

INTERSTATE GENERAL CO L P
Form 10QSB
May 14, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED **MARCH 31, 2004**

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

Commission file number **1-9393**

INTERSTATE GENERAL COMPANY L.P.

(Exact name of registrant as specified in its charter)

DELAWARE

52-1488756

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

2 West Washington Street
Middleburg, Virginia 20118

(Address of principal executive offices)(Zip Code)

(540) 687-3177

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes // No //

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Indicate the number of units outstanding of each of the issuer's classes of stock, as of the latest practicable date.

2,103,721 Common Units

Transitional Small Business Disclosure Format (Check one):

Yes // No /X/

* This filing can be viewed electronically at www.igclp.com or www.sec.gov

INTERSTATE GENERAL COMPANY L.P.
FORM 10-QSB
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INTERSTATE GENERAL COMPANY LP

GLOSSARY OF TERMS, SUBSIDIARIES, AND AFFILIATES

ACPT

American Community Properties Trust

AFH	American Family Homes, LLC
AMEX	American Stock Exchange
ARMC	American Rental Management Company
BIA	Brandywine Investment Associates, LP
CWA	Clean Water Act
CWT	Caribe Waste Technologies, Inc.
Equus	Equus Gaming Company, LP
FASB	Financial Accounting Standards Board
IBC	Interstate Business Corporation
IGC	Interstate General Company, LP; the Company
IGMC	Interstate General Management Corporation
IWT	Interstate Waste Technologies, Inc.
LDA	Land Development Associates, SE
PCX	Pacific Stock Exchange
SCA	St. Charles Associates, LP
SCO	St. Charles Operating Company, LLC
SFAS	Statement of Financial Accounting Standards
SVA	Smallwood Village Associates, LP

INTERSTATE GENERAL COMPANY LP CONSOLIDATED STATEMENTS OF LOSS			
(In thousands, except per unit amounts) (Unaudited)			
	For the Three Months Ended March 31,		
	2004		2003
Revenues			
Land sales	\$ 550		\$ 350

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Interest and other income	-	9
Total revenues	550	359
Expenses		
Cost of land sales	131	372
General and administrative	364	547
Wetland remediation penalties and interest	180	-
Interest expense	117	172
Waste project marketing and development	77	125
Depreciation and amortization	17	17
Total expenses	886	1,233
Loss Before Minority Interest	(336)	(874)
Minority Interest Expense	(1)	(1)
Net loss	\$ (337)	\$ (875)
Net Loss		
General Partners	\$ (3)	\$ (9)
Limited Partners	(334)	(866)
	\$ (337)	\$ (875)
Weighted Average Limited Partner Units Outstanding	2,104	2,097
Basic and Fully Diluted Net Loss per limited partner unit	\$ (0.16)	\$ (0.41)
The accompanying notes are an integral part of these consolidated financial statements.		
INTERSTATE GENERAL COMPANY LP CONSOLIDATED BALANCE SHEET		
(In thousands)		
(Unaudited)		
ASSETS		
		March 31, 2004
Cash and Cash Equivalents		

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	March 31, 2004
Liabilities Related to Waste Recycling Projects	
Accounts payable and accrued liabilities	\$ 936
Mortgages	163
	1,099
Liabilities Related to Land Development	
Development loans and advances	9,692
Wetlands remediation and road reimbursement agreement accrual	492
Wetland remediation penalties and interest accrual	180
Deposit on lot sale contract	250
Accounts payable and accrued liabilities	899
	11,513
Liabilities Related to Discontinued Operations	
Accounts payable	10
Reserve for completing discontinued operations	43
	53
Other Liabilities	
Accounts payable and accrued liabilities	1,044
Loan payable - IBC	1,607
Due to managing general partner - IGMC	78
Lines of Credit	7,615
	10,344
Total Liabilities	23,009
Partners' Capital	
General partners' capital	3,949
Limited partners' capital - 2,104 units issued and outstanding as of March 31, 2004	1,796
Total partners' capital	5,745
Total Liabilities and Partners' Capital	\$ 28,754
The accompanying notes are an integral part of these consolidated financial statements.	

INTERSTATE GENERAL COMPANY LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	For the Three Months Ended		
	March 31, 2004		March 31, 2003
Cash Flows from Operating Activities			
Net loss	\$ (337)		\$ (875)
Adjustments to reconcile net loss to net cash used by operating activities:			
Decrease (increase) in operating assets:			
Land and development costs ⁽¹⁾	(251)		(436)
Deferred waste project costs	(150)		(250)
Changes in restricted cash	(58)		(47)
Receivables and other assets	73		450
(Decrease) increase in operating liabilities:			
Accounts payable, accrued expenses, notes payable and other liabilities ⁽²⁾	54		567
Net cash used in operating activities	(669)		(591)
Cash Flows from Financing Activities			
Cash proceeds from debt financing	385		573
Payment of debt	(352)		(458)
Proceeds net of repayments of debt to IBC	517		85
Net cash provided by financing activities	550		200
Net (Decrease) Increase in Cash and Cash Equivalents	(119)		(391)
Cash and Cash Equivalents, Beginning of Quarter	120		395
Cash and Cash Equivalents, End of Quarter	\$ 1		\$ 4
Notes:			

(1) For the three months ended March 31, 2004 and 2003, land and development costs do not include a \$150,000 charge for the road reimbursement agreement related to the Company's Towne Center South Property, nor the balance of approximately \$342,000 related to the original \$1.5 million charge for the wetlands remediation referenced in Note 5, Wetland Remediation, as both are non-cash items.

(2) Included in accrued expenses for the three months ended March 31, 2004 is approximately \$180,000 in estimated penalties and fines related to the wetlands remediation referenced in Note 5.

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

INTERSTATE GENERAL COMPANY L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004
(Unaudited)

(1) BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Interstate General Company L.P. (the "Company" or "IGC") was formed as a Delaware limited partnership in 1986. Directly and through predecessors, the Company has been engaged in business since 1957. IGC's headquarters are located in Middleburg, Virginia. IGC has traded publicly as a master limited partnership since February 1987 on the American Stock Exchange ("AMEX") and Pacific Stock Exchange ("PCX"). Interstate Business Corporation ("IBC") and Interstate General Management Corporation, ("IGMC") are the General Partners of the Company. IBC holds a .6667% general partner interest and IGMC holds a .3333% general partner interest, and is the Managing General Partner of IGC. During 1998, the Company's management and the Board of Directors restructured IGC and transferred the primary real estate operations to American Community Properties Trust ("ACPT") and distributed, as a dividend, the common shares of ACPT to its unit holders (the "Distribution").

The Company is engaged in two primary lines of business. First, the Company develops and sells residential and commercial land. Second, through its affiliates, IGC is engaged in the development of waste disposal projects that use an environmentally superior technology.

IGC owns the following assets: Land zoned commercial in St. Charles, Maryland as well as a significant interest in a partnership that owns land under development in Brandywine, Maryland. In addition, all of the outstanding shares of stock of Interstate Waste Technologies ("IWT") and Caribe Waste Technologies ("CWT"), excluding shares issued as incentive compensation to key employees, are held in a trust (the "IWT/CWT Trust") for the benefit of IGC's unit holders.

Critical Accounting Policy - Deferred Waste Project Costs

The Company capitalizes the direct costs of procuring waste-recycling projects after achieving specific project-related milestones, and when management believes the costs are probable of being realized. All other project development costs are expensed as incurred.

For competitive procurements, costs of preparation and submission of the bid are expensed. When a competitive procurement is won, all subsequent costs through financial close and commencement of construction are capitalized, including contract negotiation as well as permitting and engineering costs.

