

TRUSTMARK CORP
Form 11-K
June 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 000-03683

Full title of the plan and the address of the plan, if different from that of the issuer named below:

Trustmark 401(k) Plan

Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

TRUSTMARK CORPORATION

248 E. Capitol Street

Jackson, Mississippi 39201

TRUSTMARK 401(k) PLAN

Jackson, Mississippi

Audited Financial Statements

Years Ended December 31, 2008 and 2007

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Note: Supplemental schedules required by the Employee Retirement Income Security Act of 1974 not included herein are deemed not applicable to Trustmark 401(k) Plan.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Plan Administrator
Trustmark 401(k) Plan
Jackson, Mississippi

We have audited the accompanying statements of net assets available for benefits of the Trustmark 401(k) Plan (the "Plan") as of December 31, 2008 and 2007 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2008 and 2007 and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2008, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the United States Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jackson, Mississippi
June 29, 2009

TRUSTMARK 401(k) PLAN
 Statements of Net Assets Available for Benefits
 December 31, 2008 and 2007

	2008	2007
Investments, at fair value		
Money market accounts	\$ 31,881,326	\$ 22,062,331
Fixed income mutual funds	7,810,677	6,360,746
Common stock of Trustmark Corporation	29,703,880	36,405,629
Equity mutual funds	54,065,789	86,226,280
Total investments	123,461,672	151,054,986
Receivables		
Employer contributions	302,226	290,563
Participant contributions	220,581	236,676
Total receivables	522,807	527,239
Net assets available for benefits	\$ 123,984,479	\$ 151,582,225

See accompanying notes to financial statements.

TRUSTMARK 401(k) PLAN
 Statements of Changes in Net Assets Available for Benefits
 Years ended December 31, 2008 and 2007

	2008	2007
Contributions		
Employer	\$ 5,227,721	\$ 5,287,076
Participant	7,385,069	7,591,075
Other	399,161	396,373
Total contributions	13,011,951	13,274,524
Net investment income (loss)		
Net depreciation in fair value of investments	(39,115,920)	(12,134,644)
Interest and dividends	5,706,367	10,330,476
Net investment loss	(33,409,553)	(1,804,168)
Benefits paid to participants	(7,198,022)	(10,356,527)
Administrative fees	(2,122)	(29,766)
Net (decrease) increase in net assets available for benefits	(27,597,746)	1,084,063
Net assets available for benefits		
Beginning of year	151,582,225	150,498,162
End of year	\$ 123,984,479	\$ 151,582,225

See accompanying notes to financial statements.

TRUSTMARK 401(k) PLAN
Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 1. Plan Description

The following description of the Trustmark 401(k) Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan established for the associates of Trustmark Corporation (the "Company") and certain other associated companies. The Plan is subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974.

Eligibility

Effective January 1, 2004, the Plan was amended to provide eligibility for participation in elective deferrals by associates on the first day of the month after thirty days of employment. Prior to 2004, the Plan provided eligibility for participation on the first day of the month following the completion of at least 1,000 hours of service during the twelve-month period ending on the anniversary of an associate's employment commencement date.

Plan Administration

Nationwide Life Insurance Company and Nationwide Trust Company served as custodians of the Plan's assets through January 31, 2007. Effective February 1, 2007, the Company named Federated Retirement Plan Services as custodian of the Plan's assets. The Plan administrator and sponsor is Trustmark Corporation, parent company of Trustmark National Bank. The Plan's trustee functions are handled by Trustmark National Bank.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Participant Contributions

The Plan allows participants to make voluntary before-tax salary deferral contributions, through payroll deductions, to separately invested funds in accordance with Section 401(k) of the Internal Revenue Code ("IRC"). If certain requirements of IRC Section 401(k) are not met in Plan operation, the salary deferral agreements of participants may, on a nondiscriminatory and uniform basis, be amended or revoked to preserve the qualified status of the Plan. Voluntary after-tax contributions by participants are not allowed.

TRUSTMARK 401(k) PLAN
Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 1. Plan Description (Continued)

Participants may elect to contribute up to 75 percent of eligible compensation each period, subject to regulatory limitations. Any excess contributions must be returned to the applicable participant by April 15 of the calendar year following the year of excess contributions. The Plan allows for rollover contributions from individual retirement accounts, IRC Section 457(b) plans or other qualified plans.

