein by reference). *
10.11	Stock Option Agreement, dated October 1, 2003 between the Company and Stanley Fleishman (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-KSB filed on April 14, 2004, and incorporated herein by reference). *
10.12	Stock Option Agreement, dated as of August 13, 2004 between the Company and Laurence Levy (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB filed on August 23, 2004, and incorporated herein by reference). *

10.13	Stock Option Agreement, dated as of August 13, 2004

	between the Company and Neil Hasson (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB filed on August 23, 2004, and incorporated herein by reference). *
10.14	License Agreement, dated March 17, 2003, between the Company and Royalty Management, Inc. (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference).
10.15	Demand Note from the Company in favor of Royalty Holdings LLC (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference).
10.16	Redemption Agreement, dated October 16, 2002, between the Company and Statesman (filed as exhibit 99.1 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.17	Call Option Agreement, dated October 16, 2002, between the Company and Statesman (filed as exhibit 99.2 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.18	Contingent Payment Agreement, dated October 16, 2002, between the Company and William R. Ponsoldt, Sr. (filed as exhibit 99.3 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference). *
10.19	Amended and Restated Certificate of Designations of the Series C Preferred Stock (filed as exhibit 99.4 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.20	Note Purchase Agreement, dated October 16, 2002, between the Company Royalty Holdings LLC (filed as exhibit 99.5 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.21	5% Convertible Promissory Note of the Company (filed as exhibit 99.6 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.22	9% Promissory Note of the Company (filed as exhibit 99.7 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.23	Amended and Restated Promissory Note of the Company (filed as exhibit 99.8 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.24	Amendment No. 1 to Pledge Agreement (filed as exhibit 99.9 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.25	Letter Agreement, dated October 16, 2002, between the

	Company and Statesman (filed as exhibit 99.10 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
10.26	Employment Agreement, dated October 16, 2002, between Laurence S. Levy and the Company (filed as exhibit 99.11 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference). *

10.27	Employment Agreement, dated October 16, 2002, between Neil N. Hasson and the Company (filed as exhibit 99.12 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference). *
10.28	Employment Agreement dated June 3, 1997, between Regency Affiliates, Inc. and William R. Ponsoldt, Sr., and Agreement dated June 3, 1997, between Regency Affiliates, Inc. and Statesman Group, Inc. (filed as exhibits 10(a) and (b) to the Company's report on Form 8-K dated June 13, 1997, and incorporated herein by reference). *
10.29	Asset Purchase and Sale Agreement dated February 27, 1997, between Rustic Crafts Co., Inc. and certain individuals, as Sellers, and Regency Affiliates, Inc., as Purchaser, and Assignment and Assumption of Purchase Agreement dated March 17, 1997, between Regency Affiliates, Inc., and Rustic Crafts International, Inc. (filed as exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 at page E-1, and incorporated herein by reference).
10.30	Amended and Restated Agreement between Regency Affiliates, Inc. and the Statesman Group, Inc., dated March 24, 1998 (filed as exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, at page E-36, and incorporated herein by reference).
10.31	Loan Agreement and Pledge and Security Agreement with KBC Bank N.V., dated June 24, 1998 (filed as exhibits 10.1 and 10.2 to the Company's report on Form 10-Q for the quarter ended June 30, 1998, and incorporated herein by reference).
10.22	Security Land And Development Company Limited Partnership Agreement, as amended by Amendment Nos. 1 through 6 (filed as Exhibit 1(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
10.33	Seventh Amendment to Partnership Agreement of Security Land and Development Company Limited Partnership dated June 24, 1998 (filed as exhibit 10.3 to the Company's report on Form 10-Q for the quarter ended June 30, 1998, and incorporated herein by reference).
10.34	Eighth Amendment to Partnership Agreement of Security

	Land and Development Company Limited Partnership, dated April 8, 2003 (filed as Exhibit 10.27 to the Company report on Form 10-KSB for the year ended December 31, 2002, filed on April 15, 2003, and incorporated herein by reference).
10.35	Purchase Agreement for a 5% Limited Partnership Interest in 1500 Woodlawn Limited Partnership, the General Partner of Security (filed as exhibit 10.2 to the Company's report on Form 10-K for the year ended December 31, 2001, and incorporated herein by reference).
10.36	Glas-Aire Redemption Agreement (incorporated herein by reference to the Company's Current Report on Form 8-K filed on October 16, 2001).