Financial close refers to the date the Company receives all proceeds and commitments necessary to pay for the financing, development, design, construction, and start-up of the facility from the parties providing the financing.

For projects that are not subject to competitive procurements, the costs of obtaining each project are expensed until such time as certain project-related milestones are achieved. These milestones vary from project to project depending upon the political jurisdictions involved. The test is whether the Company believes it has obtained sufficient assurances from the contracting jurisdictions that the project is more likely than not to proceed. At such point, all subsequent costs through financial close and commencement of construction are capitalized, including contract

negotiation as well as permitting and engineering costs.

To date, there has not been a financial close on any of the Company's waste-recycling projects.

All capitalized costs are evaluated for impairment at each reporting period. If the Company no longer believes the prospects of developing a project are probable, the capitalized costs related to that project are written off.

At March 31, 2004, approximately \$5,866,000 has been capitalized relating to the waste-recycling project in Puerto Rico. Recovery is dependent upon future revenues from the construction and operation of waste-recycling plants.

Accounting Policies

The accounting policies of the Company are the same as those described in the December 31, 2003 financial statements included in the Company's 2003 Form 10-KSB. Certain amounts and balances from 2003 have been reclassified to conform to the 2004 financial presentation.

The accompanying consolidated financial statements of the Company, its subsidiaries, and affiliated entities have been prepared without audit. Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes the disclosures made are adequate to make the information presented informative and clear. These unaudited consolidated financial statements should be read, however, in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2003.

In the opinion of the Company's management, the accompanying unaudited, condensed financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of March 31, 2004, and the results of operations and cash flows for the three months ended March 31, 2004 and 2003.

Interim results are not necessarily indicative of fiscal year performance because of the impact of seasonal and short-term variations.

(2) MANAGEMENT'S PLAN REGARDING COMPANY LIQUIDITY

IGC historically has met its liquidity requirements from cash flow generated from the sale of real estate, bank financing providing funds for development and working capital, and loans from affiliates. In the coming months, the Company's principal need for liquidity will be debt reduction, debt service of existing loans, normal business operating expenses, and project development costs for IWT and CWT. The following discussion summarizes the Company's liquidity challenges and the steps it is taking to meet its liquidity requirements.

The Company is engaged in discussions for the sale of all of its commercial acres both in St. Charles and Brandywine, Maryland.

IGC is seeking an equity investor in its Brandywine project to provide working capital and for other purposes. The Company has identified an interested party and negotiations are taking place. The Brandywine project continues to move through its development program of selling semi-developed lots to Washington Homes. Subsequent to the end of the quarter, Washington Homes purchased 133 townhome lots producing gross revenue of approximately \$2.5 million. Proceeds after settlement fees and deposit application were used to repay a portion of the development loan. As of March 31, 2004, the assets had a cost basis of approximately \$2 million. The Company also has a contract with Zimmer Development Company, LLC ("Zimmer") for the sale of approximately 13 acres of commercial land. This sale is expected to occur in late 2004 and produce gross revenue of approximately \$3.3 million. The assets had a cost basis of approximately \$773,000 at March 31, 2004.

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IGC has debt of approximately \$7,415,000, secured by its Towne Center South property, as well as other commercial parcels in St. Charles, Maryland. It is the Company's plan to retire such debt through land sales. Earlier this year, the Company executed a one-year loan extension with the lender, taking the maturity date from December 1, 2003 to December 1, 2004, requiring the Company to make a first cash payment of \$3.5 million on or before March 31, 2004, and an additional cash payment of \$1.5 million on or before June 30, 2004, both of which will reduce the principal amount due on the loan.

An event of default has occurred under this loan as the Company was unable to make the cash payment required by March 31, 2004. While the Company planned to retire \$3.5 million of this debt with a new lender via bridge-loan financing, it was unsuccessful. The Company has submitted a new loan request to that same bank to refinance the entire debt (approximately \$7.415 million) and awaits a response.

On March 30, 2004, the Company was successful in completing the sale of a one-acre parcel at Towne Center South for gross proceeds of \$550,000. Approximately \$350,000 of proceeds from this sale was used to curtail the existing mortgage.

Management continues to undertake the following steps to retire the above debt:

- 1) The Company has had discussions with a potential buyer for its Towne Center South Lot 5. This property, consisting of approximately 30 acres, is scheduled to be developed into Towne Center South Apartments, a 404-unit luxury rental development for teachers, county employees and other professionals. The Company has applied to the County for the necessary approvals, which are expected by summer 2004.

Management has been told by an FHA loan processor that the per-unit value is at least \$15,000 per unit for a total land value of approximately \$6 million. The cost basis of Lot 5 at March 31, 2004 was approximately \$2.7 million.

- 2) The Company has been notified by the County and the State that an 8-acre parcel will be acquired as a park-and-ride facility. The State's engineers and appraisers are working on the offer to purchase the site. Management expects to sell the parcel for approximately \$2,000,000, with closing anticipated in 2004.

The sale of the one-acre parcel and the above two sales will eliminate or substantially reduce the debt associated with Towne Center South.

IGC also has a debt of \$200,000, maturing on November 1, 2004, on a 3/4-acre commercial parcel known as D-4, located in St. Charles, Maryland. The Company plans to develop the parcel as an apartment complex, or sell the lot before the loan is due.

Substantially all of the Company's land assets are encumbered by recourse debt.

The Company is subject to a Consent Decree entered into in 1999 regarding wetlands remediation (see additional discussion in Part I, Item 3, Legal Proceedings) and had until approximately January 2, 2004 to complete the remediation requirements imposed by the decree. In July 2003, the Company executed a contract that covered most items required in the Consent Decree. The total contract amount is \$1,237,000. The contract is guaranteed by Interstate Business Corporation ("IBC"), the Company's general partner. \$125,000 was paid to the Contractor in August 2003. An additional \$700,000 was paid against the base contract on December 15, 2003. The contract provides for cash payments plus the transfer to the contractor of a three-acre parcel at Towne Center South, which is subject to an existing mortgage. Should the Company not be successful in transferring this property debt free, it will be required to make additional cash payments. As of this filing, the Company has prepared the draft lot transfer agreement and awaits approval and execution. The Company has also entered into a contract with the same contractor for the restoration work on Parcel L. The base amount of the contract for Parcel L is \$123,000. The work at Parcel L is under way and should be completed before the end of May 2004. It is estimated that the combined cost of remediation work at Towne Center South and Parcel L will be approximately \$1.5 million. The final cost of remediation could be more or less, depending upon the cost of planting vegetation, engineering and legal fees.

IGC and IBC plan either to refinance or sell assets to fund remediation cost in excess of the \$1 million Mercantile line.

The remediation was not completed by January 2, 2004, making the Company liable for fines of \$1,000 per day for the first thirty days of non-compliance, \$2,000 per day for day 31 through 60, and \$3,000 per day thereafter, plus other possible penalties. The Company has accrued fines and penalties of approximately \$180,000 as of March 31, 2004. The accrual is reflected in these financial statements (see the Liabilities Related to Land Development section of the Balance Sheet on page 6). The Company believes it has adequate reasons for an extension of time to complete the remediation work required. Further, the Company has discussed with the Government, relief from the imposition of fines. To date, no agreement has been reached. The estimated fines through May 31, 2004 are approximately \$360,000.

