

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 1997

or

Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the Transition Period from

-----to-----

Commission File Number 0-20047

I.R.S. Employer Identification Number 41-1691930

Royale Investments, Inc.

3430 List Place
Minneapolis, MN 55416
Telephone: (612) 920-4078

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 requirements for the past 90 days. Yes X No
--- ---

The number of shares outstanding of the Registrant's stock as of May 1, 1997 was:

1,420,000 Shares of Common Stock

ROYALE INVESTMENTS, INC.

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Royale Investments, Inc.
BALANCE SHEETS
(Unaudited)

	March 31,	
	1997	1996
	----	----
ASSETS		
REAL ESTATE INVESTMENTS SUBJECT TO OPERATING LEASES:		
Land	\$ 5,428,130	\$ 5,428,130
Land improvements	2,577,901	2,577,901
Buildings	17,021,327	17,021,327
	-----	-----
	25,027,358	25,027,358
Less: accumulated depreciation	2,096,055	1,541,626
	-----	-----
	22,931,303	23,485,732
CASH AND CASH EQUIVALENTS	224,631	283,812
MARKETABLE SECURITIES	485,539	587,600
OTHER ASSETS	402,266	337,136
	-----	-----
	\$24,043,739	\$24,694,280
	-----	-----
	-----	-----
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Mortgage notes payable	\$14,579,429	\$14,855,756
Dividends payable	177,500	177,500
Accounts payable and other liabilities	202,282	189,164
	-----	-----
	14,959,211	15,222,420
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock - \$.01 par value per share		
Authorized - 50,000,000 shares		
Issued - 1,420,000 shares	14,200	14,200
Additional paid-in capital	12,353,398	12,353,398
Distributions in excess of accumulated earnings	(3,283,070)	(2,895,738)
	-----	-----
	9,084,528	9,471,860
	-----	-----
	\$24,043,739	\$24,694,280
	-----	-----
	-----	-----

The accompanying notes are an integral part of these financial statements

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Royale Investments, Inc.
STATEMENTS OF OPERATIONS AND DISTRIBUTIONS
IN EXCESS OF ACCUMULATED EARNINGS
(Unaudited)

	Three Months Ended March 31,	
	1997	1996
	----	----
INCOME:		
Rental income	\$ 625,429	\$ 611,045
Interest earned	7,167	9,351

	632,596	620,396
EXPENSES:		
Operations and management	79,391	85,607
Mortgage and other interest	308,179	313,591
Depreciation and amortization	141,771	141,771
Administrative and general	12,581	18,375
	541,922	559,344
NET INCOME	90,674	61,052
DISTRIBUTIONS IN EXCESS OF ACCUMULATED EARNINGS:		
Balance - beginning	(3,196,244)	(2,779,290)
Dividends paid and declared	(177,500)	(177,500)
Balance - ending	\$(3,283,070)	\$(2,895,738)
PER COMMON SHARE:		
Net income	\$.06	\$.04
Dividends declared	\$.12	\$.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,420,000	1,420,000

The accompanying notes are an integral part of these financial statements

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Royale Investments, Inc.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 1997	1996
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 90,674	\$ 61,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141,771	141,771
Amortization of marketable securities	(6,160)	(7,479)
Changes in operating assets and liabilities:		
(Increase) in rent receivables	(16,639)	(18,638)
(Increase) decrease in other assets	726	(4,719)
Increase in accounts payable and other liabilities	12,305	91,242
Net cash provided by operating activities	222,677	263,229
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage loans	(78,821)	(59,887)
Dividends paid to shareholders	(177,500)	(177,500)
Net cash (used) by financing activities	(256,321)	(237,387)
NET INCREASE (DECREASE) IN CASH	(33,644)	25,842
CASH AND CASH EQUIVALENTS:		
Beginning of period	258,275	257,970

End of period	\$ 224,631	\$ 283,812
	-----	-----
	-----	-----

Supplementary data:

Income taxes paid	\$ -	\$25
Interest paid	\$ 342,961	\$276,403

The accompanying notes are an integral part of these financial statements

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Royale Investments, Inc.
NOTES TO FINANCIAL STATEMENTS
Three Months Ended March 31, 1997 and 1996
(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Royale Investments, Inc. (the company), a Minnesota corporation, was formed in 1988, to acquire a portfolio of income-producing commercial real estate properties. The company has qualified as a real estate investment trust (REIT) under provisions of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect certain reported amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from these estimates.

