INERGY L P
Form 424B3
September 07, 2010
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-158066

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying base prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated September 7, 2010

PROSPECTUS SUPPLEMENT

(To Prospectus Dated September 10, 2009)

8,500,000 Common Units

Representing Limited Partner Interests

We are selling 8,500,000 common units representing limited partner interests in Inergy, L.P. Our common units trade on the New York Stock Exchange under the symbol NRGY. The last reported sales price of our common units on the New York Stock Exchange on September 3, 2010 was $37.91 per common unit.

Investing in our common units involves risks. Please read <u>Risk Factors</u> beginning on page S-14 of this prospectus supplement and on page 5 of the accompanying prospectus.

	Per Common Unit	Total
Price to the public	$	$
Underwriting discounts and commissions	$	$
Proceeds to Inergy, L.P. (before expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 1,275,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 8,500,000 common units in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units on or about September , 2010.

Joint Book-Running Managers

Barclays Capital

Citi

J.P. Morgan

Morgan Stanley

Wells Fargo Securities

Senior Co-Managers

BofA Merrill Lynch **Credit Suisse** **Raymond James** **UBS Investment Bank**

Junior Co-Managers

Morgan Keegan & Company, Inc. **Stifel Nicolaus Weisel** **Wunderlich Securities**

Prospectus Supplement dated September , 2010

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This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering of common units. The second part is the accompanying base prospectus, some of which may not apply to this common unit offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. If the information about the offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Please read Incorporation of Documents by Reference on page S-36 of this prospectus supplement.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying base prospectus and any free writing prospectus prepared by or on behalf of us relating to this offering of common units. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the common units, and seeking offers to buy the common units, only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus supplement, the accompanying base prospectus or any free writing prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference herein is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

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Prospectus Supplement

Prospectus

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated herein by reference and the other documents to which we refer for a more complete understanding of this offering of common units. Please read the sections entitled Risk Factors on page S-14 of this prospectus supplement and page 5 of the accompanying prospectus for more information about important factors that you should consider before buying our common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units. Throughout this prospectus supplement, when we use the terms we, us, our, or Inergy, L.P., we are referring to Inergy, L.P. or to Inergy, L.P. and its subsidiaries collectively as the context requires.

Inergy, L.P.

Overview

We are a publicly traded Delaware limited partnership that owns and operates a geographically diverse retail and wholesale propane supply, marketing and distribution business. In addition to our propane operations, we also own and operate a growing midstream business that includes three natural gas storage facilities (Stagecoach, Thomas Corners and Steuben), a liquefied petroleum gas (LPG) storage facility located near Bath, New York, a natural gas liquids (NGL) business located near Bakersfield, California and a solution-mining and salt production company (US Salt).

We believe we are the fourth largest propane retailer in the United States based on retail propane gallons sold. Our propane business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products under various regional brand names. As of September 1, 2010, we serve approximately 800,000 retail customers in 32 states from approximately 350 customer service centers, which have an aggregate of approximately 36.3 million gallons of above-ground propane storage. For the fiscal year ended September 30, 2009, we sold and physically delivered approximately 310.0 million gallons of propane to our retail customers and approximately 380.6 million gallons of propane to our wholesale customers.

We have primarily grown through acquisitions of retail propane operations, midstream operations and, to a lesser extent, through organic expansion projects. Since our predecessor s inception in November 1996 through September 3, 2010, we have acquired 86 businesses, including three natural gas storage facilities, an LPG salt cavern storage facility, a primarily fee-based natural gas processing and liquids business and a solution-mining and salt production company.

On January 11, 2010, Inergy Midstream, LLC executed a definitive agreement to purchase the Seneca Lake natural gas storage facility (Seneca Lake) located in Schuyler County, New York, and two related pipelines, which we refer to as the Seneca Lake Acquisition. Seneca Lake is an approximate 2.0 Bcf underground salt cavern storage facility located on our US Salt property outside Watkins Glen, New York, and has a maximum withdrawal capability of 145 MMcf/day and maximum injection capability of 72.5 MMcf/day. Seneca Lake is connected to the Dominion Transmission System via the 16-inch, 20-mile Seneca West Pipeline and indirectly to the city gate of Binghamton, New York, via the 12-inch, 37.5-mile Seneca East Pipeline, which runs within approximately four miles of our Stagecoach North Lateral interconnect with the Millennium Pipeline. This transaction is subject to customary closing conditions and regulatory approvals and is expected to close in September 2010.

On September 3, 2010, our wholly owned subsidiary, Inergy Midstream, LLC, entered into a Purchase and Sale Agreement with TP Gas Holding LLC whereby Inergy Midstream, LLC will acquire all of the equity interests in Tres Palacios Gas Storage LLC (Tres Palacios) for $725 million in cash plus reimbursement of certain capital expenditures, subject to customary net working capital adjustments, which we refer to as the Tres Palacios Acquisition. Tres Palacios is the owner and operator of a salt dome gas storage facility located in Matagorda County, Texas, and related pipeline assets. The acquisition is subject to antitrust clearance and customary closing conditions. For more information on the Tres Palacios Acquisition, please read Recent Developments Tres Palacios Acquisition and Concurrent Financings.

Our business is currently comprised of two reportable segments consisting of our propane and midstream operations.

***Propane Operations*.** We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available. We make customer deliveries to residential, industrial and commercial and agricultural customers. From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. Approximately 90% of our retail propane customers lease their tanks from us.

In addition to our retail propane business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other NGL marketing and distribution companies in 40 states, primarily in the Midwest, Northeast and South.

***Midstream Operations*.** We own and operate a midstream business, which includes the following assets:

Stagecoach Facility, a high performance, multi-cycle natural gas storage facility located approximately 150 miles northwest of New York City, with approximately 26.25 Bcf of working gas capacity, a maximum withdrawal capability of 500 MMcf/d and a maximum injection capability of 250 MMcf/d. The Stagecoach Facility, which is regulated by the Federal Energy Regulatory Commission (FERC), is fee-based with a market-based rate structure and is currently 100% committed primarily with investment-grade rated companies under term contracts that have a weighted average maturity extending to 2014. The Stagecoach Facility is one of the closest natural gas storage facilities to the northeastern United States market and is a significant participant in the northeast United States natural gas distribution system. We also own a 24-mile pipeline that connects the Stagecoach Facility to Tennessee Gas Pipeline Company s 300-Line. In addition, we own a 10-mile pipeline that connects the Stagecoach Facility to the Millennium Pipeline. The pipeline interconnect to the Millennium Pipeline enhances and further diversifies our supply sources and provide interruptible wheeling opportunities to our shipper community.

Steuben Gas Storage Company, which owns a FERC-regulated 6.2 Bcf natural gas storage facility in Steuben County, New York. The storage capacity at Steuben is fully contracted with investment-grade rated customers. Steuben Gas Storage is connected to Dominion Gas Transmission s Woodhull Pipeline.

Thomas Corners, a 7 Bcf (working) natural gas storage facility located in Steuben County, New York, which was placed into service in November 2009. The storage capacity at Thomas Corners is fully contracted under long-term agreements with primarily investment-grade rated customers. This facility has maximum withdrawal and injection capabilities of 140 MMcf/day and 70 MMcf/day, respectively. Thomas Corners is connected with the Tennessee Gas Pipeline Company s Line 400 and Columbia Gas Transmission s A-5 line (which was acquired by Millennium Pipeline Company and as such, the Thomas Corners facility is also connected with the Millennium Pipeline).

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An NGL business in Bakersfield, California, acquired in 2003, which includes a 25 MMcf/d natural gas processing plant, a 12,000 bpd NGL fractionation plant, an 8,000 bpd butane isomerization plant, NGL rail and truck terminals, a 24 million gallon NGL storage facility and NGL transportation/marketing operations.

Finger Lakes LPG Storage Facility, a 1.7 million barrel salt cavern LPG storage facility, acquired in October 2006, located near Bath, New York, approximately 210 miles northwest of New York City and 60 miles from the Stagecoach Facility. The Finger Lakes LPG Storage Facility is supported by both rail and truck terminal facilities capable of loading and unloading 20-23 rail cars per day and 17 truck transports per day.

US Salt, an industry-leading solution mining and salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities. US Salt produces and sells over 300,000 tons of salt each year. The solution mining process used by US Salt creates salt caverns that can be developed into usable natural gas or LPG storage capacity.

Recent Developments

Tres Palacios Acquisition and Concurrent Financings

On September 3, 2010, our wholly owned subsidiary, Inergy Midstream, LLC, entered into a Purchase and Sale Agreement with TP Gas Holding LLC whereby Inergy Midstream, LLC will acquire all of the equity interests in Tres Palacios Gas Storage LLC for $725 million in cash plus reimbursement of certain capital expenditures, subject to customary net working capital adjustments.

Located in Matagorda County, Texas, Tres Palacios is a high deliverability, salt dome natural gas storage facility with approximately 38.4 Bcf of working gas capacity, consisting of approximately 27.1 Bcf of current working gas capacity (Caverns 1 and 2) and approximately 11.4 Bcf of incremental working gas capacity scheduled to be placed in service in the fourth calendar quarter of 2010 (Cavern 3). The facility is expandable by an additional approximately 9.5 Bcf of working gas capacity which Inergy expects to place in service by or before 2014 (Cavern 4). Located approximately 100 miles southwest of Houston, Tres Palacios is currently connected to ten intrastate and interstate pipelines via a 40 mile, 24 dual-pipe, looped header system offering connectivity to multiple demand markets including the Houston and San Antonio metropolitan areas and the broader Texas markets as well as markets in the Northeast, Midwest, Southeast, and Mid-Atlantic United States, and Mexico. Tres Palacios offers customers greater than six-turn gas storage capability with maximum withdrawal capacity of 2.5 Bcf/day and maximum injection capacity of 1 Bcf/day.

