REGENCY AFFILIATES INC
Form 10QSB
December 17, 2007

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2007

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

For the transition period from ______ to _______

COMMISSION FILE NUMBER 1-7949

REGENCY AFFILIATES, INC.
(Exact name of registrant as specified in its charter)

Delaware	72-0888772
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

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

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

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 |_|

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

As of December 13, 2007, there were 3,465,544 shares of the $.01 Par Value Common Stock outstanding.

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

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

Regency Affiliates, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet
September 30, 2007 (Unaudited)

Assets	
Current Assets	
Cash and cash equivalents	$
Marketable securities	
Other current assets	
Total Current Assets	
Property and equipment, net	
Investment in partnerships	
Other Assets	
Other	
Total Other Assets	
Total Assets	$ 1
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable and accrued expenses	$
Total Liabilities	

Shareholders' Equity	
Serial preferred stock, Series C and D, 234,544 shares outstanding, not subject to mandatory redemption. Maximum liquidation preference $21,141,940	
Common stock, par value $.01; authorized 8,000,000 shares; issued 3,531,812 shares; outstanding 3,465,544 shares	
Additional paid-in capital	
Readjustment resulting from quasi-reorganization at December 31, 1987	(
Retained earnings	1
Note receivable - sale of stock	
Treasury stock, 66,268 shares, at cost	
Total Shareholders' Equity	1
Total Liabilities and Shareholders' Equity	$ 1

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

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

	Three Months Ended Sept. 30,	
	2007	2006
Net Sales	$ --	$ --
Costs and expenses		
Selling, general and administrative expenses	516,482	550,066
Loss from operations	(516,482)	(550,066)
Income from equity investment in partnerships	1,017,263	994,307
Interest and dividend income	101,211	56,288
Other income, net	1,274	32,928
Income from operations before income tax	603,266	533,457
Provision for income taxes	30,275	55,698
Net Income	572,991	477,759
Net income per common share:		
Basic	$ 0.16	$ 0.15
Diluted	$ 0.13	$ 0.12
Weighted average common shares outstanding:		
Basic	3,531,540	3,096,624

Diluted	4,439,268	4,004,852

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

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

	Nine Months Ended Septe	
	2007	
Cash flows from operating activities:		
Net income	$ 1,044,511	$
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	2,517	
Stock-based compensation	197,750	
Income from equity investment in partnerships	(1,739,247)	(2
Unrealized gain on marketable securities	--	
Changes in operating assets and liabilities		
Accrued interest receivable	--	
Other current assets	(7,693)	
Account payable and accrued expenses	(231,641)	(1
Income taxes payable	--	
Net cash used in operating activities	(733,803)	(2
Cash flows from investing activities:		
Purchases of property and equipment	(12,589)	
Proceeds received from partnership distributions	500,000	
Proceeds from sales of marketable securities	70,400,000	78
Purchases of marketable securities	(70,405,065)	(81
Net cash provided by (used in) investing activities	482,346	(2
Cash flows from financing activities:		
Proceeds from the exercise of stock options	22,275	
Purchases of treasury stock	(88,189)	
Net cash used in financing activities	(65,914)	
(Decrease) in cash and cash equivalents	(317,371)	(5
Cash and cash equivalents - beginning	613,253	5
Cash and cash equivalents - ending	$ 295,882	$

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	$ 47,862	$
Income taxes	$ 32,900	$

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

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

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

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

Note 2. Related Party Transactions

In December 2005, the Company's wholly owned subsidiary, Rustic Crafts, entered into a stipulation of settlement with RCI Wood Products ("RCI") regarding outstanding indebtedness with that company. Under the terms of this settlement, RCI will pay to Rustic Crafts the sum of $125,000 with interest at six and one-half percent per annum, payable in thirty-five (35) monthly installments of $1,088 each, commencing in January 2006. During the quarters ended March 31, 2007 and 2006, $0 and $3,264, respectively, was received under this obligation. RCI defaulted on the note in April 2006. The Company has initiated an action for collection against RCI and personal guarantor of the note.

During the quarter ended March 31, 2006, two directors of the Company each received 500 shares of common stock for services. The fair market value of the stock issued was $6,100 and this expense is included in selling, general and administrative expenses in the statement of operations.

During the quarter ended June 30, 2006, two former officers of the Company exercised stock options to purchase 3,000 shares of common stock. 2,000 shares were purchased at an exercise price of $4.00 per share, and 1,000 shares were purchased at an exercise price of $1.60 per share.

During the quarter ended March 31, 2007, the Company repurchased 9,300 shares of its outstanding common stock at a cost of $60,450. The shares were then subsequently retired from the treasury.