Provisions of the Plan allow participants who were age 50 years or older by the end of the calendar year to make catch-up contributions to the Plan. Catch-up contributions represent associate compensation deferrals in excess of certain Plan limits and statutory limits, including Internal Revenue Service ("IRS") annual deferral limits.

Employer Contributions

Eligible participant contributions are matched by the employer at a rate of 100 percent of the first 6 percent of covered compensation. The employer may also make discretionary contributions. No such contributions were made for the years ended December 31, 2008 and 2007.

Investment Options

Participants may direct investment of their account balance among several investment options.

Vesting

Participants are immediately vested in their voluntary contributions, employer contributions made on their behalf and the investment earnings and losses thereon.

Payment of Benefits

On retirement, death, disability or termination of service, a participant may elect to receive a lump-sum distribution equal to his or her account balance or in installments. In addition, hardship distributions are permitted if certain criteria are met.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. However, no such action may deprive any participant or beneficiary under the Plan of any vested benefit.

TRUSTMARK 401(k) PLAN
Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies

Basis of Presentation

The Plan's financial statements are prepared using the accrual basis of accounting, with the exception of the payment of benefits, which are recognized as a reduction in the net assets available for benefits of the Plan as they are disbursed to participants.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Valuation of Investments and Income Recognition

Investments are stated at fair value. The fair value of mutual funds and other securities traded on a national securities exchange are valued at the closing quoted market price on the last business day of the year.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net Depreciation in Fair Value of Investments

Net depreciation in fair value of investments, as recorded in the accompanying statements of changes in net assets available for benefits, includes changes in the fair value of investments acquired, sold or held during the year.

Administrative Fees

Administrative fees are paid by the Plan. All other fees, including professional fees, are paid by the Company.

Risks and Uncertainties

The Plan's investments include funds which invest in various types of investment securities and in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant's account balances and the amounts reported in the statements of net assets available for benefits.

TRUSTMARK 401(k) PLAN
Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies (Continued)

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Plan's investments have likely incurred a significant decline in fair value since December 31, 2008. In addition, certain non-readily marketable investments are significantly less liquid than they have been historically (and in some cases the counter parties have imposed redemption restrictions).

Note 3. Investments

The fair value of individual investments that represent 5 percent or more of the Plan's net assets as of December 31, 2008 and 2007, were as follows:

	2008	2007
Investments at fair value as determined by quoted market price		
Common stock of Trustmark Corporation	\$ 29,703,880	\$ 36,405,629
Performance Funds Trust Mutual Funds		
Large-Cap Equity Fund	N/A	8,517,797
Mid-Cap Equity Fund	N/A	11,003,027
Franklin Mutual Discovery Fund	N/A	8,801,766
Investments at cost, which approximates fair value		
Federated Capital Preservation Fund	23,412,641	14,805,319
Federated Prime Obligation Fund	8,468,685	N/A

During 2008 and 2007, the Plan's investments (including investments bought and sold, as well as held during the year) depreciated in value as follows:

	2008	2007
Change in investments at fair value as determined by quoted market price		
Common stock of Trustmark Corporation	\$ (4,133,882)	\$ (9,697,231)
Mutual funds	(34,982,038)	(2,437,413)
Net depreciation in fair value of investments	\$ (39,115,920)	\$ (12,134,644)

The Plan provides participants the opportunity to annually elect whether cash dividends paid on employer stock will be invested in shares of employer stock within the individual participant's account or be paid to the participant in cash.

TRUSTMARK 401(k) PLAN
Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 4. Tax Status

The IRS has determined and informed the Company by a letter dated November 19, 2001, that the Plan and related trust are designed in accordance with applicable sections of the IRC. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Note 5. Related Parties

Certain Plan investments are invested in the common stock of the Company. Investment transactions in employer securities qualify as party in-interest transactions. For the years ended December 31, 2008 and 2007, dividends of \$1,329,105 and \$1,285,482, respectively, were received by the Plan from the Company.

Trustmark National Bank serves as the investment advisor for the Performance Funds Trust Mutual Funds.

Note 6. Contingencies

The Company and its subsidiaries are parties to lawsuits and other claims that arise in the ordinary course of business. Some of the lawsuits assert claims related to various business activities and some of the lawsuits allege substantial claims for damages. The cases are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not have a material impact on the Company or the Plan's financial statements.