Tres Palacios revenues are primarily derived from fees for the provision of firm storage services for which it is permitted to charge market-based rates under its tariff with the Federal Energy Regulatory Commission, or FERC. The remainder of Tres Palacios revenue is generated by hub services, such as park and loan services and wheeling services. In a park and loan transaction, Tres Palacios charges its customer a fee to store gas with pre-determined injection and withdrawal dates (park) or to borrow gas with pre-determined withdrawal and injection dates (loan). In a wheeling transaction, Tres Palacios charges a fee to move a customer s gas from one pipeline to another across its header system. In its hub services operations, Tres Palacios does not take title to the natural gas or engage in trading of natural gas.

We believe Tres Palacios has the following competitive advantages:

Strategic Location Tres Palacios is strategically located with access to the high-growth Northeast, Midwest, Southeast and Mexico markets through 10 interstate and intrastate pipeline connections. The storage facility is also well-positioned from a supply standpoint accessing both conventional and unconventional producing fields, including the Barnett Shale and Eagle Ford Shale in Texas.

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Furthermore, Tres Palacios provides its customers with critical services in balancing the intermittent loads associated with gas-fired power generation.

Growth Opportunities There are significant growth opportunities resulting from Tres Palacios exclusive rights to development on the Markham salt dome.

Fee-based cash flow profile Approximately 90% of Tres Palacios revenues are derived from fee-based contracts.

Strong, Diverse Customer Base Tres Palacios contracts its storage services with a diverse customer base including producers, local distribution companies, marketers and independent power producers. Tres Palacios volume-weighted average firm storage service contract tenor is approximately 2.7 years and is predominantly contracted with investment-grade rated counterparties.

The acquisition is subject to antitrust clearance and customary closing conditions. There can be no assurance that all of the conditions to closing in the Purchase and Sale Agreement will be met.

The obligation of Inergy Midstream, LLC to consummate the Tres Palacios Acquisition is not conditioned on the receipt of financing. In connection with the proposed transaction, on September 3, 2010, we obtained a commitment letter (the Bridge Commitment) with WF Investment Holdings, LLC, Wells Fargo Securities, LLC, Barclays Capital Inc., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC for a senior unsecured bridge facility of up to $700 million (the Bridge Facility), which will expire upon the earlier of November 26, 2010 or the consummation or termination of the Purchase and Sale Agreement. Additionally, on September 3, 2010, we obtained a commitment letter with Wells Fargo Bank, National Association and Well Fargo Securities, LLC (collectively, Wells Fargo) in which Wells Fargo agreed to provide an additional commitment under our revolving general partnership credit facility to purchase commitments from our existing lenders in an amount sufficient to ensure that we have the required lender vote to approve certain amendments to our revolving general partnership credit facility necessary for the Tres Palacios Acquisition and the Bridge Facility (the Backstop Commitment).

In the event that we complete this offering prior to the consummation of the Tres Palacios Acquisition, the commitment under our bridge facility will be concurrently and permanently reduced on a dollar-for-dollar basis in an amount equal to the net proceeds from the offering.

We intend to finance the Tres Palacios Acquisition and related fees and expenses, as well as any funds required to satisfy working capital adjustments associated with the Tres Palacios Acquisition, with the proceeds of this offering, through borrowings under our revolving general partnership facility and the Bridge Facility. We may access the capital markets to repay amounts borrowed under our revolving general partnership facility or the Bridge Facility.

As discussed below in greater detail in Agreement and Plan of Merger, we and Inergy Holdings, L.P. (Holdings) have entered into a merger agreement as part of a plan to simplify our capital structures. Although we fully expect to consummate the transactions contemplated by the merger agreement in the fourth calendar quarter of 2010, the merger agreement is subject to closing conditions and termination rights. Accordingly, there can be no assurance that such transactions will be consummated. In the event the transactions contemplated by the merger agreement do not close for any reason, in order to enhance our distribution coverage ratio in connection with the Tres Palacios Acquisition, Holdings has agreed to a permanent $7.5 million annual reduction (ratable over each quarterly distribution payment) in the amount of distributions we pay with respect to the incentive distribution rights to Holdings (the IDR Reduction). The IDR Reduction would only become effective beginning with the payment of the first quarterly distribution following the termination of the merger agreement.

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You should carefully review the audited financial statements for Tres Palacios and the pro forma condensed combined financial information included in our Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on September 7, 2010, which is incorporated by reference into this prospectus supplement.

The closing of this common unit offering is not contingent upon the closing of the Tres Palacios Acquisition. Accordingly, if you decide to purchase common units from us, you should be willing to do so whether or not we complete the Tres Palacios Acquisition.

Agreement and Plan of Merger

On August 9, 2010, we entered into an agreement and plan of merger, which was amended and restated on September 3, 2010 (the merger agreement), as part of a plan to simplify our capital structure. Through a number of steps, Holdings will merge into a wholly owned subsidiary of its general partner and the outstanding common units in Holdings will be cancelled. In connection with the merger, our incentive distribution rights, all of which are held by Holdings, will be cancelled, and we will acquire the approximate 0.7% economic general partner interest in us (0.6% economic general partner interest in us after giving effect to this offering) that is held by our non-managing general partner.

Upon completion of the merger, the holders of Holdings common units (the Holdings unitholders) will receive 0.77 Inergy common units for each Holdings common unit that they own (the exchange ratio). The exchange ratio takes into account 1,080,453 Inergy common units that are owned by Holdings that will be distributed to the Holdings unitholders as part of the merger consideration. The exchange ratio is fixed and will not be adjusted to reflect changes in the prices of Inergy common units or Holdings common units prior to the closing of the merger. Holders of Inergy common units will continue to own their existing Inergy common units. Inergy will issue approximately 35.1 million new common units in the merger. Inergy will also issue 11,568,560 Class B Units to certain members of senior management and directors of Holdings general partner and other beneficial owners of Holdings common units in lieu of issuing them an equivalent number of common units. The Class B Units will not receive cash distributions but instead will receive distributions of additional Class B Units. The Class B units will convert automatically into Inergy common units on a one-for-one basis in two tranches over a two-year period.

In the merger, we have also agreed to assume the outstanding indebtedness under Holdings credit agreements, which at September 3, 2010 was approximately $26.0 million.

The boards of directors of Inergy and Holdings believe that the merger will provide the following benefits, among others, to their unitholders:

- reducing Inergy s cost of equity capital as a result of the elimination of the incentive distribution rights, which will enhance Inergy s ability to compete for future acquisitions and finance organic growth projects;
- attracting a broader investor base to a single, larger entity with increased public float and greater liquidity;
- preserving Inergy s balance sheet flexibility and liquidity position through an equity exchange transaction; and
- increasing investor transparency by simplifying the ownership structure and governance structure.

Based on the estimated number of Inergy common units that will be outstanding immediately prior to the closing of the merger, we estimate that, following consummation of the merger and giving effect to this offering, Inergy will be owned approximately 59.4% by current Inergy unitholders and approximately 40.6% by former

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Holdings unitholders. Holdings common units will cease to be publicly traded upon consummation of the merger. Inergy common units will continue to be traded on the NYSE under the symbol NRGY following consummation of the merger.

We expect that the transaction will close in the fourth quarter of 2010. The merger agreement is subject to customary closing conditions, including, among other things, approval by the affirmative vote of the holders of a majority of Holdings common units, and therefore there can be no assurance that the merger transaction will be completed. Subject to certain conditions, the holders of a majority of the Holdings common units have agreed to vote in favor of the approval and adoption of the merger agreement. For a description of certain risks related to the merger transaction, please read Risk Factors beginning on page S-14.

After the merger, Holdings will continue to own 100% of Inergy GP and have the right to appoint the members of the board of directors of Inergy GP. For additional details about the merger agreement, please see our Current Reports on Form 8-K as filed with the SEC on August 9, 2010 and September 7, 2010.

Repayment of ASC Agreement

We acquired a controlling interest in Steuben when we acquired 100% of the membership interests of Arlington Storage Company, LLC in October 2007. Steuben had a debt agreement in place at the time of our acquisition. In July 2010, we acquired the remaining minority interests in Steuben and in July 2010, we repaid all remaining amounts outstanding under this debt agreement.

Business Strategy

Our primary objective is to increase distributable cash flow for our unitholders, while maintaining the highest level of commitment and service to our customers. We have engaged and will continue to engage in objectives of further growth through acquisitions both in our propane and midstream operations, internally generated expansion, and measures aimed at increasing the profitability of existing operations.

Consistent with our acquisition strategy, we are currently and continuously engaged in discussions with potential sellers regarding the possible purchase of retail propane, natural gas storage or other midstream assets, companies or businesses. We cannot predict the likelihood of completing or the timing of any such acquisitions. These acquisition opportunities consist of both smaller acquisitions as well as larger acquisitions that would have a material impact on our capital structure and operating results. Consistent with our financial strategy to date, we generally anticipate financing our acquisition activity through approximately equal portions of equity and debt. In certain cases, acquisitions will initially be financed using debt (including, potentially, secured debt), with proceeds from subsequent equity issuances used to reduce our debt balances to levels consistent with our targeted credit profile.