In addition to the debt and remediation obligations described above, estimated operating expenses for the remaining nine months of 2004 will be approximately \$2.8 million (inclusive of salary and lease commitments, but excluding remediation costs, real estate costs, and waste project development costs). Several of the Company's loan agreements contain provisions requiring the Company to remain solvent. IGC has a Working Capital Support Agreement with IBC. This agreement provides for IBC to meet (subject to available funds) IGC's working capital requirements. In exchange, IGC has agreed to repay IBC from funds available from waste projects, after deducting reasonable expenses for operating needs, and /or proceeds from real estate sales, provided there are sufficient funds available, and subject to the discretion of IGC's Board of Directors. There is no assurance that IBC will be able to provide sufficient funds, as needed, for IGC to continue its operations. At the present time, IGC is current in meeting payroll and a very limited number of other essential costs only. IGC is in arrears with most of its vendors, including service providers on whom the Company depends in order to continue its operations. Unless the Company is able to generate sufficient cash to bring its payables more current, service providers and other vendors may discontinue providing services and other products to the Company.

In December 2003, the Company decided not to expend material funds in pursuit of new waste projects until contracts have been signed on one or more pending projects. The Company continues to have discussions with investment banks to help it attract local investors for its Puerto Rico project. Outside equity will be required to meet upcoming development expenses and other project requirements in Puerto Rico.

All waste-to-energy projects will be funded by project-specific financing.

(3)	INVESTMENT IN WASTE-RECYCLING PROJECTS
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In 1990, IGC formed IWT to develop innovative solutions for the disposal of municipal waste and to pursue waste-recycling contracts with municipalities and government entities, as well as industrial and commercial waste generators.

In 1996, a second affiliate, CWT, was formed in Puerto Rico. CWT was established to perform waste-recycling projects in the Caribbean.

IWT/CWT's business plan is to develop and own waste-recycling projects using an environmentally superior technology licensed from Thermoselect S.A., a Swiss company. IWT/CWT has the right to develop projects using the Thermoselect technology in North, Central, and South America and for selected other projects worldwide. Typically, IWT/CWT and its alliance members offer to finance, build, own, and operate a plant for 25 or 30 years. Current alliance members include the technology provider, Thermoselect, the designer, HDR, the contractor, H. B. Zachary, and the operator, a subsidiary of Veolia Environment, one of the world's most experienced waste plant operators. IWT has also signed an agreement with Thermoselect to be its non-exclusive sales and marketing representative for waste-recycling facilities in North America and the Caribbean using the Thermoselect technology.

A description of the various IWT/CWT development activities follows:

Puerto Rico

In December 1998, CWT entered into a Host Community and Sponsor Agreement with the Municipality of Caguas, Puerto Rico. The agreement described the basis on which CWT would enter into a contract to develop and own a Thermoselect facility to process waste from the metropolitan San Juan area. On February 28, 2002 the Municipality of Caguas signed an extension of the Host Community Agreement. On April 4, 2003, Caguas filed a petition with the Solid Waste Management Authority to approve the project. On January 15, 2004, the Municipality of San Juan signed a Letter of Intent with the Company to become a project sponsor and to negotiate project sponsor and waste processing agreements. On March 8, 2004, the Puerto Rico Electric Power Authority confirmed that it would negotiate a power purchase agreement with CWT as required by the Public Utility Regulatory Policies Act. Caguas government officials and CWT's management are in talks with other municipalities, the Solid Waste Management Authority, the Puerto Rico Electric Power Authority, and other relevant government officials to advance the project.

As of December 31, 2003, only deferred costs related to the Puerto Rico project remain capitalized in accordance with the Company's capitalization policy on deferred waste-recycling project costs. Please refer to Note 1 to the financial statements.

Inactive Development Activities

1. Virgin Islands

The government of the U.S. Virgin Islands conducted a competitive procurement and selected CWT in late 2000 as the preferred bidder to negotiate contracts for a two-line Thermoselect plant. Agreement with the government was reached on a waste-recycling contract in the summer of 2001, subject to satisfactory agreement with the Territory's electric utility for the purchase of power and possibly water. The utility took the position that CWT must be certified as a "qualifying facility" under Virgin Islands law before further negotiations could take place. CWT filed for certification with the Public Service Commission on December 4, 2001. An evidentiary hearing took place on March

18, 2002, and a ruling was issued on July 1, 2002, granting CWT certification. On September 23, 2003, the utility informed CWT that it was terminating contract negotiations and would issue an RFP for its power purchase requirements. In response, CWT informed the utility that it is required by law to purchase electricity from a "qualifying facility," and that it intended to pursue its legal remedies unless the utility complies. The utility and CWT have had several discussions and exchanged correspondence since the fall of 2003. No progress has been made. CWT has asked the Governor to intercede on behalf of the project. Concurrently, CWT has instructed its counsel to pursue its legal remedies against the utility. As of December 31, 2003, CWT determined that the asset was impaired, and that due to the contemplated litigation, a write-off of approximately \$2,869,000 of deferred project costs was appropriate.

2. Costa Rica

Early in 2002, IWT signed a memorandum of understanding with COCIM, the organization that represents the municipalities of Metropolitan San Jose, Costa Rica. The memorandum is based on a proposal for a 480,000-ton solid waste-recycling facility. A letter committing to purchase the export electricity was received from the government-owned electric utility.

The Company spent the next two years preparing feasibility and other required studies and meeting with responsible central and municipal government officials. It became increasingly clear that, despite a well publicized commitment to the environment and official documents signed in support of the project, the government lacks the institutional capacity and political will at this time to undertake the proposed project. At a Board meeting on December 18, 2003, the Company decided to suspend all activity in Costa Rica until and unless the government makes a clear, unequivocal decision to proceed to contracts. As of December 31, 2003, the Company decided that the asset had been impaired and wrote off deferred project costs of approximately \$883,000.

Discontinued Development Activities

Collier County, Florida

In July 2002 IWT was selected in a competitive procurement in Collier County, Florida to negotiate a contract for a solid waste gasification plant. Several meetings took place with the county and its advisors. On March 11, 2003 the Board of Supervisors for the County voted to pursue further cost negotiations with IWT for a project. Then, in the third quarter of 2003, Collier County canceled its waste project procurement, deciding that it will continue to use landfills to dispose of waste. The Company wrote off approximately \$62,000 of deferred project costs as of June 30, 2003.

Deferral of New Project Development Activities

At a Board meeting on December 18, 2003, the Company decided not to expend any material funds in pursuing new waste projects until contracts have been signed on one or more pending projects. CWT has had discussions with investment banks to help it attract local stakeholders / investors. Preliminary discussions with investors have occurred, but no commitments have been received. Outside equity will be required to meet upcoming development expenses and other project requirements in Puerto Rico.

Environmental Impact.

Management believes that the proposed IWT and CWT facilities can be completed without a material adverse environmental impact and in compliance with government regulations. The many approvals and permits required under the U.S. Clean Air Act, U.S. Clean Water Act ("CWA"), and other laws and regulations will require substantial time and effort to obtain.

Competition.

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There is intense competition for municipal waste-recycling contracts throughout the United States and abroad. Management believes IWT and CWT can provide superior facilities at a competitive price.