During the quarter ended March 31, 2007, in accordance with EITF 00-27, "Accounting for Derivative Financial Instruments," the Company recorded its redemption of 370,747 shares of Cumulative Preferred Stock, Series B ("Series B Stock") for 430,473 shares of the Company's common stock. In 1991, as part of a corporate restructuring, the Company issued the 370,747 shares of $10 stated value preferred stock designated as Series B to senior lenders in exchange for $3,707,470 in outstanding obligations due to them. The Series B Stock held contingent provisions and rights, and the Company's common stock to be issued in connection with the redemption was to be based upon the fair market value of the Company's common stock at the date of redemption resulting in potential beneficial conversion features and attributes for the preferred stockholders.

Note 2. Related Party Transactions, continued

On February 16, 2007, the Company exercised its right to redeem all of the issued and outstanding Series B Stock (370,747 shares), payable on March 15, 2007. The aggregate redemption price of 430,473 shares of the Company's common stock, at $6.65 per share, was $2,862,645. As this amount is less than the original debt obligations exchanged with the preferred stockholders, which represented their investment in 1991 of $3,707,470, no deemed dividend nor beneficial conversion feature has been recognized by the Company in the current period. This transaction resulted in the retirement by the Company of all issued and outstanding Series B Stock.

During the quarter ended June 30, 2007 a director of the Company exercised 2,500 stock options at an exercise price of $2.40 per share and 2,500 stock options at an exercise price of $1.53 per share.

During the quarter ended June 30, 2007, the Company purchased 5,439 shares of its common stock from a consultant of the Company at a cost of $5.10 per share, or $27,739 and subsequently retired such shares of common stock from treasury. The Company also issued 6,000 shares of common stock to a consultant of the Company upon the exercise of 1,000 stock options at an exercise price of $1.60 per share and 5,000 stock options at an exercise price of $1.53 per share.

During the quarter ended September 30, 2007, the Company issued options to an officer of the Company to purchase 50,000 shares of its common stock, pursuant to the Issuer's 2003 Stock Incentive Plan, as amended. The stock options expire on August 14, 2017 and have an exercise price of $5.10 per share.

During the quarter ended September 30, 2007, two former directors each exercised stock options to purchase 1,000 shares of the Company's common stock at an exercise price of $1.60 per share.

Note 3. Stock Based Compensation

During the quarter ended June 30, 2006, the Company repurchased the shares of common stock of a former director as part of a legal settlement. The stock was purchased at a price of $6.50 per share at a total cost of $189,371.

During the quarter ended June 30, 2006, an officer of the Company received 50,000 stock options to purchase shares of the Company's common stock at an exercise price of $6.27. The fair value of the stock options was estimated using the Black-Scholes option-pricing model that requires highly subjective assumptions including the expected stock price volatility. The fair value of the stock options granted was estimated using the following assumptions: no expected dividends, risk free interest rate of 4.87% expected average life of approximately 10 years and an expected stock price volatility of 70%. The fair value of the stock options granted was $5.00 for total stock based compensation expense of $250,000 for the quarter ended June 30, 2006.

During the quarter ended September 30, 2007, an officer of the Company received 50,000 stock options to purchase shares of the Company's common stock at an exercise price of $5.10. The fair value of the stock options was estimated using the Black-Scholes option-pricing model that requires highly subjective assumptions including the expected stock price volatility. The fair value of the stock options granted was

estimated using the following assumptions: no expected dividends, risk free interest rate of 4.73% expected average life of approximately 10 years and an expected stock price volatility of 67%. The fair value of the stock options granted was $3.96 for total stock based compensation expense of $197,750 for the quarter ended September 30, 2007.

Note 4. Recently Issued Accounting Pronouncements

In February, 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of FAS 115, or FAS 159. This statement provides companies with an option to report selected financial assets and liabilities at fair value. This statement is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. The Company is assessing FAS No. 159 and has not yet determined the impact that the adoption of FAS No. 159 will have on its results of operations or financial position, if any.

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157 "Fair Value Measurements." This statement defines fair value, establishes a fair value hierarchy to be used in generally accepted accounting principles and expands disclosures about fair value measurements. Although this statement does not require any new fair value measurements, the application could change current practice. The statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this statement to its financial position and results of operations.

During the preparation of the Company's 2004, 2005, and 2006 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 affect the financial statements of the Company in this year as net operating losses are available to offset any additional income not reported.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN 48 is effective for the Company's fiscal year ending December 31, 2007, although early adoption is permitted.