Note 7. Fair Value Measurements

FASB Statement No. 157, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

TRUSTMARK 401(k) PLAN
 Years Ended December 31, 2008 and 2007

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (Continued)

- Level 2 Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2008 and 2007.

Common stock of Trustmark Corporation: Valued at the closing price reported on the active market on which the individual securities are traded.

Money market accounts and mutual funds: Valued at the net asset value ("NAV") of shares held by the Plan at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3
Money market accounts	\$ 31,881,326	\$ -	\$ -
Mutual funds	61,876,466	-	-
Common stocks	29,703,880	-	-
Total assets at fair value	\$ 123,461,672	\$ -	\$ -

TRUSTMARK 401(k) PLAN
Plan Sponsor: Trustmark Corporation
Plan Sponsor: EIN 64-0471500
Plan Number: 002
Schedule H, Line 4i – Schedule of Assets (Held at End of Year)
December 31, 2008

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	Shares/ Units Held	(d) Cost	(e) Current Value
	Money market accounts				
	Federated	Capital Preservation Fund	2,341,264	\$	23,412,641
	Federated	Prime Obligations Fund	8,468,685		8,468,685
		Total money market accounts			31,881,326
	Fixed income mutual funds				
*	Performance Funds Trust	Short-Term Government Income Fund	276,030		2,774,106
*	Performance Funds Trust	Intermediate Term Government Income Fund	193,762		2,079,067
	American Funds	High Income Trust Fund	63,600		497,352
	Federated	Mortgage Institutional Services Fund	60,359		582,460
	Federated	Intermediate Corporate Bond Institutional Services Fund	18,745		165,894
	Federated	Total Return Bond Institutional Services Fund	168,153		1,711,798
		Total fixed income mutual funds			7,810,677
	Common stock fund				
*	Trustmark Corporation	Common stock	1,375,817		29,703,880
	Equity mutual funds				
*	Performance Funds Trust	Mid-Cap Equity Fund	850,508		6,183,192
*	Performance Funds Trust	Large-Cap Equity Fund	774,954		5,308,437
*		Leader's Equity Fund	191,536		1,017,058

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Performance Funds Trust			
*	Performance Funds Trust	Strategic Dividend Fund	45,428
	American Funds	Euro Pacific Growth Fund	42,212
	Davis	New York Venture Fund	44,485
	Federated	Kaufmann Fund	227,465
	Federated	Kaufmann Small-Cap Fund	19,271
	Federated	MDT Balanced Fund	345,040
	Federated	Mid-Cap Index Fund	173,923
	Franklin	Balance Sheet Investment Fund	95,690
	Franklin	Mutual Discovery Fund	251,475
	Goldman Sachs	Structured Small-Cap Equity Fund	225,324
	JP Morgan	Mid-Cap Value Fund	111,543
	Nationwide	Investor Destinations Aggressive Services Fund	207,646
	Nationwide	Investor Destinations Conservative Services Fund	52,778
	Nationwide	Investor Destinations Moderate Services Fund	385,099
	Nationwide	Investor Destinations Moderately Aggressive Services Fund	286,482
	Nationwide	Investor Destinations Moderately Conservative Services Fund	64,985
	Neuberger	Neuberger Berman Genesis Assets Advantage Fund	225,396
	Oppenheimer	Global Fund	49,109
	Oppenheimer	International Small Co Fund	81,800
	Oppenheimer	Main Street Small-Cap Fund	13,962
	Van Kampen	Growth & Income Fund	111,268
	T. Rowe Price	Growth Stock Fund	133,539
	Templeton	Foreign Fund	409,599
		Total equity mutual funds	54,065,789
		Total Assets (Held at End of Year)	\$ 123,461,672

* Denotes party-in-interest based on the following relationship:
Trustmark National Bank serves as investment advisor for Performance Funds Trust; Trustmark Corporation is the parent company of Trustmark National Bank.

(d) Cost information is omitted due to transactions being participant or beneficiary directed under an individual

account plan.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

TRUSTMARK 401(k) PLAN
BY: TRUSTMARK CORPORATION, PLAN SPONSOR AND ADMINISTRATOR

BY: /s/ Louis E. Greer
Louis E. Greer
Treasurer and Principal
Financial Officer

DATE: June 29, 2009

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
23	Consent of Independent Registered Public Accounting Firm

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to the condition of the global financial markets. In that event, the project might have less than the optimum number of prospects and/or be unable to establish prospective value through drilling. This could result in an increase in the already substantial risks associated with our investment in the entity or geothermal prospects.