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10.37	Statesman exercise agreement (incorporated herein by reference to the Company's Current Report on Form 8-K filed on October 25, 2001).
10.38	Ninth Amendment to Security Land and Development Company Limited Partnership Amended and Restated Limited Partnership Agreement (filed as Exhibit 10.1 to the Company's Form 8-K filed on June 25, 2003, and incorporated herein by reference).
10.39	Seventh Amendment to First Amended and Restated Limited Partnership Agreement of 1500 Woodlawn Limited Partnership (filed as Exhibit 10.2 to the Company's Form 8-K filed on June 25, 2003, and incorporated herein by reference).
10.40	Assignment and Assumption Agreement, dated as of April 30, 2004, between DTE Mobile, LLC and Regency Power Corporation (incorporated by reference from the Company's Current Report on 8-K filed on May 11, 2004).
10.41	Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital, LLC and Mobile Energy Services Holdings, Inc. (incorporated by reference from the Company's Current Report on 8-K filed on May 11, 2004).
10.42	Stock Option Agreement, dated as of June 14, 2005 between the Company and Laurence S. Levy (incorporated by reference from an Amendment to Schedule 13D filed on June 24, 2005). *
10.43	Stock Option Agreement, dated as of June 14, 2005 between the Company and Neil Hasson (incorporated by reference from an Amendment to Schedule 13D filed on June 24, 2005). *
21	Schedule of Subsidiaries
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.
99.1	Report of the Special Committee of the Company's Board of Directors, dated May 10, 2003, and adopting resolutions (filed as Exhibit 99.2 to Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003, and incorporated by reference herein).

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* Indicates that exhibit is a management contract or compensatory plan or arrangement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed or to be billed by Rosenberg Rich Baker Berman & Company for each of the last two fiscal years for professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-QSB and services that were provided in connection with statutory and regulatory filings or engagements were $56,117 for the fiscal year ended December 31, 2005 and $58,786 for the fiscal year ended December 31, 2004.

Audit-Related Fees. The aggregate fees billed by Rosenberg Rich Baker Berman & Company for each of the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements were $0 for the fiscal year ended December 31, 2005 and $0 for the fiscal year ended December 31, 2004

Tax Fees. The aggregate fees billed by Rosenberg Rich Baker Berman & Company in each of the last two fiscal years for professional services rendered for tax compliance, tax advice and tax planning were $35,018 for the fiscal year ended December 31, 2005 and $35,000 for the fiscal year ended December 31, 2004.

All Other Fees. The aggregate fees billed by Rosenberg Rich Baker Berman & Company in each of the last two fiscal years for products and services other than those reported in the three prior categories were $0 for the fiscal year ended December 31, 2005 and $0 for the fiscal year ended December 31, 2004.

Policy on Pre-Approval of Services Provided by Rosenberg Rich Baker Berman & Company

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the terms of the engagement of Rosenberg Rich Baker Berman & Company are subject to the specific pre-approval of the Audit Committee. All audit and permitted non-audit services to be performed by Rosenberg Rich Baker Berman & Company require pre-approval by the Audit Committee. The procedures require all proposed engagements of Rosenberg Rich Baker Berman & Company for services of any kind to be submitted for approval to the Audit Committee prior to the beginning of any services. The Company's audit and tax services proposed for 2005 along with the proposed fees for such services were reviewed and approved by the Company's Audit Committee.

SIGNATURES REQUIRED FOR FORM 10-KSB

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

REGENCY AFFILIATES, INC.

May 15, 2006 Date	By: /s/ Laurence S. Levy Laurence S. Levy, President and Chief Executive Officer
May 15, 2006 Date	By: /s/ Neil N. Hasson Neil N. Hasson, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

May 15, 2006 Date	By: /s/ Laurence S. Levy Laurence S. Levy, President, Chief Executive Officer and Director
May 15, 2006 Date	By: /s/ Neil N. Hasson Neil N. Hasson, Chief Financial Officer and Director
May 15, 2006 Date	By: /s/ Errol Glasser Errol Glasser, Director
May 15, 2006 Date	By: /s/ Stanley Fleishman Stanley Fleishman, Director

INDEX TO EXHIBITS

2. Other Exhibits

Exhibit No.	Description of Document
3.1(i)(a)	Restated Certificate of Incorporation of the Company (filed as exhibit 3.1(i)(a) to the Company's Form 10-Q dated 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 Form 10-Q, dated November 19, 2002, and incorporated herein by reference).
3.1(i)(c)	Certificate of Amendment to Restated Certificate of Amendment (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on October 27, 2003).
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).

Exhibit No.	Description of Document
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 Registrant'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 No. 2-86906, and incorporated herein by reference).
3.1(ii)(b)	Amendment No. 1 to By-Laws of the Company (filed as exhibit 3.1(ii)(b) to the Company's Form 10-Q dated November 19, 2002, and incorporated herein by reference).

10.1	2003 Stock Incentive Plan of the Company (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference) *
10.2	Amendment No. 1 to 2003 Stock Incentive Plan (filed as Exhibit 8 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference.) *
10.3	Amendment No. 2 to 2003 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB on August 23, 2004, and incorporated herein by reference.) *
10.4	Stock Option Agreement, dated April 1, 2003, between the Company and Stanley Fleishman (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.5	Stock Option Agreement, dated April 1, 2003, between the Company and Errol Glasser (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.6	Stock Option Agreement, dated April 1, 2003, between the Company and Laurence Levy (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *
10.7	Stock Option Agreement, dated April 1, 2003, between the Company and Neil Hasson (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended 2002 filed on April 15, 2003, and incorporated herein by reference). *

E-2

Exhibit No.	Description of Document
10.8	Stock Option Agreement, dated October 1, 2003 between the Company and Laurence Levy (filed as Exhibit 11 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference). *
10.9	Stock Option Agreement, dated October 1, 2003 between the Company and Neil Hasson (filed as Exhibit 12 to Amendment No. 3 to Schedule 13D filed by Royalty Holdings LLC, Royalty Management, Inc., Laurence Levy and Neil Hasson on October 3, 2003, and incorporated herein by reference). *