(4) DEBT

The Company's outstanding debt is collateralized primarily by land, land improvements, housing and receivables. The following table summarizes the indebtedness of IGC at March 31, 2004 and December 31, 2003:

	Maturity Dates	Interest Rates* From/To	Outstanding (in thousands)	
			March 31, 2004	December 31, 2003
Related to waste technology ventures:				
Mortgage - Engineering Office	06/30/05	7.85%	\$ 163	\$ 165
Related to land development:				
Development loans/advances - Brandywine Project	07/25/05	P+2%	\$ 9,692	\$ 9,307
General:				
Line of credit - Towne Center South, Parcel K, L and F9, St. Charles	12/1/04	P+1% - Floor of 9.5%	\$ 7,415	\$ 7,765
Line of credit - Parcel D-4, St. Charles	11/1/04	8.5%	\$ 200	\$ 200
Related Entity ⁽¹⁾	12/31/05	P+1%	\$ 1,607	\$ 1,090
Total debt			\$ 19,077	\$ 18,527
*P				
= Prime lending interest rate				
(1)				
= IBC note payable				

As of March 31, 2004, the \$163,000 of recourse debt related to the Company's engineering office building located in Malvern, Pennsylvania, had a book value of \$160,000.

As of March 31, 2004, the \$9,692,000 of recourse debt related to land development assets at the Company's Brandywine project is collateralized by land development assets with a book value of \$14,958,000. The lender established specific criteria for sales under this loan relating to residential and commercial acres to which the borrower

must comply by September 1, 2004.

As of March 31, 2004, the \$7,415,000 line of credit is collateralized by land assets at the Company's Towne Center South property, as well as other commercial parcels in St. Charles, Maryland, with a book value of \$8,381,000. An event of default has occurred on this line of credit as the March 31, 2004 principal reduction in the amount of \$3.5 million has not been made.

As of March 31, 2004, the \$200,000 line of credit is collateralized by land assets in St. Charles, Maryland with a book value of \$135,000.

(5) WETLAND REMEDIATION

As previously reported, wetlands litigation was commenced by the United States Government in 1996 against the Company, its affiliates, St. Charles Associates, LP ("SCA"), and James J. Wilson. In November 1999, the Company pled guilty to a single violation of the CWA, and the Company and its affiliate, SCA, entered into a consent decree whereby the civil complaint by the government against them for alleged violations of the CWA was dismissed. Pursuant to the Consent Decree, the Company and SCA paid a civil penalty of \$1,360,000, placed \$40,000 in escrow to pay for certain remediation costs in the Dorchester neighborhood of St. Charles (referred to as "Dorchester and Parcel Q"), and agreed to complete within 24 months a remediation plan covering certain land in Towne Center South and in Parcel L, another location in St. Charles. As part of the settlement, all of the criminal charges against James J. Wilson, the Company's Chairman and Chief Executive Officer, were dismissed.

In March 2001, the Company and SCA sought to set aside the Company's criminal conviction and to vacate the Consent Decree entered in 1999. On June 12, 2001, the District Court denied defendants' requests. The Court subsequently stayed the time limits for carrying out the Consent Decree. Under the stay, time limits were suspended for a period not to exceed 15 months from a final judicial determination of the matters on appeal. Pending the stay, the Company was prohibited from the development or sale of any parcel at Towne Center South other than one thirty-acre parcel. On July 2, 2002, the United States Court of Appeals for the Fourth Circuit affirmed the decision of the District Court that has now become final, allowing the Company to proceed with the sale or development of approximately 80 acres of commercial land in St. Charles' Towne Center South. The Company was obligated to complete the previously ordered restoration by January 2, 2004. The status of this obligation is addressed in the following paragraphs.

Following the entry of the Consent Decree in 1999, remediation pursuant to an agreed plan began in 2000 in conjunction with the development of the Company's Towne Center South property. Work was suspended when the Company filed its motion seeking to vacate the Consent Decree. In July 2003, the Company entered into a contract for the required work at Towne Center South. Work commenced in late July. The contract is guaranteed by Interstate Business Corporation ("IBC"), the Company's general partner. The total contract amount is \$1,237,000, of which \$125,000 is for prior unpaid services rendered by the contractor. The \$125,000 was paid to the Contractor in August 2003. An additional \$700,000 was paid against the base contract on December 15, 2003. The contract provides for cash payments plus the transfer to the contractor of a three-acre parcel at Towne Center South, which is subject to an existing mortgage. Should the Company not be successful in transferring this property debt free, it will be required to make additional cash payments. As of this filing, the Company has prepared a draft lot transfer agreement and awaits approval and execution. The Company has entered into a contract with the same contractor for the restoration work on Parcel L. The base amount of the contract for Parcel L is \$123,000. The work at Parcel L is under way and should be completed by the end of May 2004. It is estimated that the combined cost of remediation work at Towne Center South

and Parcel L will be approximately \$1.5 million. The final cost of remediation could be more or less, depending upon the cost of planting vegetation, engineering and legal fees.

The remaining estimated cost for the remediation of \$342,000 is included in the liabilities section of the balance sheet as an accrued liability under Liabilities Related to Land Development. The cost of the remediation has been capitalized in the cost basis of Towne Center South as it relates and is integral to the development of that parcel. The Company believes that the net realizable value from the sale of the 82 acres plus of commercial property in Towne Center South will exceed the asset value recorded on its balance sheet, which includes the \$1.5 million accrual. The Company intends to fund the remaining cost of remediation principally from land loan proceeds secured by its Brandywine Project. The remediation was not completed by January 2, 2004, making the Company liable for fines of \$1,000 per day for the first thirty days of non-compliance, \$2,000 per day for day 31 through 60, and \$3,000 per day thereafter, plus other possible penalties. The Company has accrued fines and penalties of approximately \$180,000 as of March 31, 2004. The accrual is reflected in these financial statements (see the Liabilities Related to Land Development section of the Balance Sheet on page 6). The Company believes it has adequate reasons for an extension of time to complete the remediation work required. Further, the Company has discussed with the Government, relief from the imposition of fines. To date, no agreement has been reached. The estimated fines through May 31, 2004 are approximately \$360,000.

RELATED PARTY TRANSACTIONS

(6)

Certain officers, directors and a general partner ("IBC") of the Company have ownership interests in various entities that conducted business with IGC during the last two years. The financial impact of the related party transactions on the accompanying consolidated financial statements are reflected below:

INCOME STATEMENT IMPACT		(In thousands)		
		Three Months Ended		
			March 31, 2004	March 31, 2003
<u>Interest and Other Income</u>				
IBC, general partner of IGC	(A1)	\$ -		\$ 9
		\$ -		\$ 9
<u>General and Administrative Expense</u>				
IBC, general partner of IGC for miscellaneous	(B6)	\$ 1		\$ 2
Smallwood Village Associates, LP ("SVA"), affiliate of IBC, for rent	(B1)	3		5
American Rental Management Company ("ARMC"), subsidiary				
of ACPT for support and other services	(B2)	-		5
Equus, affiliate of IBC, consulting fee	(B3)	(44)		(44)
ARMC, subsidiary of ACPT, consulting fee	(B4)	(50)		(50)
		\$ (90)		\$ (82)

<u>Interest Expense</u>				
IBC, general partner of IGC	(B5)	\$ 17		\$ -
		\$ 17		\$ -

BALANCE SHEET IMPACT:		Balance March 31, 2004	Balance December 31, 2003
<u>Assets Related to Land Development</u>			
Land - Brandywine, Maryland; Guarantee Fees paid to James J. Wilson and IBC	(B8)	\$ 110	\$ 110
		\$ 110	\$ 110
<u>Other Assets</u>			
Receivables:			
IBC, receivables, miscellaneous	(B6)	14	14
ARMC, receivables, miscellaneous	(B2)	1	1
		\$ 15	\$ 15
<u>Other Liabilities</u>			
Advances, IBC, general partner of IGC	(B5)	\$ 1,607	\$ 1,090
Accounts payable to IBC for miscellaneous	(B6)	14	13
Accounts payable to SVA, or rent	(B1)	15	12
Advances, IGMC, IGC's managing general partner	(B7)	78	78
		\$ 1,714	\$ 1,193

(A) Land Sales

IGC sells land to affiliates and non-affiliates on similar terms. Sales prices to affiliates are based on third party appraisals, or comparable sales to third parties.

- (1) In December 2002, IGC sold its Westbury project to IBC for \$2,620,000. As part of the purchase price, IBC assumed debts totaling \$795,000, and IGC accepted a note receivable in the amount of \$703,004. As of the sale date, assets with a book value of \$2,617,000 collateralized this debt.

Regarding the debt assumption: A debt of \$732,000 was due to the Winston Corporation and \$63,000 was due to First National Bank of St. Mary's for the Westbury project. Of that debt, \$63,000 was retired in February 2003, and \$732,000 was retired in September 2003.

Regarding the note receivable: Accrued and unpaid interest on the principal balance was due and payable monthly with the principal payment. The principal of the note was payable in equal monthly installments of \$40,000 plus interest at prime plus one percent

per annum. On September 29, 2003, the balance of approximately \$387,000 was paid to IGC.

(B) Other

Other transactions with related parties are as follows:

- (1) Beginning October 1, 2000 and as of March 31, 2004, IGC rents office space from Smallwood Village Associates, LP, an affiliate of IBC, at prevailing market rental rates. As an offset to this expense, IGC provided IBC with tax support services from August 2002 through August 2003. The payment for these services was used to reduce the Company's office rental expense due SVA.
- (2) During 2002 and ending approximately July 2003, ARMC, an affiliate of ACPT, provided IGC with miscellaneous land development, human resources, and other miscellaneous administrative support services. On occasion, ARMC provided photocopy, telephone, postage, and delivery services on a cost reimbursement basis.

On June 30, 2003, IBC agreed to advance, on IGC's behalf, approximately \$171,000 due ARMC for these items and amounts due from IGC and its related entities to Interstate General Properties, a subsidiary of ACPT, for tax support service and costs associated with car leasing and retirement plan expenses.

In an effort to eliminate the need for office services in the future, IGC incurred costs during the third quarter 2003 relating to a change of address and phone number. The costs associated with these changes are being offset against future amounts billed by ARMC. As of March 31, 2004, IGC holds a credit balance of approximately \$1,000.

- (3) James J. Wilson provides consulting services on a monthly basis to Equus Gaming Company, LP ("Equus"). The salary and benefits related to these services is allocated to Equus on a quarterly basis, based on the percentage of time Mr. Wilson spends on Equus matters.

As part of the Company's Working Capital Support agreement with IBC, any amounts due at the end of each quarter are used to reduce advances under the agreement. For the quarter ended March 31, 2004, Equus was charged approximately \$44,000. All amounts for the quarter were credited to IBC and applied against the agreement.

- (4) In October 1998, James J. Wilson entered into a consulting agreement with ARMC, a subsidiary of ACPT, providing for an annual consulting fee of \$500,000 per year for a two-year period, then \$200,000 per year for an eight-year period. Mr. Wilson's consulting fee is paid directly to IGC, which in turn, pays Mr. Wilson, crediting the amount against IGC's salary obligation to Mr. Wilson. In May 2002, IBC began funding payments as an offset against amounts due from IBC to ACPT for other contractual matters between these entities. Please refer to ACPT's December 31, 2001 10K filing for further information. On April 1, 2003, ARMC resumed paying IGC directly.

- (5) Historically, the Company has had various forms of Working Capital Support Agreements with IBC. The most recent agreement, dated September 1, 2002, is an Amended and Restated Working Capital Support Agreement, whereby loans are made to IGC in the form of promissory notes. Interest is charged at prime plus 1% and accrues until paid. Payments are first applied to unpaid interest and then to principal. This agreement matures December 31, 2005, unless paid sooner. IGC shall repay to IBC, 1) the balance of funds available from waste projects, after deducting reasonable reserves for operating needs, or 2) proceeds from real estate sales, provided there are sufficient funds available, and subject to the discretion of the IGC Board of Directors.

- (6) During 2002, and continuing in 2003, IGC incurred shared expenses with IBC for office supplies and services. For the quarter ended March 31, 2004, IGC incurred approximately \$1,000 of expenses. For the same period in 2003, the amount of expenses totaled approximately \$2,000.

- (7) The Company advances funds to IGMC, its managing general partner, to pay for miscellaneous expenses such as annual filing fees. During 2001, IGMC advanced amounts to IGC from a stock sale transaction in which IGMC sold shares of ACPT. All proceeds from the sale were applied to amounts due ARMC for items listed above in B(2). The Company continues to advance IGMC its basic operating costs as needed.

- (8) The Company paid guarantee fees in the second quarter of 2003 in exchange for a guarantee relating to the \$2.5 million letters of credit for public improvement bonds on Brandywine Investment Associates, LP ("BIA"). Under a Mercantile loan restructuring of August 2002, the Company paid a 2% guarantee fee of \$50,000 to James J. Wilson. In exchange for a guarantee for the financing on the TJJ loan, the Company paid a 1.5% guarantee fee of \$60,000 to IBC. The independent members of the Board of Directors approved the fees.

(7) DISCONTINUED OPERATIONS

Effective November 13, 2000, IGC's Board of Directors adopted a plan to wind down and cease AFH's operations following completion of the 30 homes then under construction. Accordingly, the results of operations for AFH are reported as from discontinued operations. At December 31, 2000, the Company estimated that it would incur a loss of approximately \$700,000 as a result of closing down AFH. The estimate included projected costs to complete the remaining homes, as well as operating costs during that period, along with remaining lease costs the Company is obligated to pay. As of March 31, 2004, approximately \$657,000 has been incurred. The remaining accrual for this loss has been accounted for in the accompanying financial statements and is shown in the liabilities related to discontinued operations.

(8) SEGMENT INFORMATION

IGC's three reportable segments are waste-recycling project development activities conducted by IWT and CWT, commercial and residential

land development and other miscellaneous activities, and the discontinued homebuilding operations conducted by AFH. Refer to Note 7 for further information on AFH.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following presents the segment information for the three months ended March 31, 2004 and 2003 (in thousands):

		Homebuilding (Discontinued)	IWT/CWT Waste Recycling Projects	Land and Other	Inter-Segment Eliminations	Total
2004						
Total revenues	(1)	1	-	550	-	550
Interest income	(1)	-	-	1	-	1
Interest expense	(1)	-	3	114	-	117
Depreciation and amortization	(1)	-	2	14	-	16
Net income (loss)	(1)	3	(130)	(207)		(337)
Total assets		(1,669)	(2,591)	58,600	(25,586)	28,754
Changes to long lived assets		-	150	251	-	401

		Homebuilding (Discontinued)	IWT/CWT Waste Recycling Projects	Land and Other	Inter-Segment Eliminations	Total
2003						
Total revenues	(1)	1	-	359	-	359
Interest income	(1)	1	-	-	-	-
Interest expense	(1)	1	3	170	-	173
Depreciation and amortization	(1)	-	5	12	-	17
Net loss	(1)	(9)	(160)	(715)	-	(875)
Total assets		(1,661)	1,427	56,689	(25,134)	31,321
Changes to long lived assets		-	250	436	-	686
(1) Amounts reported for the discontinued segment are not included in the totals for these items.						

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain matters discussed and statements made within this Form 10-QSB are forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 and as such may involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Company to be different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be attained. These risks are detailed from time to time in the Company's filings with the Securities and Exchange Commission or other public statements.

For the Three Months Ended March 31, 2004 versus 2003

Land Development Operations

Land development sales revenue increased by approximately 57% to approximately \$550,000 during the three months ended March 31, 2004, compared to revenue of \$350,000 for the same period during 2003. The first quarter of 2004 reflects the sale of a one-acre parcel at Towne Center South in St. Charles, Maryland. Gross revenue from the sale was \$550,000, and the sale produced a positive gross margin of approximately 77%.

The first quarter 2003 sales occurred at the Company's Brandywine project where all residential acres are under contract with Washington Homes, Inc. (WHI). There are two contracts in place for these sales. The first contract, dated September 10, 2001 ("Contract A"), is for the sale of 48 completed single-family lots, all which have been delivered, plus an option to purchase 11 additional lots, which WHI has exercised. The second contract, dated February 21, 2002 ("Contract B") is for the sale of the balance of the residential land, which will be sold on a semi-developed basis. The Company has reached agreement with WHI on an adjustment to the current contract price

and lot yield. Management expects that a contract amendment will be signed the week of May 10, 2004

The first quarter 2003 reflects the sale of seven single-family lots to WHI under Contract A. The sales produced negative gross margins which are a reflection of extended holding periods and larger than anticipated costs for delivering completed lots.

The Company is pursuing the sale of its commercial parcels located at Towne Center South in St. Charles, Maryland and at the Brandywine project.

Cost of Land Sales

Cost of land sales decreased approximately 65% to \$131,000, compared to \$372,000 for the same period in 2003. A majority of the costs in 2004 represent expenses relating to the sale of the one-acre parcel at Towne Center South, while the 2003 costs represent expenses relating to the development of the Company's Brandywine project, both referred to in the above sales discussion.

General and Administrative

General and administrative costs decreased approximately 33% to \$364,000 from \$547,000 during the three months ended March 31, 2004 and 2003, respectively. The decrease is largely attributable to Management's cost-cutting efforts for office and operating expenses. In addition, the Company has realized savings in the following expense categories: commercial insurance premiums, board of director fees, vehicle leasing expense, and salary / benefits cost. These financial statements do not include a large portion of expense related to the 2003 tax return preparation and schedules, as arrangements with third party consultants have not been made.

Wetland Remediation Penalties and Interest

Wetland remediation penalties and interest expense totaled approximately \$180,000 during the three months ended March 31, 2004. The Company was unable to complete the wetland remediation work by January 2, 2004, which is required under the 1999 Consent Decree (refer to Part II, Item 1, Legal Proceedings).

Waste Project Marketing and Development

Waste project marketing and development decreased by approximately 38% to \$77,000 compared to \$125,000 for the same period in 2003. The decrease is a reflection of the Company's Board of Directors' decision to defer any new project pursuits and not to expend any material funds.

Liquidity and Capital Resources

Unrestricted Cash and Cash equivalents were \$1,000 and \$120,000, at March 31, 2004 and December 31, 2003, respectively.

IGC historically has met its liquidity requirements from cash flow generated from the sale of real estate, bank financing providing funds for development and working capital, and loans from affiliates. In the coming months, the Company's principal need for liquidity will be debt reduction, debt service of existing loans, normal business operating expenses, and project development costs for IWT and CWT. The following discussion summarizes the Company's liquidity challenges and the steps it is taking to meet its liquidity requirements.

The Company is engaged in discussions for the sale of all of its commercial acres both in St. Charles and Brandywine, Maryland.

IGC is seeking an equity investor in its Brandywine project to provide working capital and for other purposes. The Company has identified an interested party and negotiations are taking place. The Brandywine project continues to move through its development program of selling semi-developed lots to Washington Homes. Subsequent to the end of the quarter, Washington Homes purchased 133 townhome lots producing gross revenue of approximately \$2.5 million. Proceeds after settlement fees and deposit application were used to repay a portion of the development loan. As of March 31, 2004, the assets had a cost basis of approximately \$2 million. The Company also has a contract with Zimmer Development Company, LLC ("Zimmer") for the sale of approximately 13 acres of commercial land. This sale is expected to occur in late 2004 and produce gross revenue of approximately \$3.3 million. The assets had a cost basis of approximately \$773,000 at March 31, 2004.

IGC has debt of approximately \$7,415,000, secured by its Towne Center South property, as well as other commercial parcels in St. Charles, Maryland. It is the Company's plan to retire such debt through land sales. Earlier this year, the Company executed a one-year loan extension with the lender, taking the maturity date from December 1, 2003 to December 1, 2004, requiring the Company to make a first cash payment of \$3.5 million on or before March 31, 2004, and an additional cash payment of \$1.5 million on or before June 30, 2004, both of which will reduce the principal amount due on the loan.

An event of default has occurred under this loan as the Company was unable to make the cash payment required by March 31, 2004. While the Company planned to retire \$3.5 million of this debt with a new lender via bridge-loan financing, it was unsuccessful. The Company has submitted a new loan request to that same bank to refinance the entire debt (approximately \$7.415 million) and awaits a response.

On March 30, 2004, the Company was successful in completing the sale of a one-acre parcel at Towne Center South for gross proceeds of \$550,000. Approximately \$350,000 of proceeds from this sale was used to curtail the existing mortgage.

Management continues to undertake the following steps to retire the above debt:

- 1) The Company has had discussions with a potential buyer for its Towne Center South Lot 5. This property, consisting of approximately 30 acres, is scheduled to be developed into Towne Center South Apartments, a 404-unit luxury rental development for teachers, county employees and other professionals. The Company has applied to the County for the necessary approvals, which are expected by summer 2004.

Management has been told by an FHA loan processor that the per-unit value is at least \$15,000 per unit for a total land value of approximately \$6 million. The cost basis of Lot 5 at March 31, 2004 was approximately \$2.7 million.

- 2) The Company has been notified by the County and the State that an 8-acre parcel will be acquired as a park-and-ride facility. The State's engineers and appraisers are working on

the offer to purchase the site. Management expects to sell the parcel for approximately \$2,000,000, with closing anticipated in 2004.

The sale of the one-acre parcel and the above two sales will eliminate or substantially reduce the debt associated with Towne Center South.

IGC also has a debt of \$200,000, maturing on November 1, 2004, on a 3/4-acre commercial parcel known as D-4, located in St. Charles, Maryland. The Company plans to develop the parcel as an apartment complex, or sell the lot before the loan is due.

Substantially all of the Company's land assets are encumbered by recourse debt.

The Company is subject to a Consent Decree entered into in 1999 regarding wetlands remediation (see additional discussion in Part I, Item 3, Legal Proceedings) and had until approximately January 2, 2004 to complete the remediation requirements imposed by the decree. In July 2003, the Company executed a contract that covered most items required in the Consent Decree. The total contract amount is \$1,237,000. The contract is guaranteed by Interstate Business Corporation ("IBC"), the Company's general partner. \$125,000 was paid to the Contractor in August 2003. An additional \$700,000 was paid against the base contract on December 15, 2003. The contract provides for cash payments plus the transfer to the contractor of a three-acre parcel at Towne Center South, which is subject to an existing mortgage. Should the Company not be successful in transferring this property debt free, it will be required to make additional cash payments. As of this filing, the Company has prepared the draft lot transfer agreement and awaits approval and execution. The Company has also entered into a contract with the same contractor for the restoration work on Parcel L. The base amount of the contract for Parcel L is \$123,000. The work at Parcel L is under way and should be completed before the end of May 2004. It is estimated that the combined cost of remediation work at Towne Center South and Parcel L will be approximately \$1.5 million. The final cost of remediation could be more or less, depending upon the cost of planting vegetation, engineering and legal fees.