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

Forward-Looking Statements and Associated Risk

Certain statements contained in this Quarterly Report on Form 10-QSB, including, but not limited to those

regarding the Company's financial position, business strategy, acquisition strategy and other plans and objectives for future operations and any other statements that are not historical facts constitute "forward-looking statements" within the meaning of federal securities laws and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that

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

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

- Our subsidiaries currently lack the necessary infrastructure at the site of the Groveland mine in order to permit them to make more than casual sales of the 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 ("IRS") 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 or our net operating loss would severely impact or financial position and results of operations due to the significant amounts of taxable income that has been, and may in the future be, offset by our net operating loss carryforwards;

- If we consummate the Reverse Stock Split (as defined below) and Forward Stock Split (as defined below) and become 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, we 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 us and our financial performance;

- Royalty Holdings, LLC ("Royalty"), an affiliate of our management, beneficially owns approximately 53% of our common stock. As a result, Royalty has the ability to control the outcome of all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets;

- We do 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. We 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 us.

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

General.

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

Liquidity and Capital Resources.

On September 30, 2007, the Company had current assets of $9,935,091 and stockholders' equity of $19,019,803. On September 30, 2007, the Company had $9,786,247 in cash and marketable securities, total assets of $19,262,088 and total current liabilities of $242,285.

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

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

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

During the preparation of the Company's 2004, 2005, and 2006 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 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 affect the financial statements of the Company in this year as net operating losses are available to offset any additional income not reported.

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

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Regency Affiliates, Inc. and Subsidiaries

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

sale, and was required to make a $540,000 payment in December 2002. A $40,000 payment was made to PNC Bank in December 2002, but Rustic Crafts and the Company failed to make the balance of the December 2002 payment. Accordingly, the PNC Bank debt was subsequently modified to provide for the payment of the remaining

$500,000 payment on or before June 30, 2003. On June 30, 2003, the Company paid all outstanding principal and interest due to PNC Bank, in satisfaction of the above described obligations. In December 2005, Rustic Crafts agreed to accept a $125,000 note from RCI Wood Products, Inc ("RCI") as a restructuring of the above named obligation. The note bears an interest rate of 6.5% and calls for payments of $1,088 per month until December 2008 at which time the balance will be due and payable. During the quarter ended September 30, 2007

Rustic Crafts did not receive any payments under this obligation. 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. During 2006 Rustic Crafts received $3,264 of such settlement which is included in other income. In April 2006 RCI defaulted on the note. The Company has initiated an action for collection against RCI and a personal guarantor on the note. In connection with the redemption of our common stock owned by Statesman Inc. ("Statesman"), we acquired from Statesman a three-year option to purchase the 20% stock interest in NRDC held by Statesman. To exercise the option, we were required to deliver to Statesman for cancellation a $2,440,000 note issued to the Company by Statesman in October 2001. As consideration for the option, we (i) paid Statesman $250,000, (ii) amended the note and related pledge agreement to limit our recourse under the note and (iii) transferred to Statesman certain office furniture and equipment that we owned. This option expired in October 2005. As part of the redemption, we also entered into an agreement with Statesman providing for (i) an amendment to the Certificate of Designations of the Series C Preferred Stock for the Company and (ii) certain limitations on the ability of Statesman to issue or transfer shares or other beneficial interests in Statesman or to sell, transfer, purchase or acquire any capital stock of the Company, in each case without first receiving our written confirmation that such issuance or transfer would not adversely affect our ability to utilize our tax loss carryforwards. We paid Statesman an aggregate amount of $2,730,000 in consideration of the foregoing agreements. As of December 31, 2006, through the date of this Form 10-QSB, the Company has not collected the $2,440,000 note and accrued interest of approximately $644,000 due from Statesman. The Company has sent demand and default notices to Statesman but has not received a response to date. Per the terms of the Agreement, upon event of default, overdue principal and overdue interest will bear interest, payable upon demand, at a rate of twelve percent (12%) per annum, and the pledged securities may be transferred into the Company's name, or sold for proceeds to satisfy the obligation and collection costs incurred. The Company has currently reserved the receivable balance in full while it continues its collection efforts. The reserve adjustment included a charge to impairment of loans as other expense in the 2006 statement of operations, and an allowance against the note within equity as of December 31, 2006.

Filing of Going Private Proxy Statement

On December 14, 2005, the Company filed with the Securities and Exchange Commission (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 obligations of filing annual and periodic reports and make 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 stockholders. The Company currently intends to effect the Reverse Stock Split and Forward Stock Split as soon as possible thereafter.

Regency Affiliates, Inc. and Subsidiaries

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

Results of Operations.

2007 Compared to 2006

For the three months ended September 30, 2007 and September 30, 2006:

No revenue was generated by the Company during these periods.

Selling, general and administrative expenses decreased by $33,584 or 6.5% in 2007 compared to 2006. primarily due to a decrease of approximately $160,000 in professional fees relating to pending and resolved litigations, a non-recurring interest expense from state income taxes for 2006 of $64,000, and a decrease of approximately $8,000 as a result of a change in health insurance was offset by stock based compensation paid in September 2007 of approximately $198,000.