10.10	Stock Option Agreement, dated October 1, 2003 between the Company and Errol Glasser (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-KSB filed on April 14, 2004, and incorporated herein by reference). *
10.11	Stock Option Agreement, dated October 1, 2003 between the Company and Stanley Fleishman (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-KSB filed on April 14, 2004, and incorporated herein by reference). *
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10.20	Note Purchase Agreement, dated October 16, 2002, between the Company Royalty Holdings LLC (filed as exhibit 99.5 to Company's Current Report on Form 8-K filed October 18, 2002, and incorporated herein by reference).
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	Affiliates, Inc., and Rustic Crafts International, Inc. (filed as exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 at page E-1, and incorporated herein by reference).
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10.37	Statesman exercise agreement (incorporated herein by reference to the Company's Current Report on Form 8-K filed on October 25, 2001).

Exhibit No.	Description of Document
10.38	Ninth Amendment to Security Land and Development Company Limited Partnership Amended and Restated Limited

	Partnership Agreement (filed as Exhibit 10.1 to the Company's Form 8-K filed on June 25, 2003, and incorporated herein by reference).
10.39	Seventh Amendment to First Amended and Restated Limited Partnership Agreement of 1500 Woodlawn Limited Partnership (filed as Exhibit 10.2 to the Company's Form 8-K filed on June 25, 2003, and incorporated herein by reference).
10.40	Assignment and Assumption Agreement, dated as of April 30, 2004, between DTE Mobile, LLC and Regency Power Corporation (incorporated by reference from the Company's Current Report on 8-K filed on May 11, 2004).
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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.
99.1	Report of the Special Committee of the Company's Board of Directors, dated May 10, 2003, and adopting resolutions (filed as Exhibit 99.2 to Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003, and incorporated by reference herein).

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* Indicates that exhibit is a management contract or compensatory plan or arrangement.

Consolidated Financial Statements

December 31, 2005 and 2004

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

Report of Independent Registered Public Accounting Firm

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

We have audited the consolidated balance sheets of Regency Affiliates, Inc. and Subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Regency Affiliates, Inc. and Subsidiaries as of December 31, 2005 and 2004 and the results of its consolidated operations, changes in shareholder's equity and cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman & Company

Bridgewater, New Jersey
April 25, 2006

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 5,646,788	$ 1,469,353
Marketable securities	5,991,990	8,992,257
Accrued interest receivable	499,233	347,242
Other current assets	10,721	41,896
Total Current Assets	12,148,732	10,850,748
Property, plant and equipment, net	--	1,899
Investment in partnerships	7,288,799	7,754,686
Other Assets		
Aggregate inventory	--	832,427
Deferred costs	--	250,000
Other	1,300	1,300
Total Other Assets	1,300	1,083,727
Total Assets	$ 19,438,831	$ 19,691,060

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2005	2
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,393,133	$
Total Current Liabilities	1,393,133	
Deferred credit	792,489	1,

Shareholders' equity		
Serial preferred stock not subject to mandatory redemption 605,291 shares issued and outstanding (Maximum liquidation preference $24,849,410)	1,052,988	1,
Common stock, par value $.01; 8,000,000 shares authorized and 3,121,412 in 2005 and 3,020,412 in 2004 outstanding	31,214	
Additional paid-in capital	8,737,321	8,
Readjustment resulting from quasi-reorganization at December 1987	(1,670,596)	(1,
Retained earnings	11,880,077	12,
Note receivable - sale of stock	(2,440,000)	(2,
Treasury stock, 55,000 and 47,000 shares in 2005 and 2004, respectively	(337,795)	(
Total Shareholders' Equity	17,253,209	17,
	$ 19,438,831	$ 19,

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Operations

	December 31,	
	2005	2004
Net Sales	$ --	$ --
Costs and expenses		
General and Administrative expenses	(2,768,976)	(3,710,057)
Loss from operations	(2,768,976)	(3,710,057)
Other income (expense)		
Income from equity investment in partnerships	2,833,447	1,215,498
Expiration of option	(250,000)	--
Legal settlement	(950,000)	-0-
Rental income	--	4,599
Interest and dividend income	447,256	261,948
Unrealized investment gains	8,505	4,468
Net income (loss) before income taxes	(679,768)	(2,223,544)
Income tax (expense) benefit	(138,976)	(41,495)
Net Income (Loss)	$ (818,744)	$(2,265,039)
Net income (loss) per common share:		
Basic and diluted Net income (loss) per common share	$ (0.27)	$ (0.75)

Weighted average number of shares	3,051,037	3,019,317

See notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
Years Ended December 31, 2005 and 2004

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance - January 1, 2004	605,291	$ 1,052,988	3,018,412	$ 37,7
Retirement of treasury shares	(10,694)			(7,5
Purchase treasury shares	--	--	--	
Common stock issued for services	--	--	2,000	
Net loss	--	--	--	
Balance - December 31, 2004	605,291	1,052,988	3,020,412	30,2
Exercise of stock options	--	--	100,000	1,0
Stock options granted to officers	--	--	--	
Common stock issued to directors	--	--	1,000	
Purchase treasury shares	--	--	--	
Net income	--	--	--	
Balance - December 31, 2005	605,291	$ 1,052,988	3,121,412	$ 31,2