Competitive and Business Strengths

We intend to pursue our objectives by capitalizing on our competitive and business strengths as follows:

Competitive Strengths

Proven acquisition expertise. Since our predecessor s inception and through September 3, 2010, we have acquired and successfully integrated 86 businesses. Our executive officers and key employees, who together average more than 15 years experience in the propane and midstream energy-related industries, have developed business relationships with retail propane owners and businesses as well as other midstream industry participants throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe that this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions. Our acquisition program will continue to seek:

- businesses that generate distributable cash flow that is accretive to common unitholders on a per unit basis;
- propane and midstream businesses in attractive market areas;
- propane businesses with established names with reputations for customer service and reliability;
- propane businesses with high concentrations of propane sales to residential customers;
- midstream businesses that generate predictable, stable fee-based cash flow streams;
- midstream businesses with organic growth opportunities or strategic regional enhancement; and
- retention of key employees in acquired businesses.

Management experience. Our senior management team has extensive experience in the propane and midstream energy industry. Our management team has a proven track record of enhancing the value of our partnership, through the acquisition, integration and optimization of the businesses we own and operate.

Flexible financial structure. We have a $450 million revolving general partnership credit facility for acquisitions and a $75 million revolving working capital facility. Our $450 million revolving general partnership credit facility contains an accordion option feature which allows us to expand the facility by an additional $100 million subject to additional commitments. We believe our available capacity under these facilities combined with our ability to fund acquisitions and organic expansion projects through the issuance of additional partnership interests or additional debt will provide us with a flexible financial structure that will facilitate our acquisition and organic expansion effort.

Propane Business Strengths

- *High percentage of retail sales to residential customers*. Our retail propane operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2009, sales to residential customers represented approximately 70% of our retail propane gallons sold. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because most residential customers consider home space heating to be an essential purchase. In addition, we own nearly 90% of the propane tanks located at our customers homes. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience and costs involved with switching tanks and suppliers.
- *Regionally branded operating structure*. We believe that our success in maintaining customer stability and our low cost operating structure at our customer service centers results from our decentralized operation under established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention. We expect our local branch management to continue to manage the marketing programs, new business development, customer service and customer billing and

collections. We believe that our employee incentive programs encourage efficiency and allow us to control costs at the corporate and field levels.

Operations in attractive propane markets. A majority of our propane operations are concentrated in attractive propane market areas, where natural gas distribution is not cost-effective, margins are relatively stable and tank control is relatively high. We intend to pursue acquisitions in similar attractive markets.

Comprehensive propane logistics and distribution business. One of our distinguishing strengths is our propane procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2009, we delivered approximately 380.6 million gallons of propane on a wholesale basis to our various customers. These operations are significantly larger on a relative basis than the wholesale operations of most publicly-traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles, and price risk management services to our customers through a variety of financial and other instruments. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. We believe that we will have an adequate supply of propane to support our growing retail operations at prices that are generally available only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

Midstream Business Strengths

Strategically located assets. Our assets are situated close to or within demand based market areas, which positions us well to leverage the services we offer to our customers relative to our competitors. We own and operate natural gas storage operations approximately 200 miles northwest of New York City. These assets are among the closest natural gas storage facilities to the New York City market and have the capability of delivering gas to this market as well as other Northeast and Mid-Atlantic market centers. We also own and operate US Salt, a salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities, which we believe may add additional gas storage capacity to our operations in the Northeast. We also own and operate an NGL operation near Bakersfield, California, strategically situated between the major refining centers of Los Angeles and San Francisco. We believe there are opportunities to further leverage our geographic location, expand our current asset base and to enhance the platform of services we offer to our customers that will further enhance the value and profitability of these assets.

Ability to leverage industry relationships. Our management team has extensive industry relationships and they have been successful in leveraging these relationships with both new and existing customers of our midstream operations into profitable opportunities to further grow our operations.

Stable cash flows. Our midstream operations consist predominantly of fee-based services that generate stable cash flows. Our Stagecoach operations are 100% fee-based with a weighted average contract maturity which extends to 2014. Our Steuben, Thomas Corners and Finger Lakes operations are also 100% fee-based with contracted maturities extending out several years. These contracts are predominantly with investment-grade rated customers such as large east coast utilities and major gas marketing firms. In addition, our West Coast NGL operations include fee-based services and have relatively little exposure to fluctuations in commodity prices. We believe that this further adds to our stable cash flow and enhances our access to the capital markets.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned or controlled by, our subsidiaries. We own our interests in our subsidiaries through our 100% ownership interest in our operating companies, Inergy Propane, LLC and Inergy Midstream, LLC. Inergy GP, LLC, our managing general partner, has sole responsibility for conducting our business and managing our operations. Our managing general partner has no economic interest in our partnership and does not receive a management fee, but it is reimbursed for expenses

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incurred on our behalf. Inergy Partners, LLC, our non-managing general partner, has only an economic interest in us and has no operational or managerial responsibilities under our partnership agreement. Holdings is the sole member of our managing general partner and directly and indirectly owns all of the member interests in our non-managing general partner, and Holdings owns all of our incentive distribution rights and, through subsidiaries, approximately 7.1% of our outstanding common units.

The charts on the following pages depict our abridged organizational and ownership structure (i) after giving effect to this offering, assuming no exercise of the underwriters option to purchase additional common units, and (ii) after giving effect to both this offering, assuming no exercise of the underwriters option to purchase additional common units, and the merger and related transactions described above in Recent Developments Agreement and Plan of Merger.

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Ownership of Inergy, L.P. After the Offering

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Ownership of Inergy, L.P. After the Merger and the Offering

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The Offering

Common units offered by Inergy, L.P.	8,500,000 common units; 9,775,000 common units if the underwriters exercise in full their option to purchase additional common units.
Common units outstanding after this offering	74,389,264 common units if the underwriters do not exercise their option to purchase an additional 1,275,000 common units and 75,664,264 common units if the underwriters exercise in full their option to purchase an additional 1,275,000 common units.
Use of proceeds	We will use the net proceeds from this offering (and the net proceeds from any exercise of the underwriters option to purchase additional common units) to repay borrowings under the revolving general partnership and working capital facilities and to fund a portion of the purchase price of our pending acquisitions. Please read Use of Proceeds.

Affiliates of Barclays Capital Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. Incorporated, Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, UBS Securities LLC and Raymond James & Associates, Inc. are lenders under the revolving general partnership and working capital facilities and will receive a substantial portion of the proceeds from this offering through the repayment of indebtedness under the revolving general partnership and working capital facilities. Please read Underwriting.

Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner in its discretion. We refer to this cash as available cash, and we define its meaning in our partnership agreement.

On August 13, 2010, we paid a quarterly cash distribution for the quarter ended June 30, 2010 of $0.705 per common unit, or $2.82 per common unit on an annualized basis. If cash distributions exceed $0.33 per unit in any quarter, Holdings, the sole member of our managing general partner, will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to Holdings right to receive these higher amounts of cash as incentive distribution rights. Because our quarterly cash distributions currently exceed $0.33 per unit, Holdings is currently receiving its incentive distribution rights. In connection with the merger and related transactions described above in Recent Developments Agreement and Plan of Merger, the incentive distribution rights will be cancelled in exchange for the issuance of additional common units.

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Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for the distribution for the fourth calendar quarter of 2013 (the Projection Period), you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed to you with respect to that period. If the merger and related transactions are completed, we expect that the amount of taxable income allocated to you will remain less than 20% of the cash distributed to you for the entire Projection Period; however, the ratio of taxable income to cash distributions with respect to the 2010 tax year may be substantially higher. Please read Tax Consequences in this prospectus supplement for the basis of this estimate.
Exchange listing	Our common units trade on the New York Stock Exchange under the symbol NRGY.

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RISK FACTORS

An investment in our common units involves risk. You should carefully read the following risk factors, together with the risk factors included under the caption Risk Factors beginning on page 5 of the accompanying prospectus, as well as the risk factors included in Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended September 30, 2009 and in Item 8.01 Other Events in our current report on Form 8-K filed on September 7, 2010, together with all of the other information included or incorporated by reference in this prospectus supplement. If any of these risks were to occur, our business, financial condition, results of operations or prospects could be materially adversely affected. In such case, the trading price of our common units could decline, and you could lose all or part of your investment.

The Tres Palacios Acquisition may not be consummated.

The Tres Palacios Acquisition is expected to close in October 2010 and is subject to customary closing conditions and regulatory approvals. If these conditions and regulatory approvals are not satisfied or waived, the acquisition will not be consummated. Certain of the conditions remaining to be satisfied include:

- antitrust clearance;
- the continued accuracy of the representations and warranties contained in the purchase and sale agreement;
- the performance by each party of its obligations under the purchase and sale agreement;
- the absence of any temporary restraining order, preliminary injunction, injunction or other order from any governmental authority to materially delay or otherwise enjoin the transactions contemplated in the purchase agreement; and
- the receipt of legal opinions for each of us and TP Gas Holding LLC.

In addition, TP Gas Holding LLC may terminate the transaction if the acquisition has not closed on or before November 15, 2010. The Bridge Commitment expires upon the earlier of November 26, 2010 or the consummation or termination of the Purchase and Sale Agreement.

The closing of this common unit offering is not contingent upon the consummation of the Tres Palacios Acquisition. Accordingly, if you decide to purchase common units from us, you should be willing to do so whether or not we complete the Tres Palacios Acquisition.

We may not be able to achieve our current expansion plans at the Tres Palacios facility on economically viable terms.