All the prospects are undeveloped. Initial value will be established only by drilling at least three wells, at substantial expense, on each prospect that demonstrate sufficient water temperature and flow to support a commercial power plant. Even if resources are drilling-validated as to power potential, realization of our investment will depend on the sale of our partnership equity, or the partnership's sale of the properties to a utility, energy company, or other investor, or construction of a power plant (which will require institutional financing) and sale of electricity to utilities.

Compliance with environmental regulations may be costly.

General

USE's business is regulated by government agencies. Permits are required to explore for minerals, operate mines and build and operate processing plants, and drill and operate oil and gas wells. The regulations under which permits are issued change from time to time to reflect changes in public policy or scientific understanding of issues. If the economics of a project cannot withstand the cost of complying with changed regulations, USE might decide not to move forward with the project.

USE must comply with numerous environmental regulations on a continuous basis, to comply with United States environmental laws, including the National Environmental Policy Act (NEPA), Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act (RCRA). For example, water and dust discharged from mines and tailings from prior mining or milling operations must be monitored and contained and reports filed with federal, state and county regulatory authorities. Additional monitoring and reporting is required by state and local regulatory agencies. Other laws impose reclamation obligations on abandoned mining properties, in addition to or in conjunction with federal statutes. Environmental regulatory programs create potential liability for operations, and may result in requirements to perform environmental investigations or corrective actions under federal and state laws and federal and state Superfund requirements.

Risks associated with development of the Mount Emmons Project.

The Mount Emmons molybdenum property is located on fee property within the boundary of U.S. Forest Service (USFS) land. Although mining of the mineral resource will occur on the fee property, associated ancillary activities will occur on USFS land. USE and Thompson Creek Metals expect to submit a Plan of Operations to the USFS in 2010 for USFS approval, which must be approved before initiating construction, and mining and processing can occur. Under the procedures mandated by the National Environmental Protection Act (NEPA), the USFS will prepare an environmental analysis in the form of an Environmental Assessment and/or and Environmental Impact Statement to evaluate the predicted environmental and socio-economic impacts of the proposed development and mining of the property. The NEPA process provides for public review and comment of the proposed plan.

The USFS is the lead regulatory agency in the NEPA process, and coordinates with the various Federal and State agencies in the review and approval of the Plan of Operations. Various Colorado state agencies will have primary jurisdiction over certain areas. For example, enforcement of the Clean Water Act in Colorado is delegated to the Colorado Department of Public Health and Environment and a water discharge permit under the National Pollution Discharge Elimination System (NPDES) is required before the USFS can approve the Plan of Operations. We currently have a NPDES Permit from the State of Colorado for the operation of the water treatment plant, however this permit may need to be updated.

In addition, the Colorado Division of Reclamation, Mining and Safety issues mining and reclamation permits for mining activities, pursuant to the Colorado Mined Land Reclamation Act, and otherwise exercises supervisory authority over mining in the state. As part of obtaining a permit to mine, USE and Thompson Creek Metals will be required to submit a detailed reclamation plan for the eventual mine closure, which must be reviewed and approved by the agency. In addition, USE and Thompson Creek Metals will be required to provide financial assurance that the reclamation plan will be achieved (by bonding and/or insurance) before the mining permit will be issued.

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Obtaining and maintaining the various permits for the mining operations at the Mount Emmons Project will be complex, time-consuming, and expensive. Changes in a mine's design, production rates, quality of material mined, and many other matters, often require submission of the proposed changes for agency approval prior to implementation. In addition, changes in operating conditions beyond our and Thompson Creek Metals' control, or changes in agency policy and Federal and State laws, could further affect the successful permitting of the mine operations.

Although we are confident that the Plan of Operations for Mount Emmons will ultimately be approved by the USFS, the timing and cost, and ultimate success of the mining operation cannot be predicted.

Although we are confident that we will obtain the permits needed for the Mount Emmons Project to move forward, the timing and cost, and ultimate success of the mining operation cannot be predicted.

Reliance on Thompson Creek Metals. Thompson Creek Metals is the operator of the Mount Emmons Project and has an option to acquire up to a 75% interest by performing and paying for the work to get the project permitted and operational, and making option payments. Though we believe Thompson Creek Metals is committed to the Mount Emmons on a long term basis as a major mine project for future supply, in spite of recent volatility in commodity prices, Thompson Creek could exit our agreement at any time without penalty. Should we be unable to find a replacement partner in due course, U.S. Energy Corp. would have to fund the considerable permitting and development costs thereafter.

We depend on key personnel.

Our employees have experience in dealing with the exploration and financing of mineral properties. We have a very limited staff and executive group, and rely on third party consultants for professional geophysical and geological advice in oil and gas matters, and on Thompson Creek Metals for mining expertise. We do not presently intend to hire professional geophysicists and geologists. The loss of key employees could adversely impact our business, as finding replacements is difficult as a result of competition for experienced personnel in the minerals industry.

We may be classified as an inadvertent investment company.

We are not engaged in the business of investing, reinvesting, or trading in securities, and we do not hold ourselves out as being engaged in those activities. However, under the federal Investment Company Act of 1940 (1940 Act), a company may fall within the scope of being an inadvertent investment company under section 3(a)(1)(C) of the 1940 Act if the value of its investment securities is more than 40% of its total assets (exclusive of government securities and cash items).

As a result of the 2007 sale of uranium assets to Uranium One, we received investment securities (stock in Uranium One) with a value in excess of 40% of the value of our total assets. All of this stock was sold in 2007.

An inadvertent investment company can avoid being classified as an investment company if it can rely on one of the exclusions under the 1940 Act. One such exclusion, Rule 3a-2 under the 1940 Act, allows an inadvertent investment company (as a transient investment company) a grace period of one year from the date of classification (in our case, April 30, 2008), to seek to comply with the 40% limit, or with any other available exclusion. Accordingly, we have taken actions to comply with this 40% limit. These actions included liquidating investment securities as necessary to stay within the 40% limit.

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Since Rule 3a-2 is available to a company no more than once every three years, and assuming no other exclusions were available to us, we would have to keep within the 40% limit through April 30, 2010. In any event, we do not intend to become an intentional investment company (i.e. engaging in investment and trading activities in investment securities), even after April 30, 2010.

Classification as an investment company under the 1940 Act requires registration with the SEC. If an investment company fails to register, it would have to stop doing almost all business, and its contracts would become voidable. Registration is time consuming and restrictive, and we would be very constrained in the kind of business we could do as a registered investment company.

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Risks Relating to USE Stock

USE may issue shares of preferred stock with greater rights than its common stock.

Although we have no current plans, arrangements, understandings or agreements to do so, USE's articles of incorporation authorize the board of directors to issue one or more series of preferred stock and set the terms of the stock without seeking approval from holders of the common stock. Preferred stock that is issued may have preferential rights over the common stock, in terms of dividends, liquidation rights and voting rights.

Future equity transactions, including exercise of options or warrants, could result in dilution; and registration for public resale of the common stock in these transactions may depress stock prices.

From time to time, USE has sold restricted stock and warrants and convertible debt to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock was issued as restricted, the stock was sold at a discount to market prices, and/or the debt-to-stock conversion price was at or lower than market. These transactions caused dilution to existing shareholders. Also, from time to time, options and warrants are issued to employees, directors and third parties as incentives, with exercise prices equal to market prices at dates of issuance. Exercise of in-the-money options and warrants could result in dilution to existing shareholders.

Although we do not presently intend to do so, we may seek to raise capital from the equity markets using private placements at discounted prices, which could result in dilution to existing shareholders.

Dividends on USE common stock.

We declared a onetime special cash dividend of \$0.10 per share on all the common stock in July 2007. We may declare dividends in the future but we expect to retain the majority of earnings and cash to fund investments and business development.

USE's take-over defense mechanisms could discourage some advantageous transactions.

We have adopted a shareholder rights plan, also known as a poison pill. The plan is designed to discourage a takeover of USE at an unfair price. However, it is possible that the board of directors and a potential takeover acquirer would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price might be at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders may not receive the premium price.

Our stock price likely will continue to be volatile due to several factors.

In the two years ended December 31, 2008, USE's stock has traded as high as \$6.79 per share and as low as \$1.52 per share. The principal factors which have contributed to this volatility have been:

price and volume fluctuations in the stock market generally;
relatively small amounts of USE stock trading on any given day;
fluctuations in USE s financial operating results; and
price swings in the minerals commodities markets.
These factors may continue to be influential on our stock price.

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USE OF PROCEEDS

Unless we specify otherwise in an accompanying prospectus supplement, we expect to use the net proceeds we receive from sale of the securities offered by this prospectus for general corporate purposes, including working capital, for oil and gas exploration and development, geothermal property acquisition and development, and costs associated with maintenance and permitting work for the molybdenum property.

The actual application of proceeds from the sale of any securities issued hereunder will be described in the applicable prospectus supplement relating to such sale of securities. We may invest funds not required immediately for these purposes in Treasury Bills. The precise amount and timing of the application of these proceeds will depend upon our funding requirements and the availability and cost of other funds.

DESCRIPTION OF CAPITAL STOCK

Common Stock

We are authorized by our articles of incorporation to issue an unlimited number of shares of common stock, \$0.01 par value. As of October 15, 2009, there were issued and outstanding 21,309,058 shares of our common stock.

Shares of common stock may be issued for such consideration and on such terms as determined by the board of directors, without shareholder approval. Holders are entitled to receive dividends when and as declared by the board of directors out of funds legally available therefor. There are no restrictions on payment of cash dividends. USE declared a onetime special cash dividend of \$0.10 per share on all the common stock on the record date of July 6, 2007. We may declare dividends in the future but we expect to retain the majority of earnings and cash to fund investments and business development. All holders of shares of common stock have equal voting rights, and the shares of common stock sold in this offering will have the same rights. Holders of shares of common stock are entitled to one vote per share on all matters upon which such holders are entitled to vote, and further have the right to cumulate their votes in elections of directors. Cumulation means multiplying the number of shares held, by the number of nominees to the board of directors, then voting the resulting number of votes among the nominees as desired. Directors are elected by a plurality of the votes cast.

Stockholder Rights Plan

We have adopted a shareholder rights plan (referred to as the rights plan) pursuant to the Rights Agreement. The purpose of the rights plan is to deter an unfairly low priced hostile takeover of us and by encouraging a hostile party to negotiate a fair offer with our board of directors and thus eliminate the poison pill.

Under the rights plan, the holder of each share of common stock has a right which becomes exercisable under certain circumstances, including when beneficial ownership of our common stock by any person (other than an exempt person), alone or together with all affiliates or associates of the person, of 15% or more of the general voting power. Each right entitles the registered holder to purchase (when the rights become exercisable) from us one-one thousandth (1/1,000th) of one (1) share of Series P Preferred Stock at a price of \$200.00 for such one-one thousandth (1/1,000th) share of such preferred stock, subject to adjustment under certain circumstances.

The rights trade with the common stock and are not separable therefrom; no separate certificate for the rights is issued unless and until there is a hostile takeover attempted, after which time separate and tradable rights certificates would be issued. No shares of Series P Preferred Stock have been issued by us.

The rights are not exercisable and never can be unless and until the earlier of (i) ten business days after beneficial ownership of our common stock by any person (other than an exempt person), alone or together with all affiliates or associates of the person, with 15% or more of the general voting power, or (ii) the tenth business day (or such later date as our board of directors shall determine) after the date a person (other than an exempt person) commences or publicly announces an intent by any person (other than an exempt person) to commence a tender or exchange offer (e.g., a hostile takeover) of us upon the successful consummation of which such person and its affiliate and associates would beneficially own 15% or more of our voting stock. If

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before a tender offer or exchange offer is launched the hostile party comes to agreement with the board of directors about price and terms and makes a qualified offer to buy our stock, then the board of directors may redeem (buy back) the rights for \$0.01 each. Under the occurrence of certain circumstances specified in the rights plan, each holder of a right (other than a holder who would be deemed to be an acquiring person under the rights plan) will have the right to receive upon exercise that a number of our common shares (or the surviving corporation) that have a market value of two times the exercise price of the right (i.e., common shares will be issued at one-half or 50% of market value at the time).

Preferred Stock

We are authorized by our articles of incorporation to issue up to 100,000 shares of preferred stock, \$0.01 par value.