	Retained Earnings	Note Receivable Sale of Stock	Treasu
			Shares
Balance - January 1, 2004	$ 14,963,860	$ (2,440,000)	1,160,233
Retirement of treasury shares	--	18,243	(1,160,233)
Purchase treasury shares	--	--	47,000

Common stock issued for services	--	--	--
Net loss	(2,265,039)	--	--
Balance - December 31, 2004	12,698,821	(2,440,000)	47,000
Exercise of stock options	--	--	--
Stock options granted to officers	--	--	--
Common stock issued to directors	--	--	--
Purchase treasury shares	--	--	8,000
Net income	(818,744)	--	--
Balance - December 31, 2005	$ 11,880,077	$ (2,440,000)	55,000

See notes to the consolidated financial statements.

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

	Years Ended December 31	
	2005	2
Cash flows from operating activities		
Net loss	$ (818,744)	$ (2,
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Income from equity investment in partnerships	(2,833,447)	(1,
Impairment of notes receivable	--	1,
Stock-based compensation	397,700	
Depreciation and amortization	1,899	
Issuance of common stock in lieu of cash	--	
Unrealized gain on marketable securities	--	(
Impairment of aggregate inventory	832,427	
Expiration of option	250,000	
Changes in assets and liabilities		
Increase in accounts receivable	--	
Increase in interest receivable	(151,991)	
Decrease in other current assets	31,178	
Decrease in accounts payable and accrued expenses	702,306	
Net cash used in operating activities	(1,588,672)	(2,
Cash flows from investing activities		
Cash investments in partnerships	--	(7,
Payments received on notes receivable	--	

Distribution of earnings from partnership	2,650,000	1,
Purchases of marketable securities	(113,999,733)	(129,
Proceeds from sales of marketable securities	117,000,000	139,
Net proceeds from the sale of property and equipment	--	
Net cash provided by investing activities	5,650,267	3,
Cash flows from financing activities		
Proceeds from the exercise of stock options	158,000	
Purchase of treasury stock	(42,160)	(
Net cash provided by (used in) financing activities	115,840	(
Net increase in cash and cash equivalents	$ 4,177,435	$ 1,
Cash and cash equivalents - beginning	1,469,353	
Cash and cash equivalents - ending	$ 5,646,788	$ 1,

See notes to the consolidated financial statements.

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

	Years Ended December 31,	
	2005	2004
Supplemental disclosures of cash flow information:		
Cash paid during the year for		
Interest	$ --	$ --
Income taxes	$25,976	$41,495

Supplemental disclosures of non-cash investing and financing activities:

During the year ended December 31, 2004, the Company recorded the retirement of 1,160,233 shares of cancelled treasury stock at a cost of $18,243 resulting in a reduction of common stock of $7,549 and additional paid-in capital of $10,694.

See notes to the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of Regency Affiliates, Inc. (the "Company"), its wholly owned subsidiary, Regency Power Corporation since April 30, 2004, date of inception, its 75% owned subsidiary, Iron Mountain Resources, Inc. and its 80% owned subsidiary, National Resource Development Corporation ("NRDC"). All significant intercompany balances and transactions have been eliminated in consolidation.

Earnings Per Share - Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share computations assume the conversion of all stock options outstanding that are "in the money".

Stock Based Compensation - The Company accounts for stock issued for services based on Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation". The statement generally suggests, but does not require, stock-based compensation transactions to be accounted for based on the fair value of the services rendered or the fair value of the equity instruments issued, whichever is more reliably measurable. Securities issued for services amounted to $5,700 in 2005 and $12,800 in 2004. The underlying fair value of the common shares amounted to $5.70 and $6.40 per share, respectively.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure", the Company accounts for stock-based compensation to employees using the intrinsic value method as prescribed under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" and the related interpretations; and provides the disclosure only provisions of SFAS No. 148.

Fair Value of Financial Instruments - The fair values of cash, accounts receivable, accounts payable and other short-term obligations approximate their carrying values because of the short maturity of these financial instruments. The carrying values of the Company's long-term obligations approximate their fair value. In accordance with Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments," rates available at balance sheet dates to the Company are used to estimate the fair value of existing debt.

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 which may exceed federally insured amounts at times.

Property, Plant and Equipment - Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the assets by the use of the straight-line and declining balance methods.

These items consist of the following at December 31, 2005 and 2004:

	2005	2004
Building and land	$ --	$ --
Machinery and equipment	43,708	43,708
	43,708	43,708
Accumulated depreciation	43,708	41,809
	$ --	$ 1,899

Depreciation expense for the years ended December 31, 2005 and 2004 was $1,899 and $4,658, respectively.

Aggregate Inventory - Inventory held by a subsidiary, NRDC,, which consists of 70+ million short tons of previously quarried and stockpiled aggregate rock located at the site of the Groveland Mine in Dickinson County, Michigan, is stated at lower of cost or market. The Company is also subject to a royalty agreement which requires the payment of certain royalties to a previous owner of the aggregate inventory upon sale of the aggregate.