IGC and IBC plan either to refinance or sell assets to fund remediation cost in excess of the \$1 million Mercantile line.

The remediation was not completed by January 2, 2004, making the Company liable for fines of \$1,000 per day for the first thirty days of non-compliance, \$2,000 per day for day 31 through 60, and \$3,000 per day thereafter, plus other possible penalties. The Company has accrued fines and penalties of approximately \$180,000 as of March 31, 2004. The accrual is reflected in these financial statements (see the Liabilities Related to Land Development section of the Balance Sheet on page 6). The Company believes it has adequate reasons for an extension of time to complete the remediation work required. Further, the Company has discussed with the Government, relief from the imposition of fines. To date, no agreement has been reached. The estimated fines through May 31, 2004 are approximately \$360,000.

In addition to the debt and remediation obligations described above, estimated operating expenses for the remaining nine months of 2004 will be approximately \$2.8 million (inclusive of salary and lease commitments, but excluding remediation costs, real estate costs, and waste project development costs). Several of the Company's loan agreements contain provisions requiring the Company to remain solvent. IGC has a Working Capital Support Agreement with IBC. This agreement provides for IBC to meet (subject to available funds) IGC's working capital requirements. In exchange, IGC has agreed to repay IBC from funds available from waste projects, after deducting reasonable expenses for operating needs, and /or proceeds from real estate sales, provided there are sufficient funds available, and subject to the discretion of IGC's Board of Directors. There is no assurance that IBC will be able to provide sufficient funds, as needed, for IGC to continue its operations. At the present time, IGC is current in meeting payroll and a very limited

number of other essential costs only. IGC is in arrears with most of its vendors, including service providers on whom the Company depends in order to continue its operations. Unless the Company is able to generate sufficient cash to bring its payables more current, service providers and other vendors may discontinue providing services and other products to the Company.

In December 2003, the Company decided not to expend material funds in pursuit of new waste projects until contracts have been signed on one or more pending projects. The Company continues to have discussions with investment banks to help it attract local investors for its Puerto Rico project. Outside equity will be required to meet upcoming development expenses and other project requirements in Puerto Rico.

All waste-to-energy projects will be funded by project-specific financing.

Critical Accounting Policy - Deferred Waste Project Costs

Deferred Waste Project Costs

The Company capitalizes the direct costs of procuring waste-recycling projects after achieving specific project-related milestones, and when management believes the costs are probable of being realized. All other project development costs are expensed as incurred.

For competitive procurements, costs of preparation and submission of the bid are expensed. When a competitive procurement is won, all subsequent costs through financial close and commencement of construction are capitalized, including contract negotiation as well as permitting and engineering costs.

Financial close refers to the date the Company receives all proceeds and commitments necessary to pay for the financing, development, design, construction, and start-up of the facility from the parties providing the financing.

For projects that are not subject to competitive procurements, the costs of obtaining each project are expensed until such time as certain project-related milestones are achieved. These milestones will vary from project to project depending upon the political jurisdictions involved. The test is whether the Company believes it has obtained sufficient assurances from the contracting jurisdictions that the project is more likely than not to proceed. At such point, all subsequent costs through financial close and commencement of construction are capitalized, including contract negotiation as well as permitting and engineering costs.

To date, there has not been a financial close on any of the Company's waste-recycling projects.

All capitalized costs are evaluated for impairment at each reporting period. If the Company no longer believes the prospects of developing a project are probable, capitalized costs relating to that project are written off.

At March 31, 2004, approximately \$5,866,000 has been capitalized relating to the waste-recycling project in Puerto Rico. Recovery is dependent upon future revenues from the construction and operation of waste-recycling plants.

Debt Summary

As of March 31, 2004, assets with a book value of approximately \$23,634,000 were encumbered by approximately \$19,077,000 of recourse debt. The significant terms of IGC's recourse debt financing are shown below (dollars in thousands):

		Maximum	Interest	Maturity	Balance
		Borrowings	Rate *	Date	Outstanding
					3/31/04
Collateral Mortgage Capital - Operating Line of Credit	(a)	\$ 7,765	P+1% - Floor of 9.5%	12/1/04	\$ 7,415
Washington Savings Bank - Letter of Credit and Development	(b)	200	8.5%	11/1/04	200
Mercantile Mortgage Corporation - Development Loans / Advances ⁽¹⁾	(c)	19,690	P+2%	7/25/05	9,692
M & T Bank - Engineering Office Mortgage	(d)	227	7.85%	6/30/05	163
IBC - Working Capital Support Agreement	(e)	-	P+1%	12/31/05	1,607
		\$ 27,882			\$ 19,077
* P = Prime lending interest rate					

(1)

= Includes a letter of credit facility up to \$4,500,000. The balance outstanding at 3/31/04 is approximately \$2,000,000.

- (a) This loan provides an operating line of credit. The loan is secured by the Company's Towne Center South parcel as well as other miscellaneous commercial parcels located in St. Charles, Maryland. The loan is guaranteed by IBC. Interest on this line has a floor of 9.5%.

The Company executed a one-year loan extension with the lender, taking the maturity date from December 1, 2003 to December 1, 2004. The loan extension requires the Company to make a first cash payment of \$3.5 million on or before March 31, 2004, and an additional cash payment of \$1.5 million on or before June 30, 2004, both of which will reduce the principal amount due on the loan. In addition, the Company is required to pay monthly interest payments, pay all property taxes out-of-pocket, and pay any legal fees associated with principal curtailments.

An event of default has occurred on this line of credit as the March 31, 2004 principal reduction in the amount of \$3.5 million has not been made.

- (b) This loan provides operating cash and preliminary development funds. Monthly interest payments are required at 8.5%. The loan is secured by a first deed of trust on a 3/4-acre parcel located in St. Charles, Maryland. The loan is guaranteed by IBC and Wilson Securities, an IBC affiliate that is a pledgor of IGC Class A units.
- (c) The Company has three development loans for its land development activities in Brandywine, Maryland. As of March 31, 2004, there is \$2,978,404 outstanding for development costs and improvements made to infrastructure, single-family, and townhome sections. Principal curtailments are due under these lines as sales occur.

During 2003, the development loan was amended in both July and December. Under the July modification, \$2,000,000 was added to the infrastructure budget for development costs and improvements at the project. Under the December modification, a development advance line was established, and the infrastructure budget increased by an additional \$250,000. The development advance line provides for a maximum of \$7,600,000 in borrowings. The development advance line was established to do the following: Retire \$4.8 million due to TJJ Corporation ("TJJ"), provide \$2,000,000 in development funds for the Brandywine Partnership to repay a portion of the demand note between the Company and the Partnership, and to repay inter-company loans, and to establish an \$800,000 interest reserve on the loan. The interest reserve will provide for the payments of monthly interest through the term of the loan on projected sales. The lender also established specific criteria for sales under this loan, relating to the residential and commercial acres, to which the borrower must comply by September 1, 2004. As of March 31, 2004 there is \$6,714,057 outstanding on the development advance line.

This development loan includes a letter of credit facility with maximum borrowings of \$4.5 million. As of March 31, 2004, the lender has provided letters of credit totaling approximately \$2 million. All letters of credit issued are guaranteed by the borrower and James J. Wilson, personally.