Net income from equity investment in partnerships increased by $22,956 in 2007, 2.3% higher than in 2006 primarily due to an increase in net income from Security Land of approximately $46,000 which was offset by a decrease in net income from MESC Capital of approximately $23,000. The increase in net income from Security Land in 2007 was primarily a result income received pursuant to an escalation clause with respect to rent due under the lease agreement. The reduction of the three month net income from MESC Capital was a result of an increase in repairs and maintenance costs.

Net income increased by $ 95,232 in 2007 over 2006 or 19.9%. The change was primarily due an increase in 2007 net income from equity investments in partnerships, lower selling, general and administrative expenses and higher dividend and interest income from marketable securities.

For the nine months ended September 30, 2007 and September 30, 2006:

No revenue was generated by the Company in this period.

Selling, general and administrative expenses decreased by $722,143 or 71.5% in 2007 compared to 2006 primarily due to a decrease of approximately $640,000 in professional fees relating to pending and resolved litigations, a reduction of stock based compensation paid in September 2007 of approximately $58,000, and a non-recurring interest expense from state income taxes for 2006 of $64,000 which was offset by a change in employee benefit costs of approximately $40,000.

Net income from equity investment in partnerships decreased by $315,094 or 15.3% in 2007 compared to 2006 primarily due to a decrease in net income from MESC Capital of approximately $408,000, offset by an increase in net income from Security Land of approximately $93,000. The increase in net income from Security Land in 2007 was primarily a result of income received pursuant to an escalation clause with respect to rent due under the lease agreement. The reduction of net income from MESC Capital was primarily caused by a major overhaul of equipment and delayed repairs resulting from Hurricane Katrina.

Net income increased by $326,401 in 2007 over 2006 or 45.5% primarily due to the reduction in professional fees, non-recurring interest expense incurred, and stock based compensation.

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

The Company's Shareholders' Equity at September 30, 2007 was $19,019,803 as compared to $18,014,293 on September 30, 2006, an increase of $1,005,510 or 5.6%.

Impact of Inflation.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

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

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

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

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

ITEM 3. CONTROLS AND PROCEDURES.

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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 consideration the Company received in connection with the October 2002 restructuring transactions. The Company was not a defendant with respect to this claim. Plaintiffs sought damages in excess of $5,400,000 with respect to the claim related to the Aggregate Sale. On May 16, 2006, the Court dismissed the sole remaining complaint alleged in the complaint determining that the sole remaining complaint was derivative in nature and could therefore not be maintained by the plaintiffs. On June 14, 2006, the plaintiffs filed a Notice of Appeal appealing the Court's rulings. In its April 16, 2007 decision, citing an intervening legal development in the area of direct and derivative claims arising while the appeal was pending, the Supreme Court of the State of Delaware reversed the Court's decision and remanded the case to the Court for further proceedings. 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.

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

During the quarter ended September 30, 2007 two former directors of the Company exercised stock options to purchase 2,000 shares of the Company's common stock at an exercise price of $1.60 per share. Exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), for the issuance of such shares is claimed under Section 4(2) of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1(i)(a)	Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(a) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(b)	Corrected Certificate of Amendment reflecting amendment to Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1(i)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
3.1(i)(c)	Certificate of Amendment of Restated Certificate of Incorporation of Regency Affiliates, Inc. (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on October 27, 2003 and incorporated by reference herein).
3.1(i)(d)	Certificate of Designation - Series B Preferred Stock, $10 Stated Value, $.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).

3.1(i)(e)	Amended and Restated Certificate of Designation, Series C Preferred Stock, $100 Stated Value, $.10 par value (filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on October 18, 2002, and incorporated herein by reference).
3.1(i)(f)	Certificate of Designation - Series D Junior Preferred Stock, $10 Stated Value, $.10 par value (filed as Exhibit to Form 10-K dated June 7, 1993 and incorporated herein by reference).

ITEM 6. EXHIBITS. (continued)

3.1(i)(g)	Certificate of Designation - Series E Preferred Stock, $100 Stated Value, $.10 par value (filed as Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 at page E-1, and incorporated herein by reference).
3.1(ii)(a)	By-laws of the Company (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration Number 2-86906, and incorporated herein by reference).
3.1(ii)(b)	Amendment No. 1 to By-Laws of the Company (filed as Exhibit 3.1(ii)(b) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 19, 2002, and incorporated herein by reference).
31.1	Chief Executive Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGENCY AFFILIATES, INC.
(Registrant)

Date: December 17, 2007 /s/ Laurence S. Levy
(President and Chief Executive Officer)

Date: December 17, 2007 /s/ Neil N. Hasson
(Chief Financial Officer)

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EXHIBIT INDEX

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