

TRUSTMARK CORP
Form 10-Q
May 11, 2009

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

Form 10-Q

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from _____ to _____

Commission file number 000-03683

Trustmark Corporation

(Exact name of registrant as specified in its charter)

Mississippi
(State or other jurisdiction of incorporation or organization)

64-0471500
(I.R.S. Employer Identification No.)

248 East Capitol Street, Jackson, Mississippi
(Address of principal executive offices)

39201
(Zip Code)

(601) 208-5111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2009, there were 57,378,318 shares outstanding of the registrant’s common stock (no par value).

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Trustmark Corporation and Subsidiaries
Consolidated Balance Sheets
(\$ in thousands)

| | (Unaudited) | December |
|---|---------------------|---------------------|
| | March 31, | 31, |
| | 2009 | 2008 |
| Assets | | |
| Cash and due from banks (noninterest-bearing) | \$ 231,211 | \$ 257,930 |
| Federal funds sold and securities purchased under reverse repurchase agreements | 8,014 | 23,401 |
| Securities available for sale (at fair value) | 1,613,047 | 1,542,841 |
| Securities held to maturity (fair value: \$263,679 - 2009; \$264,039 - 2008) | 256,677 | 259,629 |
| Loans held for sale | 301,691 | 238,265 |
| Loans | 6,640,597 | 6,722,403 |
| Less allowance for loan losses | 100,358 | 94,922 |
| Net loans | 6,540,239 | 6,627,481 |
| Premises and equipment, net | 157,068 | 156,811 |
| Mortgage servicing rights | 45,256 | 42,882 |
| Goodwill | 291,104 | 291,104 |
| Identifiable intangible assets | 22,820 | 23,821 |
| Other assets | 308,587 | 326,744 |
| Total Assets | \$ 9,775,714 | \$ 9,790,909 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 1,504,032 | \$ 1,496,166 |
| Interest-bearing | 5,652,908 | 5,327,704 |
| Total deposits | 7,156,940 | 6,823,870 |
| Federal funds purchased and securities sold under repurchase agreements | 607,083 | 811,129 |
| Short-term borrowings | 448,380 | 730,958 |
| Long-term FHLB advances | 75,000 | - |
| Subordinated notes | 49,750 | 49,741 |
| Junior subordinated debt securities | 70,104 | 70,104 |
| Other liabilities | 168,089 | 126,641 |
| Total Liabilities | 8,575,346 | 8,612,443 |
| Shareholders' Equity | | |
| Preferred stock - authorized 20,000,000 shares | | |
| Series A, no par value, (liquidation preference \$1,000 per share) | | |
| Issued and outstanding: 215,000 shares - 2009 and 2008; | 205,564 | 205,126 |
| Common stock, no par value: | | |
| Authorized: 250,000,000 shares | | |
| Issued and outstanding: 57,378,318 shares - 2009; | | |
| 57,324,737 shares - 2008 | 11,955 | 11,944 |
| Capital surplus | 142,167 | 139,471 |

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| | | |
|--|--------------|--------------|
| Retained earnings | 845,779 | 836,642 |
| Accumulated other comprehensive loss, net of tax | (5,097) | (14,717) |
| Total Shareholders' Equity | 1,200,368 | 1,178,466 |
| Total Liabilities and Shareholders' Equity | \$ 9,775,714 | \$ 9,790,909 |

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Trustmark Corporation and Subsidiaries
Consolidated Statements of Income
(\$ in thousands except per share data)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2009 | 2008 |
| Interest Income | | |
| Interest and fees on loans | \$ 90,627 | \$ 118,050 |
| Interest on securities: | | |
| Taxable | 21,654 | 5,857 |
| Tax exempt | 1,192 | 1,356 |
| Interest on federal funds sold and securities purchased under reverse repurchase agreements | 19 | 179 |
| Other interest income | 313 | 572 |
| Total Interest Income | 113,805 | 126,014 |
| Interest Expense | | |
| Interest on deposits | 22,540 | 43,363 |
| Interest on federal funds purchased and securities sold under repurchase agreements | 364 | 3,073 |
| