REGENCY AFFILIATES INC
Form 10-Q
November 19, 2001

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

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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 Number)

729 South Federal Highway, Suite 307, Stuart, Florida	34994
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number, including Area Code (561) 220-7662

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 _____

As of November 1, 2001 there were 19,398,773 shares of the $ .40 Par Value Common Stock outstanding.

Regency Affiliates, Inc. and Subsidiaries

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Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

Part I - Financial Information (Unaudited)

Item 1. Financial Statements

	September 30, 2001
Assets	
Current Assets	

Cash and Cash Equivalents	$ 3,074,735
Accounts receivable, net of allowance	2,213,346
Income taxes receivable	162,359
Inventory	2,176,942
Other current assets	287,918
Total current assets	7,915,300
Property, Plant and Equipment, Net	4,070,349
Investment in partnerships	28,774,971
Other Assets	
Aggregate inventory	834,364
Goodwill, net of amortization	772,919
Debt issuance costs, net of amortization	409,569
Other	4,180
Total other assets	2,021,032
	$ 42,781,652

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

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	Septem 20
Current Liabilities	
Current portion of long-term debt	$ 353
Notes Payable - Banks	1,913
Notes payable - Related Parties	1,211
Accounts payable	784
Accrued expenses	1,938
Taxes payable	151
Total current liabilities	6,352
Long term debt, net of current portion	14,269
Deferred income taxes	444
Minority interest in consolidated subsidiaries	3,890
Shareholders' equity	
Serial preferred stock not subject to mandatory redemption (maximum liquidation preference $24,975,312 in 2001 and 2000, respectively)	1,052
Common stock, par value $.40 authorized 25,000,000 shares; issued and outstanding 17,251,619	

shares in 2001 and 2000	6,900
Additional paid-in capital	2,308
Readjustment resulting from quasi-reorganization at December 31, 1987	(1,670
Retained earnings	12,832
Accumulated other comprehensive income	(261
Treasury stock, 4,052,825 shares in 2001 and 2000	(3,338
Total shareholders' equity	17,824
	$ 42,781

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

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2001 and 2000
(Unaudited)

	Three Months Ended		
	September 30, 2001	September 30, 2000	Septembe 2001
Net Sales	$ 3,358,715	$ 4,268,915	$ 9,953,
Costs and expenses			
Costs of goods sold	2,498,605	3,095,179	7,213,
Selling and administrative	1,148,741	1,263,602	3,759,
	3,647,346	4,358,781	10,972,
Income (loss) from operations	(288,631)	(89,866)	(1,019,
Income from equity investment in partnerships	1,450,983	1,179,122	4,199,
Other income (expense), net	64,350	48,052	81,
Interest expense	(363,854)	(314,619)	(985,
Income before income tax expense, and minority interest	862,848	822,689	2,274,
Income tax expense	(112,892)	(145,741)	(218,
Minority interest	(79,784)	(91,925)	(140,
Net income	$ 670,172	$ 585,023	$ 1,916,
Net income per common share:			
Basic	$ 0.05	$ 0.04	$ 0
Diluted	$ 0.05	$ 0.04	$ 0

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

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2001 and 2000
(Unaudited)

S

Cash flows from operating activities
Net income $
Adjustments to reconcile net income to net cash
used by operating activities
Depreciation and amortization
Change in deferred income taxes
Minority interest
Stock issued for services rendered
Income from equity investment in partnerships
Distribution of equity earnings in partnership
Interest amortization on long-term debt
Changes in operating assets and liabilities
Accounts receivable
Inventory
Other current assets
Accounts payable
Accrued expenses

Net cash from (used by) operating activities

Cash flows from investing activities
Capital expenditures
Other

Net cash used by investing activities

Cash flows from financing activities
Net short-term borrowings (payments)
Net long-term borrowings (payments)
Redemption of Series E preferred stock
Other
Dividends paid

Net cash from (used) by financing activities

Foreign currency translation adjustment
Increase (decrease) in cash and cash equivalents
Cash and cash equivalents - beginning

Cash and cash equivalents - ending $

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

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Nine Months Ended September 30, 2001 and 2000
(Unaudited)

S

Supplemental disclosures of cash flow information: Cash paid during the year for:

Income taxes	$
Interest	

Supplemental disclosures of noncash investing and financing activities:

In 2000, the Company issued 95,877 shares of common stock in exchange for 885 shares of Series E preferred stock.

In 2000, the Company issued 114,000 shares of common stock as payment for costs in connection with acquisition of Glas-Aire.

In 2000, the Company issued 147,254 shares of common stock for services.

In 2000, accrued compensation in the amount of $650,000 payable to an officer was converted to debt.

In 2001, accrued compensation in the amount of $113,503 was converted to debt.

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

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

Note 1. Bases of Presentation and Summary of Significant Accounting Policies

A. 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 Form 10-Q and Article 10 of Regulation S-X. 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 and nine month periods ended September 30, 2000 and September 30, 2001 are not necessarily indicative of the results that may be expected for the years ended December 31, 2000 and December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries' annual report on Form 10-K for the year ended December 31, 2000.

B. Principals of Consolidation and Nature of Business - The consolidated financial statements include the accounts of Regency Affiliates, Inc. (the "Company"), its wholly owned subsidiary, Rustic Crafts International, Inc. ("Rustic Crafts"), its 80% owned subsidiaries, National Resource Development Corporation ("NRDC"), Transcontinental Drilling Company ("Drilling") and RegTransco, Inc. ("RTI") and its approximately 50% owned subsidiary, Glas-Aire Industries Group, Ltd. ("Glas-Aire"). All significant intercompany balances and transactions have been eliminated in consolidation.

C. Earnings Per Share - Basic earnings per share are 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 Series B, and Junior Series D preferred stock during the period that the preferred stock issues were outstanding. If the result of these assumed conversions is dilutive, the dividend requirements and periodic accretion for the preferred stock issues are reduced. The shares of the Company held by Glas-Aire were treated as treasury shares for earnings per share computations.

D. Inventory - Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory is comprised of the following at:

	September 30, 2001
Raw materials and supplies	$ 944,354
Work-in-process	222,967
Finished products	959,621
	$ 2,126,942

E. Aggregate Inventory - Inventory, which consists of 70+ million short tons 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. The Company has made only casual sales of the inventory during the periods.

F. 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

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

Note 1. Bases of Presentation and Summary of Significant Accounting Policies (Continued)

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.

G. Change in Reporting Period - Prior to December 31, 2000 Glas-Aire had a fiscal year end of January 31. As a result, the Company's condensed statement of operations for the nine month period ended September 30, 2000 included the financial activity of Glas-Aire for the months of February through September 2000 only.

Had the financial activity of Glas-Aire for the month of January 2000 been included, the Company's loss from operations would be as follows:

Net Sales	$ 6,060,205
Costs and expenses	
Costs of goods sold	4,380,632
Selling and administrative	2,407,946
	6,788,578
Loss from operations	$ (728,373)

Note 2. Investment in Partnership

In November 1994, the Company purchased 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 be allocated 95% of the profit and loss of the Partnership until October 31, 2003 (the lease termination date of the sole tenant of the office complex) and 50% thereafter. The Company is entitled to receive operating income in the form of management fees relating to the partnership.

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 building was purchased by Security in 1986 and is located on approximately 34.3 acres of land which is also owned by Security. The building has been occupied by the

United States Social Security Administration's Office of Disability and International Operations for approximately 24 years under a lease 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 (the "Lease") for 100% of the building. 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.

Effective November 30, 2000 the Company invested $10,000 for a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security.

The Company accounts for the investment in partnerships on the equity method, whereby the carrying value of the investment is increased or decreased by the Company's allocable share of income or loss. The investment in partnerships included in the Consolidated Balance Sheets at September 30, 2001 is $28,774,971.

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

Note 2. Investment in Partnership (Continued)

The income from the Company's equity investment in the Partnerships for the nine months ended September 30, 2001 was $4,199,089.

Summarized operating data for Security for the three and nine months ended September 30, 2001 and September 30, 2000, is as follows:

	Three Months Ended	
	September 30, 2001	September 30, 2000
Revenue	$ 3,433,245	$ 3,314,136
Operating Expenses	860,172	866,222
Depreciation and Amortization	664,160	710,067
Interest Expense, Net	431,367	496,666
Net Income	$ 1,477,546	$ 1,241,181

Note 3. Notes Payable - Banks

On October 24, 2000, the Company obtained a commitment for a short term loan of $100,050 from a bank bearing interest at the prime rate plus three-fourths percent, adjusted monthly. As of September 30, 2001 $76,000 remained outstanding; the interest rate was 10.25%. This obligation is guaranteed by two shareholders, one of whom is a former officer and director of the Company.

The Company's subsidiary, Rustic Crafts, has established a $1,000,000 line of credit with PNC Bank. The line of credit expires on May 18, 2002 and bears interest at the Bank's prime rate minus one-half percent. The accounts receivable, inventory and other assets, such as property and equipment, of Rustic Crafts have been pledged as collateral to secure the line of credit. The line of credit is guaranteed by the Company. At September 30, 2001, the amount outstanding under the line of credit was $994,921.

The Company's subsidiary, Glas-Aire, has established a Canadian $3,000,000 (U.S. $2,040,000) line of credit with a Canadian bank. The line of credit is collateralized by accounts receivable and inventory and bears interest at the rate of the Canadian bank's prime rate plus one-half percent. At September 30, 2001, the amount outstanding under the line of credit was $842,229.

Note 4. Notes Payable - Related Parties

The Company has outstanding $448,000 of demand notes bearing interest at 10% payable to a principal shareholder. Additionally the Company has outstanding a $763,503 demand note bearing interest at a rate of prime minus 1% to its President. These obligations are secured by the shares of Glas-Aire owned by the Company.

Note 5. Long-Term Debt

KBC Bank Loan - On June 24, 1998, the Company refinanced the long-term debt previously outstanding with Southern Indiana Properties, Inc. ("SIPI") and entered into a Loan Agreement (the "Loan") with KBC Bank N.V. ("KBC"). Under the terms of the Loan Agreement, KBC advanced $9,383,320. The due date of the Loan is November 30, 2003 with interest at the rate of 7.5% compounded semi-annually on each June 1 and

Note 5. Long-Term Debt (Continued)

December 1, commencing December 1, 1998. The interest may be paid by the Company in cash on these semi-annual dates or the Company may elect to add the interest to the principal of the Loan then outstanding. As of September 30, 2001, the amount outstanding under the Loan is $11,961,658, including $649,850 of interest for the nine months ended September 30, 2001.

The Company purchased a residual value insurance policy which secures the repayment of the outstanding principal and interest when due with a maximum liability of $14 million. The costs related to the insurance along with legal fees and other costs associated with obtaining the Loan have been capitalized as debt issuance costs and are being amortized over the life of the Loan using the effective interest method.

Mortgage Loan - On March 25, 1998, Rustic Crafts purchased a building of 126,000 square feet located in Scranton, Pennsylvania. The purchase of this facility was funded in part by a first mortgage term loan in the amount of $960,000. The first mortgage term loan is payable in consecutive monthly installments over 10 years with a 20 year amortization.

Equipment Loans - In connection with the purchase of the building, PNC Bank loaned the Company a total of $767,000 to finance the acquisition of new equipment and to install such equipment in the facility. Principal payments on one loan of $604,000 began March 2000 for 120 months in amounts sufficient to amortize the outstanding balance over twenty years from March 2000. In March 2000 the interest rate was changed to the average weekly yield on U.S. Treasury Bills, plus 200 basis points. The remaining loan in the original amount of $163,500 is payable in equal monthly installments of $2,518.

Miscellaneous Loan - - In June 1999, Rustic Crafts obtained an additional loan from PNC Bank for the purpose of funding additional equipment purchases and working capital in the amount of $156,000. The loan is payable in equal monthly installments, including principal and interest, of $3,153.

The interest rates on the mortgage loan, the equipment loan and the miscellaneous loan range from approximately 7.25% to 8.25% at September 30, 2001. The outstanding balance on these loans is $1,677,381 at September 30, 2001.

Rustic Craft's real and personal property, equipment, accounts receivable, inventory and other general intangibles are pledged as security for the loans. The loans are also guaranteed by the Company.

Glas-Aire's long term debt amounts to $984,234 and is comprised of capital leases of $97,317 and installment obligations of $886,917.

Note 6. Income Taxes

As referred to in Note 1, the Company utilizes 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.

For regular federal income tax purposes, the Company has remaining net operating loss carryforwards of approximately $27,000,000. These losses can be carried forward to offset future taxable income and, if not utilized, will expire in varying amounts beginning in the year 2001. 11

Notes to Consolidated Financial Statements

Note 6. Income taxes (Continued)

For the three and nine months ended September 30, 2001, and 2000, the tax effect of net operating loss carryforwards reduced the current provision for regular Federal income taxes by approximately $163,000 and $424,000, respectively. The Company provided $210,935 and $145,741 for Canadian, state income and the alternative minimum tax in the three and nine months ended September 30,2001 and 2000, respectively.

Note 7. Redemption of Series E Preferred Stock

On January 31, 2000, the holders of the Series E preferred stock either converted their preferred shares to the Company's common stock or received cash equal to the par value of the shares, plus accrued dividends. The Company issued 95,877 of its common shares in exchange for 885 shares of preferred stock and paid cash in the amount of $159,300 for 1,593 shares.

Note 8. Subsequent Events

Pursuant to an agreement entered into on September 17, 2001 and amended on October 1, 2001, the Company exchanged 1,215,105 shares of common stock of Glas-Aire, representing approximately 50% of the issued and outstanding shares of Glas-Aire, for $2,500,000 plus 4,040,375 shares of Regency's common stock, or approximately 23% of the issued and outstanding shares of Regency. As a result of the transaction, neither Regency nor Glas-Aire owns any stock of the other.

The exchange rate was based on negotiations between the parties and confirmed as to fairness by independent valuation firms, hired by respective committees of each of the Boards of Directors of Regency and Glas-Aire.

The former president of Glas-Aire has commenced litigation in British Columbia, Canada against Glas-Aire and the Company, among others asserting, among other things, that the Regency - Glas-Aire transaction is in breach of bank agreements, securities law and fiduciary duties owed to Glas-Aire and its shareholders. The defendants are vigorously defending this litigation.

On October 15, 2001, Statesman Group, Inc. exercised an option to acquire 6,100,000 shares of the Company's common stock. The exercise price was $.40 per share (par value) rather than the formula price in the option, which would have yielded the Company approximately 25% less. Statesman Group issued its $2,440,000 five year note to the Company as payment, secured (in addition to the shares purchased) by the 20% stock interest owned by Statesman in NRDC, the Company's 80% owned subsidiary.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General.

Regency Affiliates, Inc. (the "Company") is the parent company of several subsidiary business operations. The Company is committed to develop and/or monetize these business operations for the benefit of its shareholders and continues to commit both financial and personnel resources to an active merger and acquisition program in order to enhance common stockholders' values. The Company's Shareholders' Equity at September 30, 2001 was $17,824,276 as compared to $15,308,128 at September 30, 2000, an increase of $2,516,148 for the twelve months ended September 30, 2001. 12

Liquidity and Capital Resources.

The investment in Security is estimated to provide the Company with management fees of approximately $100,000 per annum until 2003. In the period ending September 30, 2001, the Company's income from its equity investment in the Partnership (as well as its interest in Security's General Partner, 1500 WoodLawn L.P.) was $4,199,089. These funds, however, are presently committed for the amortization of the outstanding principal balance on Security's real estate mortgage and, while the Company's equity investment in the Partnerships has increased to $28,774,971, neither provides liquidity to the Company in excess of the $100,000 annual management fee. The Company has, however, been successful in obtaining financing with respect to this investment.

On March 15, 1998, Rustic Crafts purchased a building of 126,000 square feet located near the current facility in Scranton, Pennsylvania. The purchase of this facility was funded by new borrowings from PNC Bank in the form of a first mortgage term loan in the amount of $960,000. Rustic Crafts also obtained financing of approximately $923,000 from PNC Bank to equip the facility and purchase new equipment. The move to the new facility was completed in 1999 and has significantly increased the operating capacity and enabled Rustic Crafts to more efficiently fill its current orders and increase its customer base.

The Company has had discussions with several companies regarding the possible sale of its interest in NRDC. To facilitate the discussions concerning a possible sale, the NRDC zero coupon bonds (secured by the aggregate inventory), were retired in 1999 by the issuance of 121,000 shares of the Company's common stock. Following the termination of the 1999 NRDC Plan of Merger with Cotton Valley Resources Corporation, the Company installed limited aggregate crushing and marketing operations at the Groveland Mine in an informal joint venture with another company. The Company is also exploring the possibility of establishing a permanent infrastructure during the year 2001 or thereafter to commercialize the inventory of previously quarried and stockpiled aggregate at the Groveland Mine in cooperation with an experienced aggregate supply company.

In October 2001, the Company announced that it had completed a transaction for the disposition of its interest in its partially owned subsidiary, Glas-Aire Industries Group Ltd. ("Glas-Aire"). Prior to the transaction, each corporation owned a substantial percentage of the common stock of the other, and they had certain officers and directors in common. Pursuant to an agreement entered into on September 17, 2001 closed on October 1, 2001, Regency exchanged 1,215,105 shares of common stock of Glas-Aire, representing approximately 50% of the issued and outstanding shares of Glas-Aire, for $2,500,000 plus 4,040,375 shares of Regency's common stock, or approximately 23% of the issued and outstanding shares of Regency. As a result of the transaction, neither Regency nor Glas-Aire owns any stock of the other. Regency's cash position improved as a result of the transaction. However, it is still mot able to generate positive cash flow from operations, and the Glas-Aire transaction will not have an immediate positive impact on cash flow.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Statesman Group, Inc. exercised an option it has held since 1997 to acquire 6,100,000 shares of the Company's Common Stock on October 15, 2001. As a result of the transaction, the Statesman Group owns approximately 38.2% of the Company's common stock.

Pursuant to an Agreement dated June 3, 1997, as amended and restated on March 24, 1998, Statesman Group, Inc. was granted options to purchase 6.1 million shares of Common Stock. Statesman owned approximately 25% of the Company's outstanding common stock prior to the issuance of these options.

On October 15, 2001, Statesman exercised the option in full pursuant to an agreement that (1) provided for a purchase price at $.40 per share (par value) rather than the formula price in the option, which would have yielded the Company approximately 25% less and (2) provided for collateral for the $2.44 million 5 year note issued by Statesman to the Company (in addition to the shares purchased) in the form of the 20% stock interest owned by Statesman in National Resource Development Corporation, the Company's 80% owned subsidiary.

Statesman Group, Inc. is an international business corporation organized under the laws of the Bahamas. Statesman's principal business is the making of investments in the United States and elsewhere. Both its principal business and principal office are located at Bay Street, Nassau, Bahamas. The Statesman Irrevocable Trust dated April 15, 1991 is the controlling person of Statesman. The Statesman Trust is an irrevocable trust for the benefit of William R. Ponsoldt, Jr., a director of the Company, Tracey A. Ponsoldt, now married and sometimes known as Tracey A. Powers, and Christopher J. Ponsoldt, all children of William R. Ponsoldt, Sr.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

The trustee of the Statesman Trust, dated April 15, 1991, is Liedenhall Bank and Trust, Nassau, Bahamas, which has the sole right to control the disposition of and vote the Company's securities acquired by Statesman.

The Transaction will not efect liquidity of the Company, as no payments are due on the note until maturity in five years.

Results of Operations

The following discussion is of the Company's historic results. Going forward, results will be materially affected by the disposition of Glas-Aire.

As a result of the Glas-Aire transaction, the operations of Regency will no longer include the operations of Glas-Aire as in the historical financial statements herein. The Form 8-K/A filed on November 5, 2001 by Regency shows the pro forma effects at June 30, 2001 of the removal of the assets and liabilities of Glas-Aire from the Regency balance sheet, as well as the elimination of Glas-Aire's minority interest in Regency and the receipt of $2,500,000 from Glas-Aire. The pro forma financial statements in Form 8K/A also reflect, for the period ended June 30, 2001, the removal of the results of operations of and minority interest in the income of Glas-Aire. Readers are urged to review those pro forma financial statements for information as to how the sale of Glas-Aire is likely to affect Regency in the immediate future. Similar effects would occur for the period ended September 30, 2001. On a balance sheet basis , the Glas-Aire transaction will reduce assets by approximately $4 million and stockholders equity by approximately $2 million. On an income statement basis, Glas-Aire has represented over 75% of Regency's net revenues, although only approximately 10-15% of Regency's profits. Regency's cash position improved as a result of the transaction. However, it is still not able to generate positive cash flow from operations, and the exchange with Glas-Aire will not have an immediate positive impact on cash flow from operations.

2001 Compared to 2000

For the three-months ended September 30, 2001:

Net sales decreased $910,200 over the similar period in 2000. The decrease is due to $519,302 in decreased sales from Glas-Aire and $5,637 from NRDC, plus a decrease in sales at Rustic Crafts of $385,261. The decrease at Rustic Crafts was due to smaller backlogs at December 31, 2000 and the decrease in sales of low margin products.

Gross margin decreased $313,626. The decrease is due to a decrease in gross margin from Glas-Aire of $104,226 and from NRDC of $3,993, plus a decrease in gross margin from Rustic Crafts of $205,407.

Selling and administrative expenses decreased $114,861 in 2001 as compared to 2000. These include an increase of $2,415 related to Glas-Aire offset by a net reduction of selling and administrative expenses incurred by Regency, Rustic Crafts and NRDC amounting to $117,276.

Income from equity in partnerships increased $271,861. This increase is due to a decrease in interest expense resulting from payment of principal offset by increases in operating expenses for the quarter as to Security and income resulting from the Company's acquisition of a 5% limited partnership interest in Woodlawn, L.P.

Interest expense increased by $49,235 and is largely attributable to increased interest expense on the KBC loan, increased indebtedness of Glas-Aire, indebtedness to related parties offset by borrowings costs of Rustic Crafts.

Net income increased $85,149 in 2001 compared to 2000 of which $271,861 represents increased equity earnings from partnerships less losses from operations (net of income tax and minority interest) of $186,712.

For the nine months ended September 30, 2001:

Net sales increased $573,884 in 2001 over the similar period in 2000, of which $273,569 and $5,206 is attributable to Glas-Aire and NRDC, respectively, and $934,528 is attributable to Glas-Aire's change in fiscal year Sales of Rustic Crafts decreased $639,419 during this period.

Gross margin increased $224,495 of which $153,995 , ($258,609) and $6,723 is derived from Glas-Aire, Rustic Crafts and NRDC, respectively. The remaining difference of $322,386 is attributable to Glas-Aire's change in fiscal year.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

Selling and administrative expenses increased $304,323 and were incurred primarily by Glas-Aire ($244,342), a difference of $216,943 attributable to Glas-Aire's change in year end, and decreases for Regency of ($120,751) and Rustic Crafts ($36,211).

Income from equity in partnerships increased $696,285. This increase is due to a decrease in interest expense resulting from payment of principal offset by increases in operating expenses for the quarter as to Security and income resulting from the Company's acquisition of a 5% limited partnership interest in Woodlawn, L.P.

Interest expense increased by $94,670 and is largely attributable to increased interest expense on the KBC loan, increased indebtedness of Glas-Aire, indebtedness to related parties offset by borrowings costs of Rustic Crafts.

Net income increased $498,411, of which $696,285 represents increased equity earnings from partnerships, less losses from operations (net of income tax and minority interest) of $197,874.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, 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 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.

As a result, actual results of the Company may differ materially from those results contemplated by such forward-looking statements which include, but are not limited to:

(i) The Company's current operations do not generate sufficient cash flow to cover corporate operating expenses and thus the Company must rely on external sources to fund these expenses. The Company's ability to continue in existence is partly dependent upon its ability to generate satisfactory levels of operating cash flow, notwithstanding the receipt of the $2,500,000 resulting from the Glas Aire transaction.

(ii) The Company currently lacks the necessary infrastructure at the site of the Groveland Mine to permit the Company to make more than casual sales of the aggregate.

(iii) An unsecured 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.

(iv) The failure of the Social Security Administration to renew its lease of the Security West Buildings upon its expiration on October 31, 2003 could have a materially adverse impact upon the Company's investment in Security Land and Development Company Limited Partnership.

(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 have in the past been, and is expected in the future to be, offset by the Company's net operating loss carryforwards.

Regency Affiliates, Inc. and Subsidiaries

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On September 13, 2001 in the Supreme Court of British Columbia, the former president of Glas-Aire has commenced litigation in against Glas-Aire, the Company, Mr. Ponsoldt and Mr. Baldinger asserting, among other things, that the Regency - Glas-Aire transaction is in breach of bank agreements, securities law and fiduciary duties owed to Glas-Aire and its shareholders. The defendants are vigorously defending this litigation.

ITEM 2. CHANGES IN SECURITIES.

None.

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 AND REPORTS ON FORM 8-K.

On October 16, 2001 the Company filed a current report on Form 8-K disclosing the exchange of shares with Glas-Aire. That filing was amended on Form 8-K/A on November 5, 2001 to include pro forma financial information.

On October 25, 2001 the Company filed a current report on Form 8-K disclosing the exercise of the Statesman Group stock option.

SIGNATURES

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

REGENCY AFFILIATES, INC.
(Registrant)

Date: November 19, 2001

/s/ Marc H. Baldinger
(Chief Financial Officer and Director)