Our current expansion plans include the addition of 11.4 Bcf of incremental working gas capacity scheduled to be placed in service in the fourth calendar quarter of 2010 (Cavern 3), and an additional 9.5 Bcf of working gas capacity expected to be placed in service by or before 2014 (Cavern 4). In connection with these expansion efforts, we may encounter difficulties in the drilling required to access subsurface storage caverns, the drilling of raw water wells or salt water disposal wells and the completion of the wells. These risks include the following:

- unexpected operational events;
- adverse weather conditions;

facility or equipment malfunctions or breakdowns;

unusual or unexpected geological formations;

drill bit or drill pipe difficulties;

collapses of wellbore, casing or other tubulars or other loss of drilling hole;

unexpected problems associated with filling the caverns with base gas and conducting pressure and mechanical integrity tests;

unexpected problems associated with leaching the caverns, filtration of extracted water and offsite disposal of water; and

risks associated with subcontractors services, supplies, cost escalation and personnel.

Specifically, the creation of a salt-cavern storage facility requires sourcing, injecting, withdrawing and disposing of significant volume of water. For example, to create 10 Bcf of working capacity, a salt cavern requires approximately 72 million barrels of raw water supply and an equivalent volume of salt water disposal. Additionally, the rate of access to raw water and the rate of disposal of salt water have a direct impact on the time it takes to create a salt cavern. Any physical or regulatory restriction imposed on our current operations with respect to accessing raw water or disposing of salt water would have an adverse impact on our ability to timely and fully expand the Tres Palacios facility. The occurrence of uninsured or under-insured losses, delays or operating cost overruns associated with these drilling efforts could have a negative impact on our operations and financial results.

We may not be able to increase the capacity of the Tres Palacios facility beyond our current expansion plans.

While we have both the property rights and operational capacity necessary to expand the Tres Palacios facility beyond the currently permitted capacity of 36.04 Bcf, we may not be able to secure the financing or authorizations, including the currently pending application to the FERC requesting authorization to expand Tres Palacios certificated capacity to 38.4 Bcf, necessary to pursue such expansion and the necessary infrastructure modifications that would be needed to accommodate such expansion. Additionally, such expansion will be subject to market demand, the successful execution of any expansion projects and the availability of sufficient third-party interstate and intrastate pipelines receipt and deliverability capacity to accommodate the increased capacity. Any combination of these factors may prevent us from expanding the Tres Palacios facility beyond its current permitted capacity.

Tres Palacios authorizations to charge market-based rates are subject to the continued existence of certain conditions related to the facilities competitive position in its market and, if those conditions change, the right to charge market-based rates could be terminated.

The rates Tres Palacios charges for storage services are regulated by FERC pursuant to its market-based rate policy, which allows regulated entities to charge rates different from, and in some cases, less than, those which would be permitted under traditional cost-of-service regulation. Tres Palacios authorization to charge market-based rates is based on determinations by FERC that Tres Palacios does not have market power in its market. The determination that storage facilities lack market power is subject to review and revision by FERC if there is a change in circumstances that could affect the ability of additional storage or interconnected pipeline facilities to exercise market power. Among the sorts of changes in circumstances that could raise market power concerns would be an expansion of Tres Palacios capacity, acquisitions, or other changes in market dynamics. If the FERC were to conclude that Tres Palacios may have acquired and cannot mitigate market power, its rates could become subject to cost-of-service regulation.

If Tres Palacios rates become subject to cost-of-service regulation, the maximum rates that may be charged for storage services would be established through FERC s ratemaking process, and Tres Palacios would no longer be able to charge a rate demanded by the market. Generally, cost-of-service based rates for interstate natural gas services are based on the cost of providing service including recovery of, and a reasonable return on, the entity s actual prudent historical cost investment for providing jurisdictional service. Key determinants in the ratemaking process are costs of providing service, allowed rate of return, and billing determinants, which are based upon storage volumes and contractual capacity commitment assumptions. Rate design and the allocation of costs underlying cost-of-service based rates must also be approved by FERC as part of each rate case. The resolution of these key determinants, particularly the allowed rate of return and billing determinants that would underlie the cost-of-service based rates through the FERC s ratemaking process, could adversely impact Tres Palacios profitability, and have adverse consequences on our cash flow and our ability to make distributions. Additionally, changes in generally applicable FERC ratemaking policies could also affect Tres Palacios.

The Tres Palacios natural gas storage facilities are new and have limited operating history. The facilities may not be able to deliver as anticipated, which could prevent us from meeting our contractual obligations and cause us to incur significant costs.

Although we believe that the operating Tres Palacios gas storage facilities have been designed to meet its contractual obligations with respect to wheeling, injection, withdrawal and gas specifications, the facilities are new and have a limited operating history. Cavern 1 (12.7 Bcf) was placed into service in October 2008 and Cavern 2 (14.4 Bcf) was placed into service in July 2009. If we fail to wheel, inject or withdraw natural gas at contracted rates, or cannot deliver natural gas consistent with contractual quality specifications, we could incur significant costs to satisfy our contractual obligations. These costs could have an adverse impact on our business, financial condition, results of operations and ability to make distributions.

Financing the Tres Palacios Acquisition will substantially increase our leverage.

We intend to finance the Tres Palacios Acquisition and related fees and expenses, as well as any funds required to satisfy working capital adjustments associated with the Tres Palacios Acquisition, with borrowings under our revolving general partnership facility and the Bridge Facility as well as with the proceeds of this offering. After completion of the Tres Palacios Acquisition and after taking into account this offering, we expect our total outstanding indebtedness to increase from approximately $1.3 billion as of September 3, 2010 to approximately $1.8 billion. The increase in our indebtedness may reduce our flexibility to respond to changing business and economic conditions or to fund capital expenditures or working capital needs.

Future acquisitions and completion of expansion projects will require significant amounts of debt and equity financing which may not be available to us on acceptable terms, or at all.

We plan to fund our acquisitions and expansion capital expenditures, including any future expansions we may undertake, with proceeds from sales of our debt and equity securities and borrowings under our revolving credit facility; however, we cannot be certain that we will be able to issue our debt and equity securities on terms or in the proportions that we expect, or at all, and we may be unable to refinance our revolving credit facility when it expires. Global financial markets and economic conditions have been, and continue to be, disrupted and volatile, which may make it difficult to obtain funding in the future on satisfactory terms or at all. In addition, we may be unable to obtain adequate funding under our current revolving credit facility because our lending counterparties may be unable to meet their funding obligations.

A significant increase in our indebtedness, or an increase in our indebtedness that is proportionately greater than our issuances of equity, or a deterioration in the condition of the credit or broader financial markets or the economy, could negatively impact our credit ratings or our ability to remain in compliance with the financial covenants under our revolving credit agreement, which could have a material adverse effect on our ability to fund acquisitions or capital expansion projects and on our financial condition, results of operations and cash flows. We are also subject to certain limitations on issuances of equity and incurrence of debt prior to the closing of the transactions contemplated by the merger agreement with Holdings without the prior written consent of the conflicts committee of Holdings. If the cost of capital becomes too expensive, or contractual restrictions prevent us from issuing debt or equity, our ability to develop or acquire strategic and accretive assets will be limited.

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The transactions contemplated by the merger agreement may not be consummated.

The merger agreement contains conditions that, if not satisfied or waived, would result in the merger not occurring. The conditions include:

- the continued accuracy of the representations and warranties contained in the merger agreement;
- the performance in all material respects by each party of its obligations under the merger agreement;
- the absence of any decree, order, injunction or law that prohibits the merger or makes the merger unlawful;
- the receipt of legal opinions from counsel for each of us and Holdings as to the treatment of the merger for U.S. federal income tax purposes.

In addition, we and Holdings can agree to terminate the merger agreement at any time without completing the merger, even after unitholder approval has been obtained. Further, we or Holdings could terminate the merger agreement without the other party s agreement and without completing the merger if:

- the merger is not completed by December 31, 2010, other than due to a breach of the merger agreement by the terminating party;
- the conditions to the merger cannot be satisfied; or
- any legal prohibition to completing the merger has become final and non-appealable.

The number of outstanding common units will increase as a result of the merger, which could make it more difficult to pay the current level of quarterly distributions.

As of September 3, 2010, there were approximately 65.9 million common units outstanding. We will issue approximately 35.1 million common units and 11,568,560 Class B units in connection with the merger. Although the Class B Units will not receive cash distributions, they will receive distributions in additional Class B Units and will convert into an equal number of common units in two installments over two years. Accordingly, the dollar amount required to pay the current per unit quarterly distributions will increase, which will increase the likelihood that we will not have sufficient funds to pay the current level of quarterly distributions to our unitholders. Using the amount of $0.705 per common unit paid with respect to the third quarter of fiscal 2010, the aggregate cash distribution paid to our unitholders totaled approximately $64.6 million, including a distribution of $21.4 million to Holdings in respect of its direct and indirect ownership of common units, the approximate 0.7% economic general partner interest in us and the incentive distribution rights. The combined pro forma distribution with respect to the third quarter of fiscal 2010, had the merger and this offering been completed prior to such distribution and assuming the full conversion of all Class B units into common units, would result in an additional $18.2 million per quarter in order to maintain the distribution level of $0.705 per common unit paid with respect to the third quarter of fiscal 2010.

Although the elimination of the incentive distribution rights may increase the cash available for distribution to holders of our common units in the future, this source of funds may not be sufficient to meet the overall increase in cash required to maintain the current level of quarterly distributions to holders of our common units.

While the merger agreement is in effect, we may be limited in our ability to pursue other attractive business opportunities.