Shares of preferred stock may be issued by the board of directors with such dividend, liquidation, voting and conversion features as may be determined by the board of directors without shareholder approval. We are authorized to issue 50,000 shares of Series P preferred stock, only in connection with our shareholder rights plan (see above). No other series or preferred stock has been determined by the board of directors.

Listing

Shares of our common stock and rights are listed for trading on the NASDAQ Capital Market under the trading symbol USEG.

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PLAN OF DISTRIBUTION

We may sell the securities pursuant to this prospectus through underwriters, dealers or agents, directly to one or more purchasers or through a combination of any such methods of sale. The underwriters may also sell the securities directly to other purchasers or through other dealers, who may receive compensation from the underwriters in the form of discounts, concessions or commissions.

The prospectus supplement relating to any offering of securities may include the following information:

the terms of the offer;
the names of any underwriters, dealers or agents,
the name or names of any managing underwriter or underwriters;
the purchase price of the securities from us;
the net proceeds any from the sale of the securities;
any delayed delivery requirements;
any discounts or concessions allowed or reallocated or paid to dealers; and
any underwriting discounts, commissions or other items constituting underwriters' compensation, and any commissions paid to agents.

Sales through Underwriters or Dealers

If we use underwriters in the sale, the underwriters will acquire the securities for their own accounts. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless we inform you otherwise in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all the offered securities if they purchase any of them. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers.

During and after an offering through underwriters, the underwriters may purchase and sell the securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, which means that selling concessions allowed to syndicate members or other broker-dealers for the offered securities sold for their account may be reclaimed by the syndicate if the offered securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered securities, which may be higher than the price that might otherwise prevail in the open market. If commenced, the underwriters may discontinue these activities at any time.

If we use dealers in the sale of securities, we will sell the securities to them as principals. They may then resell those securities to the public at varying prices determined by the dealers at the time of resale.

Direct Sales and Sales through Agents

We may sell the securities directly. In this case, no underwriters or agents would be involved. We may sell securities upon the exercise of rights that we may issue to our securityholders. We may also sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act of

1933 with respect to any sale of those securities.

We may sell the securities through agents we designate from time to time. Unless we inform you otherwise in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.

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General Information

Underwriters, dealers and agents that participate in the distribution of the offered securities may be underwriters as defined in the Securities Act of 1933, and any discounts or commissions received by them from us and any profit on the resale of the offered securities by them may be treated as underwriting discounts and commissions under the Securities Act of 1993. Any underwriters or agents will be identified and their compensation described in a prospectus supplement.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute with respect to payments which the underwriters, dealers or agents may be required to make.

Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of their businesses.

To comply with the securities laws of certain states, if applicable, the shares must be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Any person participating in a distribution of the securities covered by this prospectus will be subject to the applicable provisions of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Regulation M of the Exchange Act may limit the timing of purchases and sales of shares. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities with respect to our securities for a period of up to five business days before the distribution.

LEGAL MATTERS

The validity of the issuance of the shares offered has been passed upon by The Law Office of Stephen E. Rounds, Denver, Colorado.

EXPERTS

The Company's consolidated balance sheets as of December 31, 2008, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2008, were audited by Hein & Associates LLP, and are incorporated by reference in this prospectus and registration statement along with their report (from the Annual Report on Form 10-K for the twelve months ended December 31, 2008), in reliance upon the authority of such firm as experts in accounting auditing. The Company's consolidated balance sheets as of December 31, 2007 and December 30, 2006, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the years in the two year-period ended December 31, 2007, were audited by Moss Adams LLP, and are incorporated by reference in this prospectus and registration statement along with their report (from the Annual Report on Form 10-K for the twelve months ended December 31, 2007), in reliance upon the authority of such firm as experts in accounting and auditing.

Estimates of the quantities of our estimated proved reserves of oil and gas, future net income and discounted future net income, effective December 31, 2008, which are included in this prospectus through incorporation by reference from

our annual report on Form 10-K for the year ended December 31, 2008, were based upon reports prepared by Ryder Scott Company, L.P., petroleum engineers. We have incorporated these estimates in reliance on the authority of such firm as an expert in such matters.

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5,000,000 Shares of Common Stock

**Madison Williams and Company
C.K. Cooper & Company**

December 11, 2009