REAL ESTATE INVESTMENTS

Real estate investments, consisting entirely of properties leased to operators of retail food stores, are recorded at cost and include land, land improvements, and buildings. For financial reporting purposes, depreciation is computed by the straight-line method using a 40-year life for buildings and a 20-year life for land improvements. For income tax purposes, depreciation is computed by the straight-line method using lives of 31.5-40 years for buildings and 15-20 years for land improvements.

CASH AND CASH EQUIVALENTS

The company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

INCOME TAXES

The company has qualified, and intends to continue to qualify, as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code and, to the extent available, the applicable state statutes. Under such provisions, the company is not subject to federal income tax on amounts distributed to stockholders, provided at least 95% of its real estate investment trust taxable income is distributed. As the company intends to distribute all of its income currently, no federal income tax provision was made.

State income taxes are incurred in some of the states in which the company owns property. This expense is included with administrative and general expense.

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1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

NET INCOME PER COMMON SHARE

Net income per common share is based upon the weighted average number of common and common equivalent shares outstanding during each year. Common stock equivalents represent stock options assumed to be exercised. Common stock equivalents were not considered if they had an anti-dilutive effect on net income per common share.

DIRECTORS' STOCK OPTION PLAN

In April 1993, the company adopted a stock option plan for directors which provides for the grant of an option to purchase 2,500 shares of common stock to a director upon appointment or election, and upon each re-election. The purchase price of the stock will be the fair market value at the time the option is granted. The options cannot be exercised for the first year after the option is granted and expires ten years from the date of the grant. The company reserved 75,000 shares of common stock for issuance pursuant to the plan.

The company accounts for stock options issued to directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because of their liquidity.

Marketable securities - The fair value is based on quoted market prices.

Mortgage notes payable - The carrying value approximates fair value.

2. MARKETABLE SECURITIES

The company owns U.S. Treasury Bills which are accounted for as held-to-maturity securities. The held-to-maturity securities are due in one year or less and amortized cost approximates market value.

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Royale Investments, Inc.
NOTES TO FINANCIAL STATEMENTS
Three Months Ended March 31, 1997 and 1996
(Unaudited)

3. OTHER ASSETS

Other assets consists of the following as of March 31:

	1997	1996
	----	----
Accrued rental income	\$200,453	\$133,898
Loan costs (net of accumulated amortization: 1997 - \$37,206, and 1996 - \$24,551)	182,262	194,917
Other	19,551	8,321
	-----	-----
	\$402,266	\$337,136
	-----	-----
	-----	-----

Loan costs include application fees, lender fees, and legal costs paid to acquire mortgage loans and are amortized over the terms of the loans.

4. LEASES

The company leases its properties to operators of seven major retail food stores under long-term operating lease agreements. The leases are accounted for under the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases." The leases have initial terms of 17 to 20 years (expiring between 2006 and 2014) and provide for minimum and contingent rentals. In addition, the tenant is generally required to pay all property taxes, insurance, and maintenance costs. The leases have renewal options for 4 to 8 successive five-year periods, subject to substantially the same terms and conditions as the initial lease. Five of the leases are guaranteed by the lessee's parent company or franchisor.

The guaranteed leases provide for escalating minimum rent to begin in subsequent years. Income from these scheduled rent increases is recognized on a straight-line basis over the term of each lease. The amount earned in excess of the amount received is included in accrued rental income.

Approximate future minimum rentals on these leases are as follows:

For the Years Ending December 31: -----	Amount -----
1997	\$ 2,441,000
1998	2,441,000
1999	2,462,000
2000	2,480,000
2001	2,488,000
thereafter	25,127,000

	\$37,439,000

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Royale Investments, Inc.
NOTES TO FINANCIAL STATEMENTS
Three Months Ended March 31, 1997 and 1996
(Unaudited)

5. MORTGAGE NOTES PAYABLE

Mortgage notes payable as of March 31, are as follows:

	March 31, 1997	1996 -----
Mortgage note collateralized by land, buildings, and assignments of rents in Indianapolis, Indiana and Plymouth, Minnesota, interest rate of 9.5%, monthly payments of principal and interest of \$40,890 through May 2002, and final payment of \$4,433,758 due June 2002.	\$ 4,695,208	\$ 4,737,632
Mortgage note collateralized by land, a building, and an assignment of rents in Peru, Illinois, interest rate at 8%, monthly payments of principal and interest of \$21,489 through December 1998, \$22,212 from January 1999 through December 2003, \$22,886 from January 2004 through December 2008, \$23,537 from January 2009 through October 2013, and a final payment of \$5,585 due November 2013.	2,470,453	2,532,759
Mortgage note collateralized by land, a building, and an assignment of rents in Minot, North Dakota, interest rate of 8%, monthly payments of principal and interest of \$23,111 through February 1999, \$23,888 from March 1999 through February 2004, \$24,614 from March 2004 through February 2009, \$25,313 from March 2009 through December 2013, and a final payment of \$26,126 due January 2014.	2,671,752	2,737,531
Mortgage note collateralized by land, a building, and an assignment of rents in Glendale, Wisconsin, interest rate of 7.75%,		

monthly payments of principal and interest of \$10,602 through April 2011, and a final payment of approximately \$11,125 due April 2011.

1,088,710 1,129,814

Mortgage note collateralized by land, a building, and an assignment of rents in Oconomowoc, Wisconsin, interest rate of 7.625%, monthly payments of principal and interest of \$12,750 through June 1999, \$13,500 from July 1999 through June 2004, \$17,700 from July 2004 through June 2009, and \$18,750 from July 2009 through June 2014.

1,751,981 1,770,614

Subtotal

12,678,104 12,908,350

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Royale Investments, Inc.
NOTES TO FINANCIAL STATEMENTS
Three Months Ended March 31, 1997 and 1996
(Unaudited)

5. MORTGAGE NOTES PAYABLE (CONTINUED)

	1997	1996
	----	----
Balance forward	12,678,104	12,908,350

Mortgage note collateralized by land, a building, and an assignment of rents in Delafield, Wisconsin, interest rate of 8.125%, monthly payments of principal and interest of \$16,885 through November 2004, and a final payment of \$1,401,001 due December 2004. In December 1999, the holder has the option to adjust the interest rate to 1.80% over the then current five-year U.S. Treasury yield. Monthly payments will be adjusted accordingly.

1,901,325 1,947,406

\$14,579,429 \$14,855,756

Approximate future maturities of mortgage notes are as follows:

For the Years Ending December 31:	Amount
-----	-----
1997	\$ 283,000
1998	307,000
1999	355,000
2000	391,000
2001	425,000
thereafter	12,897,250

	\$14,658,250

6. MAJOR TENANTS

All of the company's rental revenue is derived from four major tenants, each of which contributed at least 20% of the total revenues for each of the periods presented in the statements of income.

7. DIVIDENDS

On March 31, 1997, the board of directors declared a cash dividend of \$.125 per common share payable on April 14, 1997, to stockholders of record on March 31, 1997.

Royale Investments, Inc.
 NOTES TO FINANCIAL STATEMENTS
 Three Months Ended March 31, 1997 and 1996
 (Unaudited)

8. RELATED-PARTY TRANSACTIONS

Pursuant to an advisory agreement, Crown Advisors, Inc., an affiliate of the company, acts as investment advisor to the company and assists in the management of the day-to-day operations. Under this agreement, the company pays the advisor an annual fee of up to 1% of "invested real estate assets", as defined in the agreement. The advisor is also entitled to a performance fee, also as defined in the agreement. No performance fee has been incurred under this agreement.