In December, 2001 the aggregate inventory was sold to Iron Mountain Resources, Inc., a 75% owned subsidiary of the company. The purchase price was $18,200,000 and is payable, with interest of 2.46%, in ninety-six equal payments of principal and interest scheduled to commence in December, 2003. The intercompany gain on this transaction has been eliminated in the consolidation process resulting in the aggregate inventory being carried at its historical cost. On February 9, 2005, in lieu of foreclosure, Iron Mountain Resources reconveyed the aggregate inventory back to NRDC and the note was deemed satisfied. Based upon a subsequent fair market value appraisal, the aggregate inventory was deemed to be worthless and as such a full valuation allowance of $832,427 was taken in 2005. This impairment is included in the General and Administrative caption of the accompanying Consolidated Statement of Operations.

Income Taxes - The Company utilizes Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for 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 SFAS 109 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 is the current tax payable or refundable for the period plus or minus the net exchange 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.

Note 2. Marketable Securities

The cost and fair value of the Company's investments in marketable securities are as follows:

Trading securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

As of December 31, 2004:				
9,000,000 US Treasury bills	$8,987,789	$ 4,468	$ --	$8,992,2
As of December 31, 2005:				
6,000,000 US Treasury bills	$5,983,485	$ 8,505	$ --	$5,991,9

Note 3. 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 and Development Company Limited Partnership ("Security"), 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 and operating cash flow distributions, as amended (see below).

Security 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 in 1986 and are located on approximately 34.3 acres of land which is also owned by Security. 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 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 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 partnership agreement. The amendment provides for the distribution of the net proceeds of a loan to Security 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'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 $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.

The refinancing of Security's property at 1500 Woodlawn Drive, Woodlawn, Maryland closed 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 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 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 $41,018,943 from the Security distribution. In connection with the Security refinancing and distribution, the Company was required to repay its KBC Bank loan. The payoff amount was $14,145,410, which included a release fee and make-whole premium.

For the years ended December 31, 2005 and 2004 the Company's income from its equity investment in Security was $649,333 and $360,225, respectively. These funds, however, are principally committed to the amortization of the outstanding principal balance on Security's real estate mortgage. Security does not currently provide liquidity to the Company.

The Company accounts for the Investment in Partnerships using the equity method, whereby the carrying value of these investments increased or decreased by the Company's allocable share of book income or loss. The cumulative total amount of distributions made in excess of the Company's partnership basis through December 31, 2005 was $792,489, which is recorded as a deferred credit on the accompanying financial statements.

Summarized financial information for Security is as follows:

	2005	2004
Balance Sheet Data		
Cash and receivables	$ 1,214,068	$ 1,227,837
Restricted cash	1,940,300	2,744,101
Real estate, net	35,347,723	38,600,829
Deferred charges, net	8,771,067	9,472,752
Other assets	307,620	414,136
Total Assets	47,580,778	52,459,655
Accounts payable and accrued expenses	347,120	650,690
Project note payable	87,631,474	91,904,929
Other liabilities	180,482	177,453
Total Liabilities	88,159,076	92,733,072
Partners' capital:		
Regency Affiliates, Inc.	143,360	432,997
Other partners	(40,721,658)	(40,706,414)
Total Partners' Capital	(40,578,298)	(40,273,417)
Total Liabilities and Partners' Capital	47,580,778	52,459,655
Statement of Operations Data		
Revenues	$ 13,095,605	$ 12,943,455

Expenses	9,130,411	9,282,554
Net operating income	3,965,194	3,660,901
Other expenses	(3,281,685)	(3,281,685)
Net income	$ 683,509	$ 379,216

Effective November 30, 2000 the Company invested $10,000 for a 5% limited partnership interest in 1500 Wood Lawn Limited Partnership, the general partner of Security. The Company recognized income of $1,708 in 2005 and $948 in 2004 from this investment.

Note 4. 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, LLC, a Delaware limited liability company, from DTE Mobile, LLC, 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 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 Services Company, LLC, 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 terms of the

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Membership Interest Purchase Agreement were negotiated between MESC Capital and Mobile Energy Services Holdings, Inc. 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. 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 is increased or decreased by the Company's allocable share of book income or loss. The Company recognized income of $2,182,406 in 2005 and $854,325 in 2004 from this investment.