We have agreed to refrain from taking certain actions with respe

Gain on sale of loans	
	760
	945
Other mortgage banking fees	
	358
	315
ATM Fees	
	719
	624
Service fees on deposits	
	1,671
	1,548
Gain on sales of investment securities	

	-
	340
Commissions on sales of nondeposit investment products	
	125
	238
Income from bank owned life insurance	
	257
	233
Commissions on sales of other insurance products	
	413
	283
Other	
	223
	164

Total noninterest income	4,526	4,690
Noninterest expenses:		
Salaries and employee benefits	7,145	6,539
Net occupancy	1,645	

	1,535
Furniture, fixtures and equipment	
	756
	719
Professional services	
	333
	191
Advertising	
	450
	356
Data processing	
	521
	515
Other	

	2,638
	2,643
Total noninterest expenses	
	13,488
	12,498
Income before taxes	
	1,868
	1,813
Provision for income taxes	
	493
	506

Net income	$ 1,375	$ 1,307
Net income per common share:		
Basic	$ 0.24	$ 0.23
Diluted	0.22	0.21

See accompanying notes to the consolidated financial statements.

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31,

	2005	2004
	(dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 1,375	$ 1,307
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	856	805
Amortization of unearned loan fees and costs, net	(262)	(266)
Amortization of premiums and discounts on loans	(183)	(185)
Amortization of premiums and discounts on mortgage-backed securities, net	(93)	42
Gain on available for sale securities		(340)
Gain on other real estate owned		(27)
Gain on sale of loans	(760)	(945)
Valuation allowance of other real estate owned		2
Increase in accrued interest receivable	(243)	(368)
Provision for loan losses	414	300
Proceeds from sales of mortgage loans held-for-sale	260,064	206,845
Origination of mortgage loans held-for-sale	(255,272)	(197,886)
Increase in cash surrender value of bank owned life insurance	(257)	(232)
Net increase (decrease) in accrued expenses and other liabilities	281	(53)
Net (increase) decrease in prepaids and other assets	(1,851)	4,579
Net cash provided by operating activities	4,069	13,578
Cash flows from investing activities:		
Loan disbursements, net of principal repayments	(22,813)	(20,541)
Purchases of property and equipment	(20,946)	(425)
(Purchase) sale of restricted stock investments	(74)	2,450
Activity in available for sale securities:		
Sales	-	14,961
Maturities, prepayments and calls	14,541	110,276
Purchases	(2,103)	(136,972)
Proceeds from sales of other real estate owned		277
Purchase of bank owned life insurance		(10,000)
Net cash used by investing activities	(31,395)	(39,974)
Cash flows from financing activities:		
Net increase in deposits	27,539	63,102
Net increase (decrease) in borrowings	11,118	(29,942)
Repayment of repurchase agreements	(10,000)	
Proceeds from stock issuance, net	158	361
Repurchase of common stock, net of costs	(181)	
Net cash provided by financing activities	28,634	33,521
Increase in cash and cash equivalents	1,308	7,125
Cash and cash equivalents at beginning of period	35,447	46,679
Cash and cash equivalents at end of period	$ 36,755	$ 53,804
Supplemental information:		
Interest paid on deposits and borrowed funds	$ 6,759	$ 5,254
Income taxes paid		145

See accompanying notes to consolidated financial statements.

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FIRST MARINER BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The foregoing consolidated financial statements of First Mariner Bancorp (the Company) are unaudited; however, in the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of interim periods have been included. The balances as of December 31, 2004 have been derived from audited financial statements. There have been no significant changes to the Company s accounting policies as disclosed in the 2004 annual report. These statements should be read in conjunction with the financial statements and accompanying notes included in First Mariner Bancorp s Annual Report on Form 10-K for the year ended December 31, 2004. The results shown in this interim report are not necessarily indicative of results to be expected for the full year.

Consolidation of financial information has resulted in the elimination of all significant intercompany accounts and transactions. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2005. All figures for the periods ended March 31, 2005 and March 31, 2004 are unaudited amounts.

NOTE 2 COMPREHENSIVE INCOME

	Three months ended			
(Unaudited)	**March 31,**			
(dollars in thousands)	**2005**		**2004**	
Net income	$	1,375	$	1,307
Other comprehensive income items:				
Unrealized holding (losses) gains arising during the period (net of tax expense of ($1,521) and $709, respectively)		(2,418)		995
Less: reclassification adjustment for gains (net of taxes of $0 and $131, respectively) included in net income				(209)
Total other comprehensive (loss) income		(2,418)		1,204
Total comprehensive (loss) income	$	(1,043)	$	2,511

NOTE 3 PER SHARE DATA

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed after adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of options, warrants and their equivalents are computed using the treasury stock method. For the period ended March 31, 2005 and 2004 there were 48,450 and 0 shares respectively which were antidilutive and excluded from the computation.

Information relating to the calculation of earnings per common share is summarized as follows:

(Unaudited)	**Three Months Ended**	
(dollars in thousands)	**March 31, 2005**	**March 31, 2004**
Net income-basic and diluted	$ 1,375	$ 1,307
Weighted-average shares outstanding-basic	5,828,580	5,713,462
Dilutive securities-options and warrants	562,187	647,644
Adjusted weighted-average shares outstanding-dilutive	6,390,767	6,361,106

NOTE 4 - STOCK BASED COMPENSATION

We apply the intrinsic value method to account for stock-based employee compensation plans. Under this method, compensation cost is recognized for awards of shares of common stock to employees only if the quoted market price of the stock at the grant date (or other measurement date, if later) is greater than the amount the employee must pay to acquire the stock.

The option price is equal to the market price of the common stock at the date of grant for all of our options granted in 2005 and 2004 and, accordingly, we do not record compensation expense related to options granted. If we had applied the fair value-based method to recognize compensation cost for the options granted, our net income and net income per share would have been changed to the following pro forma amounts for the three months ended March 31:

(Unaudited) **(dollars in thousands except per share data)**	**For three months ended March 31, 2005**		**2004**	
Net earnings, as reported	$	1,375	$	1,307
Deduct: Total stock-based employee compensation expense determined using the fair value based method for all awards, net of related tax effects		(457)		(436)
Pro forma net earnings	$	918	$	871
Earnings per share:				
Basic - as reported	$	0.24	$	0.23
Basic - pro forma	$	0.16	$	0.15
Diluted - as reported	$	0.22	$	0.21
Diluted - pro forma	$	0.14	$	0.14

NOTE 5 SEGMENT INFORMATION

The Company is in the business of providing financial services, and operates in three business segments commercial and consumer banking, consumer finance and mortgage banking. Commercial and consumer banking is conducted through First Mariner Bank (the Bank) and involves delivering a broad range of financial services, including lending and deposit taking, to individuals and commercial enterprises. This segment also includes the Company s treasury and administrative functions. Mortgage banking is conducted through First Mariner Mortgage, a division of the Bank, and involves originating residential single family mortgages for sale in the secondary market and to the Bank. Consumer finance is conducted through Finance Maryland, and involves originating small direct consumer loans and the purchase of retail installment sales contracts.

The following table presents certain information regarding the Company s business segments:

For the quarter ended March 31, 2005 (unaudited):

(dollars in thousands)	Commercial and Consumer Banking	Consumer Finance	Mortgage Banking	Total
Interest income	$ 15,046	$ 2,351	$ 762	$ 18,159
Interest expense	6,149	376	390	6,915
Net interest income	8,897	1,975	372	11,244
Provision for loan losses	50	364		414
Net interest income after provision for loan losses	8,847	1,611	372	10,830
Noninterest income	3,041	430	1,055	4,526
Noninterest expense	9,572	1,801	2,115	13,488
Net intersegment income	(44)		44	
Income before income taxes	$ 2,272	$ 240	$ (644)	$ 1,868
Total assets	$ 1,165,815	$ 36,666	$ 75,923	$ 1,278,404

For the quarter ended March 31, 2004 (unaudited):

(dollars in thousands)	Commercial and Consumer Banking	Consumer Finance	Mortgage Banking	Total
Interest income	$ 13,026	$ 1,629	$ 486	$ 15,141
Interest expense	4,754	234	232	5,220
Net interest income	8,272	1,395	254	9,921
Provision for loan losses	50	250		300
Net interest income after provision for loan losses	8,222	1,145	254	9,621
Noninterest income	3,201	292	1,197	4,690
Noninterest expense	8,996	1,314	2,188	12,498
Net intersegment income	96		(96)	
Income before income taxes	$ 2,523	$ 123	$ (833)	$ 1,813
Total assets	$ 1,018,319	$ 24,742	$ 51,041	$ 1,093,832

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

The following discussion should be read and reviewed in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Portions of this 10-Q may contain forward-looking language within the meaning of The Private Securities Litigation Reform Act of 1995. Statements may include expressions about the Company s confidence, policies, and strategies, provisions and allowance for loan losses, adequacy of capital levels, and liquidity. Such forward looking statements involve certain risks and uncertainties, including general economic conditions, competition in the geographic and business areas in which the Company operates, inflation, fluctuations in interest rates, legislation and government regulation. For a more complete discussion of risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements, see Risk Factors filed as Exhibit 99 to the Company s Form 10-K for the year ended December 31, 2004. The Company assumes no obligation to update forward-looking statements at any time.

The Company

The Company is a financial holding company incorporated under the laws of Maryland and registered under the Federal Bank Holding Company Act of 1956, as amended. The Company was organized in 1994 and changed its name to First Mariner Bancorp in May 1995. Since 1995, the Company s strategy has involved building a network of banking branches, ATMs and other financial services outlets to capture market share and build a community franchise for stockholders, customers and employees. The Company is currently focused on growing assets and earnings by capitalizing on the broad network of bank branches, mortgage offices, consumer finance offices, and ATMs established during its infrastructure expansion phase.

The Company s business is conducted primarily through its wholly-owned subsidiaries, First Mariner Bank (the Bank), Finance Maryland LLC (Finance Maryland), and FM Appraisals, LLC (FM Appraisals). First Mariner Bank is the largest operating subsidiary of the Company with assets exceeding $1.204 billion as of March 31, 2005. The Bank was formed in 1995 through the merger of several small financial institutions. The Bank s primary market area for its core banking operations, which consist of traditional commercial and consumer lending, as well as retail and commercial deposit operations, is central Maryland as well as portions of Maryland s eastern shore. The Bank s mortgage division, First Mariner Mortgage, primarily serves the same core market area as the Bank, while several sourcing units of First Mariner Mortgage operate on a regional and even national basis. In 2004, approximately 70% of First Mariner Mortgage s loan production came from the core Bank s market area. First Mariner Bank is an independent community bank, and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Bank is engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized businesses, and delivers a wide range of financial products and services that are offered by many larger competitors. Products and services include traditional deposit products, a variety of consumer and commercial loans, residential and commercial mortgage and construction loans, wire transfer services, non-deposit investment products, and Internet banking and similar services. Most importantly, the Bank provides customers with access to local Bank officers who are empowered to act with flexibility to meet customers needs in an effort to foster and develop long-term loan and deposit relationships.

Finance Maryland was formed in July 2002, and engages in traditional consumer finance activities, making small direct cash loans to individuals, the purchase of installment loan sales contracts from local merchants and retail dealers of consumer goods, and loans to individuals via direct mail solicitations. Finance Maryland currently operates 13 branches in the State of Maryland and four branches in the state of Delaware, which operate under the trade name Finance Delaware . Finance Maryland had total assets of $36.7 million as of March 31, 2005.

FM Appraisals, which commenced operations in the fourth quarter of 2003, is an appraisal management company that is headquartered in Baltimore City. FM Appraisals offers appraisal management services for residential real estate lenders, including the compliance oversight of sub-contracted appraisers, appraisal ordering and administration, and appraisal review services. FM Appraisals currently provides these services to First Mariner Mortgage, but will begin to market appraisal management services to outside lenders in 2005.

Financial Condition

The Company s total assets were $1.278 billion at March 31, 2005, compared to $1.251 billion at December 31, 2004, increasing $27.873 million or 2.2% for the first three months of 2005. Earning assets increased $3.000 million or 0.3% to $1.170 billion from $1.167 billion. The growth in assets was primarily due to growth in loans outstanding (+$22.112 million), and was offset by a decrease in the Company s investment portfolio (-$16.282 million), and higher short-term investments (+$1.571 million). Loans held for sale decreased by $4.032 million. Property and equipment increased $20.090 million during the quarter due to the purchase of the Company s headquarters building. Growth in total assets was funded by an increased level of customer deposits of $27.539 million and borrowed funds and repurchase agreements increased by $1.118 million.

Total investment securities declined $16.282 million due to normal principal payments on mortgage-backed securities, scheduled maturities of other investments, and a decline in market values. At March 31, 2005, the Company s unrealized loss on securities classified as available for sale totaled $4.155 million, compared to $219 thousand at December 31, 2004. Management considers the decline in market values to be temporary and does not expect to realize losses on any of the securities currently in the investment portfolio. There were no securities sold during the quarter ended March 31, 2005, and purchase activity was minimal. The investment portfolio composition is as follows:

	March 31, 2005	**December 31, 2004**
	(dollars in thousands)	
Investment securities-available for sale:		

Mortgage-backed securities	$	190,576	$	200,708
Trust preferred securities		31,241		31,507
US Government agency notes		73,239		78,949
US Treasury securities		989		1,000
Obligations of state and municipal subdivisions		2,948		2,973
Equity securities		1,381		1,531
Foreign Government Bonds		1,400		1,400
Other investment securities		4,909		4,897
Total investment securities-available-for-sale	$	306,683	$	322,965

Total loans increased $22.112 million during the first three months of 2005. Significant growth was realized in the Company s commercial construction loan portfolio (+$19.967 million) and second mortgages on real estate (+$5.285 million). The total loan portfolio was comprised of the following:

	March 31, 2005	December 31, 2004
	(dollars in thousands)	
Loans secured by first mortgages on real estate:		
Residential	$ 42,289	$ 41,558
Commercial	315,827	316,363
Consumer residential construction	130,898	135,820
Construction, net of undisbursed principal	84,509	64,542
	573,523	558,283
Commercial	60,489	60,854
Loans secured by second mortgages on real estate	85,056	79,771
Consumer loans	49,198	47,389
Loan secured by deposits and other	1,197	1,068
Total loans	769,463	747,365
Unamortized loan premiums	(229)	(273)
Unearned loan fees, net	(976)	(946)
	$ 768,258	$ 746,146

Credit Risk Management

The Company attempts to manage the risk characteristics of its loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. However, the Company seeks to rely primarily on the cash flow of its borrowers as the principal source of repayment. Although credit policies are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio as well as general and regional economic conditions.

The provision for loan losses for the three months ended March 31, 2005 was $414 thousand compared to $300 thousand for the same period ended March 31, 2004. The higher provision for the three months of 2005 reflects higher levels of chargeoffs and higher loan growth compared to the same period last year. The allowance for loan losses totaled $9.714 million at March 31, 2005 compared to $9.580 million at December 31, 2004. As of March 31, 2005 the allowance for loan losses is 1.26% of outstanding loans as compared to 1.28% at December 31, 2004. The decrease in the allowance coverage reflects an improvement in nonaccrual loans.

Activity in the allowance for loan losses is as follows:

	Three Months Ended March 31, 2005	2004
	(dollars in thousands)	
Allowance for loan losses, beginning of year	$ 9,580	$ 8,692
Loans charged off:		
Commercial	(15)	
Commercial/Residential Construction		
Commercial Mortgages		
Residential Construction-Consumer		
Residential Mortgages		
Consumer	(361)	(254)
Total loans charged off	(376)	(254)
Recoveries		
Commercial		
Commercial/Residential Construction		
Commercial Mortgages		
Residential Construction-Consumer		
Residential Mortgages		
Consumer	96	46
Total recoveries	96	46
Net chargeoffs	(280)	(208)
Provision for loan losses	414	300
Allowance for loan losses, end of period	$ 9,714	$ 8,784
Loans (net of premiums and discounts)		
Period-end balance	768,258	630,631
Average balance during period	749,003	616,313
Allowance as percentage of period-end loan balance	1.26%	1.39%
Percent of average loans:		
Provision for loan losses (annualized)	0.22%	0.20%
Net chargeoffs (annualized)	0.15%	0.14%

During the first three months of 2005 net chargeoffs increased slightly as compared to average loans outstanding to 0.15%, as compared to 0.14% during the same period of 2004. Non-performing assets, expressed as a percentage of total assets, totaled 0.33% at March 31, 2005, down from 0.38% at December 31, 2004, but higher than 0.24% at March 31, 2004. The decrease as compared to December 31, 2004 reflects a decrease in nonperforming assets of $535 thousand. Loans past due 90 days or more and still accruing totaled $2.801 million compared to $1.658 million at December 31, 2004 and $3.861 million as of March 31, 2004.

Nonperforming Assets (Dollars in thousands)	**March 31, 2005**	**December 31, 2004**	**March 31, 2004**
Nonaccruing loans	$ 3,227	$ 4,628	$ 2,584
Real estate acquired by foreclosure	931	65	44
Total non-performing assets	$ 4,158	$ 4,693	$ 2,628
Loans past-due 90 days or more and accruing	$ 2,801	$ 1,658	$ 3,861

At March 31, 2005, the allowance for loan losses represented 233.6% of nonperforming assets compared to 204.1% at December 31, 2004. Management believes the allowance for loan losses at March 31, 2005 is adequate.

Deposits

Deposits totaled $852.956 million as of March 31, 2005, increasing $27.539 million or 3.3% from the December 31, 2004 balance of $825.417 million. The increase in deposits is attributable to management s growth strategy, which includes significant marketing, promotion and cross selling of existing customers into additional products. The mix of deposits has not significantly changed during 2005 compared to December 31, 2004. Continued successful marketing campaigns have maintained a strong mix of noninterest checking accounts, NOW and money market accounts.

	March 31, 2005		December 31, 2004	
(Dollars in thousands)	**Balance**	**Percent of Total**	**Balance**	**Percent of Total**
NOW & money market savings deposits	$ 220,079	25.8%	$ 222,570	27.0%
Regular savings deposits	72,752	8.5%	68,642	8.3%
Time deposits	387,996	45.5%	373,667	45.3%
Total interest-bearing deposits	680,827	79.8%	664,879	80.6%
Noninterest-bearing demand deposits	172,129	20.2%	160,538	19.4%
Total deposits	$ 852,956	100.0%	$ 825,417	100.0%

Results of Operations

Net Income. For the three months ended March 31, 2005, net income totaled $1.375 million compared to $1.307 million for the three month period ended March 31, 2004. Basic earnings per share for the first three months of 2005 totaled $0.24 compared to $0.23 per share for the same period of 2004, while diluted earnings per share totaled $0.22 for the first three months of 2005 compared to $0.21 for the first three months of 2004. Earnings for the three months ended March 31, 2005 were driven by higher net interest income; offset somewhat by a higher provision for credit losses, a decline in noninterest income and growth in noninterest expenses.