The original development loans were executed in July 1999, naming the Company as the borrower and the Brandywine Partnership as guarantor. When the loan was established, the Lender recorded an Indemnity Deed of Trust whereby, the Brandywine Partnership is the Grantor and guarantees all amounts owed by the borrower. The Brandywine Partnership also signed a promissory note with IGC to repay any amounts due under the development loan. This debt is recorded on the financial statements of the Brandywine Partnership and, for consolidated presentation, also included in these financial statements. The loans are secured by a first deed of trust on the property. In addition, there are two other guarantors on the loan, Interstate Business Corporation ("IBC"), IGC's general partner, and IGC Chairman James J. Wilson and his wife, Barbara Wilson.

- (d) This mortgage note requires monthly principal and interest payments of \$1,818.

- (e) Historically, the Company has had various forms of Working Capital Support Agreements with IBC. The most recent agreement, dated September 1, 2002, is an Amended and Restated Working Capital Support Agreement, whereby loans are made to IGC in the form of promissory notes. Interest is charged at prime plus 1% and accrues until paid. Payments are first applied to unpaid interest and then to principal. This agreement matures December 31, 2005, unless paid sooner. IGC shall repay to IBC, 1) the balance of funds available from waste projects, after deducting reasonable reserves for operating needs, or 2) proceeds from real estate sales, provided there are sufficient funds available, and subject to the discretion of IGC's Board of Directors.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Wetlands Litigation

As previously reported, wetlands litigation was commenced by the United States Government in 1996 against the Company, its affiliates, St. Charles Associates, LP ("SCA"), and James J. Wilson. In November 1999, the Company pled guilty to a single violation of the CWA, and the Company and its affiliate, SCA, entered into a consent decree whereby the civil complaint by the government against them for alleged violations of the CWA was dismissed. Pursuant to the Consent Decree, the Company and SCA paid a civil penalty of \$1,360,000, placed \$40,000 in escrow to pay for certain remediation costs in the Dorchester neighborhood of St. Charles (referred to as "Dorchester and Parcel Q"), and agreed to complete within 24 months a remediation plan covering certain land in Towne Center South and in Parcel L, another location in St. Charles. As part of the settlement, all of the criminal charges against James J. Wilson, the Company's Chairman and Chief Executive Officer, were dismissed.

In March 2001, the Company and SCA sought to set aside the Company's criminal conviction and to vacate the Consent Decree entered in 1999. On June 12, 2001, the District Court denied defendants' requests. The Court subsequently stayed the time limits for carrying out the Consent Decree. Under the stay, time limits were suspended for a period not to exceed 15 months from a final judicial determination of the matters on appeal. Pending the stay, the Company was prohibited from the development or sale of any parcel at Towne Center South other than one thirty-acre parcel. On July 2, 2002, the United States Court of Appeals for the Fourth Circuit affirmed the decision of the District Court that has now become final, allowing the Company to proceed with the sale or development of approximately 80 acres of commercial land in St. Charles' Towne Center South. The Company was obligated to complete the previously ordered restoration by January 2, 2004. The status of this obligation is addressed in the following paragraphs.

Following the entry of the Consent Decree in 1999, remediation pursuant to an agreed plan began in 2000 in conjunction with the development of the Company's Towne Center South property. Work was suspended when the Company filed its motion seeking to vacate the Consent Decree. In July 2003, the Company entered into a contract for the required work at Towne Center South. Work commenced in late July. The contract is guaranteed by Interstate Business Corporation ("IBC"), the Company's general partner. The total contract amount is \$1,237,000, of which \$125,000 is for prior unpaid services rendered by the contractor. The \$125,000 was paid to the Contractor in August 2003. An additional \$700,000 was paid against the base contract on December 15, 2003. The contract provides for cash payments plus the transfer to the contractor of a three-acre parcel at Towne Center South, which is subject to an existing mortgage. Should the Company not be successful in transferring this property debt free, it will be required to make additional cash payments. As of this filing, the Company has prepared a draft lot transfer agreement and awaits final approval and execution. The Company has entered into a contract with the same contractor for the restoration work on Parcel L. The base amount of the contract for Parcel L is \$123,000. The work at Parcel L is under way and should be completed before the end of May 2004. It is estimated that the combined cost of remediation work at Towne Center South and Parcel L will be approximately \$1.5 million. The final cost of remediation could be more or less, depending upon the cost of planting vegetation, engineering and legal fees.

The remaining estimated cost for the remediation of \$342,000 is included in the liabilities section of the balance sheet as an accrued liability under Liabilities Related to Land Development. The cost of the remediation has been capitalized in the cost basis of Towne Center South as it relates and is integral to the development of that parcel. The Company believes that the net realizable value from the sale of the 82 acres plus of commercial property in Towne Center South will exceed the asset value recorded on its balance sheet, which includes the \$1.5 million accrual. The

Company intends to fund the remaining cost of remediation principally from land loan proceeds secured by its Brandywine Project. The remediation was not completed by January 2, 2004, making the Company liable for fines of \$1,000 per day for the first thirty days of non-compliance, \$2,000 per day for day 31 through 60, and \$3,000 per day thereafter, plus other possible penalties. The Company has accrued fines and penalties of approximately \$180,000 as of March 31, 2004. The accrual is reflected in these financial statements (see the Liabilities Related to Land Development section of the Balance Sheet on page 6). The Company believes it has adequate reasons for an extension of time to complete the remediation work required. Further, the Company has discussed with the Government, relief from the imposition of fines. To date, no agreement has been reached. The estimated fines through May 31, 2004 are approximately \$360,000.

Langley v. St. Charles Associates, et al.

In 2000, the owners of a parcel of land located in Charles County sued the Company and one of its officers in the Circuit Court for Charles County, Maryland. The complaint claimed damages allegedly flowing from trespass and restrictions of access to property resulting from the construction of a county road in Charles County. The construction in question was completed by St. Charles Community, LLC, by agreement with and permission from the County. The first and second counts of the complaint sought \$10,000,000 in compensatory damages and \$10,000,000 in punitive damages. The third and final count sought an easement and right of way to the county road. On April 13, 2001, the Circuit Court dismissed all individual corporate officers from the lawsuit and dismissed the second and third counts. The Circuit Court also ordered that the County Commissioners of Charles County be joined as defendants in the case. The plaintiffs responded by filing an amended complaint purporting to cure the defects prompting the dismissals and adding the County Commissioners as defendants. On October 12, 2001, the Circuit Court again dismissed the individual corporate officers and dismissed the second and third counts with prejudice. Finally, by order dated November 27, 2002, the Circuit Court granted summary judgment on the remaining trespass claim in favor of the Company.

The plaintiffs have filed an appeal to the Maryland Court of Special Appeals, which is still pending. However, the parties to the appeal have reached an agreement in principle that, once finalized, would lead to dismissal of the appeal. The parties intend to formalize their settlement agreement in the upcoming weeks.

Other

The Company is also involved from time to time in other miscellaneous legal matters that arise in the normal course of business. In Management's opinion, none of the actions is of a material degree whereby there would be a material adverse impact of the financial condition or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS ON 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

ITEM 6(a). EXHIBITS

Exhibit No.	Description
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31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
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31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Controller
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32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 - Chief Executive Officer
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32.2	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 - Controller
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ITEM 6(b). REPORTS ON FORM 8-K

99.1	Form 8-K dated May 14, 2004; Items 7 and 12
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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERSTATE GENERAL COMPANY L.P.

(Registrant)

By: Interstate General Management Corporation

Managing General Partner

Dated: May 14, 2004

By: /s/ James J. Wilson

James J. Wilson
Chairman, Chief Executive Officer, and Director

Dated: May 14, 2004

By: /s/ Mark Augenblick

Mark Augenblick
Vice Chairman, President, and Director

Dated: May 14, 2004

By: /s/ Sheri Raleigh

Sheri Raleigh
Assistant Vice President and Controller