Summarized financial information for MESC Capital LLC is as follows:

	2005	200
Balance Sheet Data		
Cash and cash equivalents	$ 2,096,656	$ 1,65
Restricted cash	1,640,427	1,27
Trade receivable	2,542,298	2,48
Current portion of net investment in direct financing lease	1,120,066	98
Insurance and other receivables	101,372	2,60
Inventory	3,296,835	4,69
Other assets	213,634	12
Total current assets	11,011,288	13,82
Debt issuance costs and derivative instruments, net	1,703,784	2,04
General plant, net	108,486	18
Investment in direct financing lease, net current portion	24,313,554	24,16
Total assets	37,137,112	40,21
Accounts payable	1,450,040	2,69
Accrued liabilities	451,197	44
Current portion of long term debt	1,085,850	91
Total current liabilities	2,987,087	4,05
Current portion of long term debt	27,182,950	28,26
Total liabilities	30,170,037	32,32
Members' equity	6,967,075	7,89
Total liabilities and members' equity	37,137,112	40,21
Statement of Operations Data		
Revenues	$ 13,972,688	$ 9,23
Expenses	10,910,557	6,93
Net operating income	3,062,131	2,29
Other income and expense	1,302,681	(58
Net income	$ 4,364,812	$ 1,70

Note 5. Notes Receivable

Pursuant to the sale of the net operating assets of the Company's subsidiary, Rustic Crafts, on September 30, 2002, Rustic Crafts obtained notes receivable. At December 31, 2003, these notes consisted of the following:

	2003
Note receivable, 5% per annum, with monthly payments of principal and interest of $13,342, due 9/30/07	$ 707,000
Note receivable, 7.5% per annum, with monthly payments of principal and interest of $5,032, with a balloon payment due 9/8/06	422,271
Total	$1,129,271

In March 2004, these notes were deemed to be uncollectible due to the lack of cash flows generated and the continual default on payment terms by the issuer. Management determined to record full impairment of the notes which totaled $1,182,626. This impairment is included in the General and Administrative caption of the accompanying Consolidated Statement of Operations.

In December 2005, a stipulation of settlement was entered into in which Regency agreed to accept a total of $125,000 payable over three years in full settlement of the notes detailed above. No gain or income was recognized as a result of this settlement due to the uncertainty that the amount will actually be realized. Such recovery will be recognized upon receipt.

Note 6. Serial Preferred Stock

At December 31, 2005 and 2004, the Company had 2,000,000 of authorized shares of $.10 par value serial preferred stock. Serial preferred stock at December 31, 2005 and 2004, all of which is convertible (except Series C, which is not convertible) and cumulative, consists of:

	Shares		Value	
				2005
	Designated	Outstanding	Carrying	Liquidation
Series C, $100 stated value, cumulative	210,000	208,850	$ 229,136	$ 20,885,00
Series B, $10 stated value, 6% cumulative	370,747	370,747	566,912	3,707,47
Junior Series, D, $10				

Stated value, 7% Cumulative	26,000	25,694	256,940	256,94
	606,747	605,291	$ 1,052,988	$ 24,849,41

Series C - The Series C shares were issued on July 7, 1993 as part of the transaction to acquire an 80% interest in NRDC. The cumulative dividend right is equal to 20% (not to exceed $500,000) of annual after tax earnings of NRDC. At the Company's option, the Series C may be redeemed at

the lesser of (a) the stated value plus accrued and unpaid dividends or (b) the fair market value of the common stock interest acquired by the Company in NRDC. At the Company's option, the redemption price may be satisfied by the delivery of the shares in NRDC owned by the Company.

On October 16, 2002, the Company entered into agreements with Statesman providing for the amendment to the Company's Series C Preferred Stock and certain restrictions relating to Statesman's future ownership of an interest in the Company and Statesman's ability to issue or transfer beneficial interests in Statesman, in exchange for a payment to Statesman of $2,730,000. The payment was recorded as a reduction in paid-in capital in the accompanying financial statements.

Series B - The Series B shares were issued in 1991 as part of a restructuring plan limited to senior lenders and was issued in exchange for all obligations and any claims or causes of action relating to the Company's obligations and guarantees. Such preferred stock includes, among other provisions and preferences, the following:

(a) A 6% cumulative dividend right commencing on the 24th month from the consummation of a defined "initial business combination transaction" and if the Company has reached a defined ratio of earnings to fixed charges. In addition, dividends accrue for a period of 35 additional months without cash payment.

(b) At the Company's option, the shares may be redeemed, subject to certain limitations, by cash payment or by exchanging shares of its common stock at 77% of its stated value divided by the quoted market value of its common stock.

(c) A contingent conversion provision which conversion right, and the Company common shares to be issued in connection with the conversion, would be based on the stated value divided by the average bid and asked price for the 90 days preceding the conversion date of the Company's common shares. In addition, the number of the Company's common shares to be received upon conversion is subject to certain limitations.

Junior Series D - The junior preferred stock was issued in 1992 in exchange for the Company's Restructuring Serial Promissory Notes. This preferred stock is redeemable, at the Company's option, at the stated value plus accrued and unpaid dividends and is contingently convertible into common at the fair market value of the common as determined by the average of the bid and asked price for the thirty (30) day period preceding the conversion date.

Generally, no dividends can be paid on the Company's common stock until all cumulative dividends on the serial preferred stock have been paid. Additionally, no dividends on the Company's common shares can be paid if the Company is in default or in arrears with respect to any sinking or analogous fund or any call or tenders or other agreement for the purchase, redemption or other retirement of shares of preferred stock. No provision for dividends has been made for the Company's Series B and C "increasing rate preferred stock," as defined in Staff Accounting Bulletin Topic 5Q, due to the contingent nature of dividends on such shares.