Net Interest Income. Net interest income for the first three months of 2005 totaled $11.244 million, an increase of 13.3% over $9.921 million for the three months ended March 31, 2004. The net interest margin for the three month period was 3.90% compared to 4.08% for the comparable period of 2004, while average earning assets increased by $183.699 million or 19.1%.

Total interest income increased by $3.018 million primarily due to growth in average loans and investments. Average loans outstanding increased by $132.690 million, average investment securities increased by $41.321 million while average loans held for sale increased $19.556 million. Yields on earning assets for the period increased to 6.35% from 6.26% due to the higher mix of loans (which carry higher yields than investments and other earning assets). Interest expense increased by $1.695 million. Average interest-bearing liabilities increased by $159.679 million. Average interest-bearing deposits increased by $33.334 million and average borrowings increased by $126.345 million. Yields on interest bearing liabilities increased to 2.80% from 2.49% for the same period in 2004 as a result of increased mix of borrowings as a percentage of interest-bearing funding sources and higher interest rates.

(Dollars in thousands)	For three months ended March 31, 2005 Average Balance	2005 Yield/ Rate	2004 Average Balance	2004 Yield/ Rate
Assets:				
Loans				
Commercial Loans and LOC	$ 71,762	5.75%	$ 76,522	5.85%
Comm/Res Construction	70,060	7.29%	47,488	7.09%
Commercial Mortgages	302,916	6.73%	241,967	7.03%
Residential Constr - Cons	129,717	7.27%	118,955	7.23%
Residential Mortgages	41,014	6.00%	40,132	7.20%
Consumer	133,534	10.71%	91,249	10.83%
Total Loans	749,003	7.45%	616,313	7.50%
Loans held for sale	60,318	5.05%	40,762	4.77%
Available for sale securities, at fair value	314,245	4.23%	272,924	4.29%
Interest bearing deposits	11,995	2.24%	27,802	0.89%
Restricted stock investments, at cost	11,453	3.41%	5,514	3.48%
Total earning assets	1,147,014	6.35%	963,315	6.26%
Allowance for loan losses	(9,642)		(8,692)	
Cash and other non earning assets	93,076		80,046	
Total Assets	$ 1,230,448		$ 1,034,669	
Liabilities and Stockholders Equity				
Interest bearing deposits				
NOW deposits	12,196	0.17%	60,561	0.49%
Savings deposits	70,090	0.31%	62,970	0.47%
Money market deposits	203,657	1.13%	153,193	0.85%
Time deposits	376,304	3.11%	352,189	3.01%
Total interest bearing deposits	662,247	2.15%	628,913	1.99%
Borrowings	339,148	4.07%	212,803	3.99%
Total interest bearing liabilities	1,001,395	2.80%	841,716	2.49%
Noninterest bearing demand deposits	159,680		129,191	
Other liabilities	5,434		3,465	
Stockholders Equity	63,939		60,297	
Total Liabilities and Stockholders Equity	$ 1,230,448		$ 1,034,669	
Net Interest Spread		3.55%		3.77%
Net Interest Margin		3.90%		4.08%

Noninterest Income Noninterest income for the three months ended March 31, 2005 was $4.526 million, a decrease of $164 thousand or 3.5% for the comparable period of 2004. Noninterest income for the first quarter of 2004 included $340 thousand of gains on sales of securities compared to $0 for the first quarter of 2005. Also contributing to lower noninterest income was a decrease in gains on sale of mortgage loans of $185 thousand (-19.6%). While the volume of loans sold into the secondary market increased approximately 25%, pricing spreads tightened and higher origination costs reduced gains recognized on the increased sales. Commissions on sales of nondeposit investment products decreased $113 thousand due to lower sales of fixed annuities. Deposit service charges increased for the three months ending March 31, 2005 due to the increased number of deposit accounts and higher overdraft revenue. ATM fees increased by $95 thousand or 15.2% as a result of increased volume of ATM and debit card transactions. As of March 31, 2005, the Bank has 52 ATM locations that it owns and operates and 139 ATM s through the third party agreements. Commissions on sales of other insurance products grew by $130 thousand due to increased sales volume of insurance products sold through Finance Maryland.

(Dollars in thousands)	For three months ended March 31, 2005 Amount		2004 Amount	
Gain on sale of mortgage loans	$	760	$	945
Service fees on deposits		1,671		1,548
ATM fees		719		624
Gain on sales of investment securities, net				340
Other mortgage banking revenue		358		315
Income from bank owned life insurance		257		233
Commissions on sales of non-deposit investment products		125		238
Commissions on sales of other insurance products		413		283
Other operating income		223		164
Total noninterest income	$	4,526	$	4,690

Noninterest expenses - For the three months ended March 31, 2005 noninterest expenses increased $990 thousand or 7.9% to $13.488 million compared to $12.498 million for the same period of 2004. Increased salary and employee benefits expenses of $606 thousand relate to additional personnel costs for new positions due to an increase in the number of loans and deposits, staffing hired to support the expansion of the consumer finance company and wholesale mortgage activities, and increased cost of employer provided health care. Occupancy expenses increased $110 thousand due to new offices of Finance Maryland and wholesale mortgage operations. Professional services increased $142 thousand due to higher legal fees. Advertising increased $94 thousand due to increased promotional activities. Printing and postage expenses decreased due to a reduction in direct mail mortgage solicitations.

(Dollars in thousands)	For three months ended March 31, 2005 Amount		2004 Amount	
Salaries and employee benefits	$	7,145	$	6,539
Net occupancy		1,645		1,535
Furniture, fixtures and equipment		756		719
Professional services		333		191
Advertising		450		356
Data processing		521		515
Service and maintenance		410		405
Office supplies		182		156
ATM servicing expenses		282		260
Printing		146		229
Corporate insurance		75		90
OREO expense				(9)
FDIC Premiums		29		29
Consulting fees		146		74
Marketing/promotion		180		202
Postage		189		270
Overnight delivery/courier		186		166
Security		36		45
Dues and memberships		96		67
Loan collection expenses		103		84
Other		578		575
Total noninterest expense	$	13,488	$	12,498

Income Taxes- The Company recorded income tax expense of $493 thousand on income before taxes of $1.868 million, resulting in an effective tax rate of 26.4% for the three month period ended March 31, 2005 in comparison to income tax expense of $506 thousand on income before taxes of $1.813 million, resulting in an effective tax rate of 27.9% for the three month period ended March 31, 2004. The decrease in the effective tax rate reflects higher levels of tax exempt interest income for income tax purposes and increased income from Bank Owned Life Insurance which is exempt from both federal and state income taxes.

Liquidity and Capital Resources

Stockholders equity decreased $1.065 million in the first three months of 2005 to $63.249 million from $64.314 million as of December 31, 2004. Other comprehensive loss increased by $2.418 million due to the decrease in market values of securities classified as available for sale, which occurred as increases in market interest rates devalued the available for sale securities portfolio. Retained earnings grew by the retention of net income of $1.375 million for the first three months of 2005. Additional paid-in-capital decreased by $23 thousand due to the repurchase of shares through the Company s stock repurchase plan ($181 thousand), which was mostly offset by the sale of stock through the exercise of options and warrants, and shares purchased through the employee stock purchase plan ($158 thousand).

Banking regulatory authorities have implemented strict capital guidelines directly related to the credit risk associated with an institution s assets. Banks and bank holding companies are required to maintain capital levels based on their risk adjusted assets so that categories of assets with higher defined credit risks will require more capital support than assets with lower risk. Additionally, capital must be maintained to support certain off-balance sheet instruments.

The Company and the Bank have exceeded its capital adequacy requirements to date. The Company regularly monitors its capital adequacy ratios to assure that the Bank exceeds its regulatory capital requirements. The regulatory capital ratios are listed below:

	At March 31, 2005	2004
	(unaudited)	
Regulatory capital ratios		
Leverage		
Consolidated	7.2%	7.8%
The Bank	6.6%	7.1%
Tier 1 capital to risk weighted assets		
Consolidated	9.1%	10.3%
The Bank	8.7%	9.5%
Total capital to risk weighted assets		
Consolidated	13.7%	14.8%
The Bank	10.1%	11.2%

The Bank s principal sources of liquidity are cash and cash equivalents (which are cash on hand or amounts due from financial institutions, federal funds sold, money market mutual funds, and interest bearing deposits), and available for sale securities. The levels of such assets are dependent on the Bank s operating, financing and investing activities at any given time and are influenced by anticipated deposit flows and loan growth. Cash and cash equivalents totaled $36.755 million at March 31, 2005 compared to $35.447 million as of December 31, 2004. The Company s loan to deposit ratio stood at 90.1% as of March 31, 2005 and 90.4% at December 31, 2004.

FORWARD-LOOKING STATEMENTS

This Quarterly Report filed on Form 10-Q may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of forward-looking statements. Statement that are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend, and similar expressions, are based on current expectations, estimates and projections about (among other things) the industry and the markets in which the Company operates, they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this Form 10-Q, general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or composition of loan and investment portfolios; the ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond the Company s control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on the Company s business or operations. For a more complete discussion of these risk factors, see Risk Factors filed as Exhibit 99 to the Company s Form 10-K for the year ended December 31, 2004. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Results of operations for financial institutions, including the Company, may be materially and adversely affected by changes in prevailing economic conditions, including declines in real estate values, rapid changes in interest rates and the monetary and fiscal policies of the federal government. The profitability of the Company is in part a function of the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest-bearing liabilities (net interest income), including advances from Federal Home Loan Bank of Atlanta (FHLB) and other borrowings. Interest rate risk arises from mismatches (i.e., the interest sensitivity gap) between the dollar amount of repricing or maturing assets and liabilities and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time period is considered asset-sensitive and is reflected as a positive gap, and more liabilities repricing or maturing than assets over a give time period is considered liability-sensitive and is reflected as negative gap. An asset-sensitive position (i.e., a positive gap) will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position (i.e., a negative gap) will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Company has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income of changes in market interest rates. However, there can be no assurance that the Company will be able to manage interest rate risk so as to avoid significant adverse effects on net interest income. At March 31, 2005, the Company had a one year cumulative positive gap of approximately $144.629 million.