In addition, the company must pay a 3% commission for each real estate acquisition and disposition. Upon termination of the agreement, the company must pay a fee equal to 3% of the invested real estate assets plus 25% of the increase in the value of invested real estate assets from the date of acquisition to the date of termination.

Fees and commissions incurred were as follows for the three months ended March 31:

	1997	1996
	----	----
Advisory fee	\$62,568	\$62,568
Commissions	-	-
	-----	-----
	\$62,568	\$62,568
	-----	-----
	-----	-----

An officer and director of the company is a partner in a law firm which received fees from the company relating to legal services totaling \$1,315 for the three months ended March 31, 1997.

9. GUARANTY FEES

The company obtained a lease guaranty from the seller of the Plymouth and Indianapolis properties, for up to the lesser of \$3.5 million or the aggregate amount of the remaining lease obligations. The guaranty will expire in 2002. In consideration of the guaranty, the company agreed to pay to the seller an annual fee of 1% of the value of the guaranty.

In 1996, the Indianapolis tenant sold their operation to a new tenant, with the approval of the company. As an inducement to allow this lease transfer, the new tenant agreed to reimburse the company one-half of this fee. The amount receivable is included in other assets.

10. FUNDS FROM OPERATIONS

Funds from operations for the three months ended March 31, 1997, and 1996, were \$232,445 (\$.16 per share), and \$202,823 (\$.14 per share), respectively.

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ROYALE INVESTMENTS, INC.
 ITEM 2. MANagements DISCUSSION AND ANALYSIS OF FINANCIAL
 CONDITION AND RESULTS OF OPERATION

RESULTS OF OPERATIONS

During the three month periods ended March 31, 1997 and 1996, the Company owned and leased seven properties in five states to operators of retail food stores.

Revenues for the first quarter ended March 31, 1997, increased slightly over the comparable period of 1996 due to scheduled increases in rent income, which was partially offset by decreases in interest income.

Expenses during the quarter were reduced 3.1% compared with the comparable period of 1996. Mortgage interest, operations and management and administrative and general expenses decreased in 1997, and are the primary reasons for the increase in net income.

Net income increased to \$90,674 for the first quarter of 1997, versus \$61,052 for the first quarter of 1996, a 49% increase and within management's expectations.

The Company considers Funds from operations ("FFO") along with net income and cash flows as a measure of the Company's operating performance and liquidity. FFO is essentially net income computed in accordance with generally accepted accounting principles, but excluding depreciation expense and gains (or losses) from sales of property. For the first quarter of 1997, FFO increased 14.6% to \$232,445 from \$202,823 in first quarter of 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company's properties are all leased on a triple-net basis, which places the risk of rising property costs, such as maintenance, insurance and property taxes, on the tenant. The leases generally provide that the tenant is also responsible for roof and structural repairs. Hence, the Company's only demand for funds has been for the payment of management and administrative expenses, dividends and mortgage payments. Property acquisitions have been funded by equity offerings and mortgage borrowing's.

Net cash provided by operating activities totaled \$222,677 and \$263,229 for the three months ended March 31, 1997 and 1996, respectively. The decrease was primarily the result of changes in operating assets and liabilities arising from timing differences in receipts and disbursements from year to year. The Company considers its liquidity to be sufficient to meet its operating and distribution requirements for the remainder of 1997.

The Company invests in short-term treasury securities from time to time, and net cash provided by investing activities reflects those transactions.

Net cash used in financing activities totaled \$256,321 and \$237,387 for the three months ended March 31, 1997 and 1996, respectively, including dividends paid to shareholders. This increase is due primarily to the increase in mortgage amortization.

The Company declared a dividend of \$177,500, or \$.125 per share, on March 21, 1997, payable to shareholders of record on March 31, 1997. The dividend was paid on April 14, 1997.

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PART II

OTHER INFORMATION

ITEM 1 - 5. NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits filed with Form 10-QSB
None

b) No reports filed on Form 8-K for the quarter ended March 31, 1997.

SIGNATURES

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

Dated: May 7, 1997

ROYALE INVESTMENTS, INC.

By: _____
Vernon R. Beck
Chief Executive Officer

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