Generally the preferred shares have limited voting rights. However, in the event dividends payable on the Series C and E shares, respectively, are accumulated and unpaid for seven quarterly dividends (whether or not declared and whether or not consecutive), the holders of record of the Series C shares, shall thereafter have the right to elect two directors (each) until all arrears in required cash dividends (whether or not declared) on such shares have been paid. The Company's bylaws provide for eight members on its Board of Directors.

Note 7. Stock Option - Statesman

Effective June 3, 1997, the Company issued options to purchase 6.1 million (pre-2002 10-1 reverse split) shares of common stock to Statesman Group,

Inc. The options were issued to Statesman in order to secure the release of Mr. William R. Ponsoldt, Sr. to serve as President and Chief Executive Officer of the Company and to recognize in part, the amendment to the Series C preferred shares under which Statesman forfeited certain common stock conversion rights with respect thereto. Statesman also agreed to provide loan guarantees not to exceed the sum of $300,000 upon the request of the Company and a showing of reasonable need. Statesman and/or its affiliated interests have provided loan guarantees and/or unsecured prime interest rate direct loans to the Company exceeding $2,000,000 since June 1997.

On October 15, 2001 the Statesman Group, Inc. (Statesman) exercised in full its option, which had been granted in 1997, to acquire 610,000 post-reverse-split shares of the Company's common stock. The exercise was made pursuant to an agreement which provided for (1) a purchase price at $0.40 per share (par value) rather than the formula price in the option, which would have yielded 25% less to the Company, (2) the execution of a note from Statesman to the Company in the principal amount of $2,440,000 payable in five years with interest to accrue at the prevailing prime rate and (3) the obligation to be collateralized by the 610,000 post-reverse-split common shares of the Company purchased upon exercise of the option as well as the 20% remaining interest in the Company's 80% owned subsidiary, NRDC.

The Company acquired from Statesman a three-year option to acquire Statesman's 20% interest in NRDC exercisable by delivery to Statesman of the aforementioned $2,440,000 note. The Company acquired the option by paying Statesman $250,000, amending the note (and underlying pledge agreement) to limit recourse and transferring to Statesman certain office furniture and equipment. This option expired in 2005 and was therefore recorded as an expense.

Note 8. Stock Based Compensation

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for options. As such, the disclosure only provisions of the Statement of Financial Accounting Standard (SFAS) No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure" are used to report the following information.

The fair value of the Company's stock-based compensation below was estimated using the Black-Scholes option pricing model which requires highly subjective assumptions including the expected stock price volatility. The fair value of the Company's stock options was estimated using the following assumptions: no expected dividends, risk free interest rate of 3.5% expected average life of approximately 10 years and an expected stock price volatility of 90%. The weighted average fair value of options granted was $5.20 during 2005 and $6.08 during 2004.

Had compensation cost for the options been determined based on the fair value at the grant dates for those options, stock based compensation, net loss and net loss per common share basic and diluted would have been as follows for the years ended December 31, 2005 and 2004:

	Year Ended December 31, 2005	Year Ended December 31, 2004
Net income (loss), as reported	$ 131,256	$(2,265,039)
Add: Stock-based compensation included	397,700	12,800
Less: Stock-based compensation - FMV	(525,700)	(608,100)
Pro forma net income (loss)	$ 3,256	$(2,860,339)
Net loss per share		
As reported	$ .04	$ (.75)
Pro forma	$ .00	$ (.95)

The following is a summary of the status of the Company's options for the year ended December 31, 2005:

	Exercise Price Range	Options	Average Exercise Price	Averag Contra Life
Outstanding at beginning of year	$ .40 - 2.40	302,000	$ 2.12	10
Issued	1.58	100,000	1.58	Less th year
Exercised, forfeited or expired	1.58	(100,000)	1.58	Less th year
Outstanding at end of period	$ .40 - 2.40	302,000	$ 2.12	10

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Note 9. Income Taxes

As referred to in Note 1, the Company accounts for income taxes under SFAS 109, "Accounting for 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 Development Company Limited Partnership related to depreciation and amortization and the recognition of income tax carryforward items.

At December 31, 2005 and 2004, the Company's net deferred tax asset, utilizing a 34% effective tax rate, respectively, consists of:

	2005	2004
Deferred tax assets:		
Net operating loss carry forward	2,567,000	1,485,884
Valuation allowance	(2,567,000)	(1,485,884)
Subtotal	$ --	$ --

The valuation allowance was established to reduce the net deferred tax asset to the amount that will more likely than not be realized. This reduction is necessary due to uncertainty of the Company's ability to utilize the net operating loss and tax credit carry forwards before they expire.

For regular federal income tax purposes, the Company has remaining net operating loss carryforwards of approximately $6,400,000 expiring through 2020. These losses can be carried forward to offset future taxable income and, if not utilized, will expire in varying amount. The Company's tax returns have not recently been examined by the Internal Revenue Service ("Service") and there is no assurance that the Service would not attempt to limit the Company's use of its net operating loss and tax credit carryforwards.

For the years ended December 31, 2005 and 2004, the tax effect of net operating loss carryforwards reduced the current provision for regular Federal income taxes by approximately $-0- and $-0-, respectively. At December 31, 2005 and 2004, the Company has provided $138,976 and $41,495, respectively, for taxes, which relate to state income taxes.