In addition to the use of interest rate sensitivity reports, the Company tests its interest rate sensitivity through the deployment of a simulation analysis. Earnings simulation models are used to estimate what effect specific interest rate changes would have on the Company s projected net interest income and projected net income. Derivative financial instruments, such as interest rate caps, are included in the analysis. Changes in prepayments have been included where changes in behavior patterns are assumed to be significant to the simulation, particularly mortgage related assets. Call features on certain securities and borrowings are based on their call probability in view of the projected rate change. The simulation model also includes the estimated effect of rate changes (ten year treasury) on the Company s fee income and net income produced by the Company s mortgage banking operations. At March 31, 2005, the Company s estimated earnings sensitivity profile reflected modest sensitivity to projected interest rate changes based on certain assumptions. Based on an assumed parallel increase/decrease of 200 basis points over a one year period, the Company s projected net income would decrease by 16% if rates were to increase and projected net income would increase by 23% if rates were to decline from amounts projected by the model. Based on an assumed increase/decrease of 200 basis points over a one year period, the Company s projected net interest income would remain flat, a 0% change, and if rates were to increase and projected net interest income would increase by 2% if rates were to decline from amounts projected by the model.

Both of the above tools used to assess interest rate risk have strengths and weaknesses. Because the gap analysis reflects a static position at a single point in time, it is limited in quantifying the total impact of market rate changes which do not affect all earning assets and interest-bearing liabilities equally or simultaneously. In addition, gap reports depict the existing structure, excluding exposure arising from new business. While the simulation process is a powerful tool in analyzing interest rate sensitivity, many of the assumptions used in the process are highly qualitative and subjective and are subject to the risk that past historical activity may not generate accurate predictions of the future. The model also assumes parallel movements in interest rates, which means both short-term and long-term rates will change equally. Nonparallel changes in interest rates (short-term rates changing differently from long-term rates) could result in significant differences in projected income amounts when compared to parallel tests. Both measurement tools taken together, however, provide an effective evaluation of the Company s exposure to changes in interest rates, enabling management to better control the volatility of earnings.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s reports filed under the Securities Exchange Act of 1934, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls, as of the end of the period covered by this Quarterly Report on Form 10-Q, was carried out under the supervision and with the participation of the Company s management, including the CEO and CFO. Based on that evaluation, the Company s management, including the CEO and CFO, has concluded that the Company s disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting. There were no significant changes in our internal control over financial reporting or in other factors during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

Item 1 - Legal proceedings None
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds:

The following table sets forth the Company s purchases of its Common Stock for the first quarter of 2005:

	Total Number of Shares Purchased	Average Price Paid PerShare	Total Number of Shares Purchased as Part of Plan	Maximum Number of Shares Yet to Purchase
January 2005			37,625	262,325
February 2005	10,000	$ 18.12	47,625	252,325
March 2005			47,625	252,325

(1) On July 20, 2004, the Company announced that its Board of Directors approved a share repurchase program of up to 300,000 shares (approximately 5%) of the Company s outstanding common stock, which provides for open market or private purchases of stock over the next 24 months. During the three months ended March 31, 2005, the Company repurchased a total of 10,000 shares of our common stock at an approximate cost of $181,200.

Item 3 - Defaults upon senior securities None

Item 4 - Submission of matters to a vote of security holders:

At the Company s Annual Meeting of Stockholders held May 3, 2005, the following directors were elected to serve a three-year term expiring upon the date of the Company s 2008 Annual Meeting or until their respective successors are elected and qualified:

	Votes For	Votes Against	Abstain	Broker Nonvotes
Edwin F. Hale, Sr.	5,219,108	87,671		
Barry B. Bondroff	5,192,808	113,971		
Bruce H. Hoffman	5,185,533	121,246		
Patricia Schmoke, MD	5,187,505	119,274		
John Brown III	5,192,274	114,505		
Stephen A. Burch	5,217,064	89,715		

Also, at the Company s Annual Meeting of Stockholders held May 3, 2005, a shareholder proposal regarding the separation of the positions of Chairman of the Board and Chief Executive Officer was voted upon and was defeated as follows:

Votes For	Votes Against	Abstain	Broker Nonvotes
652,622	2,504,951	50,423	2,098,783

Item 5 - Other information None

Item 6 - None

SIGNATURES

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

	FIRST MARINER BANCORP	
Date: 5/10/2005	By:	/s/ Edwin F. Hale Sr. Edwin F. Hale Sr. Chairman and Chief Executive Officer
Date: 5/10/2005	By:	/s/ Mark A. Keidel Mark A. Keidel Chief Financial Officer

EXHIBIT INDEX

3.1	Amended and Restated Articles of Incorporation of First Mariner Bancorp (Incorporated by reference to Exhibit 3.1 of the Registrant s Registration Statement on Form SB-2, as amended, file no. 333-16011 (the 1996 Registration Statement))
3.2	Amended and Restated Bylaws of First Mariner Bancorp (Incorporated by reference to Exhibit 3.2 of First Mariner s Form 10-Q for the quarter ended September 30, 2002)
10.1	1996 Stock Option Plan of First Mariner Bancorp (Incorporated by reference to Exhibit 10.1 of the Registration Statement)
10.2	Employment Agreement dated May 1, 1995 between First Mariner Bancorp and First Mariner Bank and George H. Mantakos (Incorporated by reference to Exhibit 10.2 of the 1996 Registration Statement)
10.3	Lease Agreement dated March 1, 1996 between First Mariner Bank and Mars Super Markets, Inc. (Incorporated by reference to Exhibit 10.3 of the 1996 Registration Statement)
10.4	Lease Agreement dated November 1, 1997 between Edwin F. Hale, Sr. and First Mariner Bank (Incorporated by reference to Exhibit 10.4 of Pre-Effective Amendment Number 1 to Form S-1, file no. 333-53789-01)
10.5	1998 Stock Option Plan of First Mariner Bancorp (Incorporated by reference to Exhibit 10.5 of Pre-Effective Amendment Number 1 to Form S-1, file no. 333- 53789-01)
10.6	Employee Stock Purchase Plan of First Mariner Bancorp (Incorporated by reference to Exhibit 10.6 of Pre-Effective Amendment Number 1 to Form S-1, file no. 333-53789-01)
10.7	Lease Agreement dated as of September 1, 1998 between Building #2, L.L.C. and First Mariner Bank (Incorporated by reference to Exhibit 10.7 of Pre-Effective Amendment Number 1 to Form S-1, file no. 333-53789-01)
10.8	Lease Agreement dated September 18, 2002 between Hale Properties, LLC and First Mariner Bank (Incorporated by reference to Exhibit 10.8 to First Mariner s Form 10-Q for the quarter ended March 31, 2002.)
10.9	First Mariner Bancorp 2002 Stock Option Plan (Incorporated by reference to Attachment A to First Mariner s Definitive Proxy Statement filed on April 2, 2002.)
10.10	Lease Agreement dated as of March 1, 2003 between Building No. 2 LLC and First Mariner Bank (Incorporated by reference to Exhibit 10.10 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.11	Lease Agreement dated March 1, 2003 between Canton Crossing LLC and First Mariner Bank (Incorporated by reference to Exhibit 10.11 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.12	Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and Edwin F. Hale, Sr. (Incorporated by reference to Exhibit 10.12 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.13	Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and Joseph A. Cicero (Incorporated by reference to Exhibit 10.13 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.14	Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and George H. Mantakos (Incorporated by reference to Exhibit 10.14 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.15	Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and Mark A. Keidel (Incorporated by reference to Exhibit 10.15 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.16	Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and Dennis E. Finnegan (Incorporated by reference to Exhibit 10.16 to the Company s Form 10-Q for the quarter ended March 31, 2003.)
10.17	

Change of Control Agreement dated April 2, 2003 between First Mariner Bancorp and Brett J. Carter (Incorporated by reference to Exhibit 10.17 to the Company s Form 10-Q for the quarter ended March 31, 2003.)

10.18	Lease Agreement dated September 2, 2003 between Canton Crossing LLC and First Mariner Bank (Incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q for the quarter ended September 30, 2003.)
10.19	First Mariner Bancorp 2004 Long Term Incentive Plan (Incorporated by reference to Appendix B to the Company s Definitive Proxy Statement filed on 4/1/04)
10.20	First Mariner Bancorp 2003 Employee Stock Purchase Plan (Incorporated by reference to Appendix C to the Company s Definitive Proxy Statement filed on 4/1/04)
10.21	Purchase and Sale Agreement dated September 20, 2004 among First Mariner Bancorp, Canton Crossing, LLC and Hale Canton, LLC (incorporated by reference to Exhibit 10.1 to the Registrant s Report on Form 8-K filed on October 22, 2004)
10.22	Form of Non-Qualified Stock Option Agreement under the 2004 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Report on Form 8-K filed on January 31, 2005)
10.23	Form of Incentive Stock Option Award Agreement under the 2004 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Report on Form 8-K filed on January 31, 2005)
31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended, filed herewith
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
99	Risk Factors (incorporated by reference to Exhibit 99 to the Company s Form 10-K for the year ended December 31, 2004.)