The provision (benefit) for income taxes is as follows

	Year Ended December 31,	
	2005	2004
Current	$138,976	$ 41,495
Deferred	--	--
	$138,976	$ 41,495

The difference between income tax benefits in the financial statements and the tax benefit computed at the applicable statutory rates of 34% at December 31, 2005 is as follows:

	2005	2004
Federal (expense) benefit at the statutory rate	(34.0)%	34.0%
State tax expense	(51.4)	1.9
Benefit of net operating loss carry forward	34.0	-0-
Valuation Allowance	-0-	(34.0)
Effective tax rate of income tax (expense) benefit	51.4%	1.9%

Note 10. Employment Agreements

On October 16, 2002, the Company entered into Employment Agreements with Mr. Levy and Mr. Hasson, with terms as follows:

Laurence S. Levy - base annual salary of no less than $150,000 per annum, discretionary annual bonus, options to purchase 25,000 shares of common stock at an exercise price of $1.35 per share, benefits, expense reimbursement and insurance (including, but not limited to, life, travel accident, health).

Neil Hasson - base annual salary of no less than $50,000 per annum, discretionary annual bonus, options to purchase 25,000 shares of common stock at an exercise price of $1.35 per share, benefits, expense reimbursement and insurance (including, but not limited to, life, travel accident, health).

On November 22, 2002, Mr. Hasson resigned as Secretary of the Corporation and the position was filled by Carol Zelinski.

Note 11. 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 President and a director, provides New York City office space, office supplies and services to the Company for $100,000 per year.

Note 12. 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) The Company currently lacks the necessary infrastructure at the site of the Groveland Mine in order to permit the Company to make more than casual sales of the aggregate.

(ii)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.

(iii) On January 20, 2004, a purported derivative and class action lawsuit was filed by two dissident Company shareholders, Edward E. Gatz and Donald D. Graham, 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 "Delaware Action"). The complaint alleged various breaches of fiduciary duties by the former directors and Statesman, and that Royalty and its affiliates knowingly participated in certain of the alleged breaches. In November 2004 the Court dismissed all but one claim alleged in the complaint. The Company was not a defendant with respect to the sole surviving claim, which related to the 2001 sale of a cache of previously quarried and piled aggregate rock by NRDC to Iron Mountain (the "Aggregate Sale"). On October 16, 2005, the Court dismissed plaintiffs' sole remaining claim for failure to state a claim for relief. The dismissal was without prejudice and the plaintiffs were given leave to file an amended complaint attacking the Aggregate Sale.

On January 30, 2006, plaintiffs filed an amended complaint challenging the Aggregate Sale and alleging that the Aggregate Sale negatively impacted the Company's common stockholders. The Company is not a defendant with respect to this claim. Plaintiffs seek damages in excess of $5,400,000 with respect to the claim related to the Aggregate Sale. Defendants have moved to dismiss the amended complaint but briefing on the motion has not been completed. The Company has been advised that the defendants intend to vigorously defend the claim asserted against them in the Delaware Action.

The defendants in the Delaware Action, other 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, the Company's insurance carrier contends that none of the claims contained in the Delaware Action are covered by insurance on the basis of the "insured vs. insured" exclusion since one of the plaintiffs, Donald D. Graham, was previously a director of the Company.

(iv) 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. He 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), options to purchase additional stock of the Company, punitive damages, interest, fees and costs associated with the arbitration. On May 4, 2006, the parties settled the disputes between them without admitting any liability, fault or wrongdoing, and entered into a settlement agreement providing for, among other things, payment of $950,000 by the Company to Mr. Nuttall and the purchase by the Company of the 29,134 shares of Company common stock owned by Mr. Nuttall, at a purchase price of $6.50 per share. The $950,000 settlement is included in other income and expense on the Statement of Operations and included in accounts payable and accrued expenses on the balance sheet.

(v) The Company has significant tax loss and credit carryforwards and no assurance can be provided that the Internal Revenue Service would not attempt to limit or disallow altogether the Company's use, retroactively and/or prospectively, of such carryforwards, due to ownership changes or any other reason. The disallowance of the utilization of the Company's net operating loss would severely impact the Company's financial position and results of operations due to the significant amounts of taxable income (generated by the Company's investment in Security) that has in the past been, and may in the future be, offset by the Company's net operating loss carryforwards.

(vi) 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.

(vii) The Company does not expect to pay dividends in the foreseeable future.

(viii) 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 13. Lease Commitments

Regency leases office space and is committed to minimum lease payments through June 30, 2007 under an operating lease for premises, as follows:

2006	$18,511
2007	9,481
Total	$27,992

Rent expense was $17,630 and $16,790 for the years ended December 31, 2005 and 2004, respectively.

Note 14. Filing of Going Private Proxy Statement

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

Note 15. New Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payments", an amendment of FAS No. 123 "Accounting for Stock Based Compensation". FAS 123R eliminates the ability to account for share based payments using Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees", and instead requires companies to recognize compensation expense using a fair-value based method. The expense will be measured as the fair value of the award on its grant date and recorded over the applicable service period. The requirements of FAS 123R are effective for the Company beginning in 2006.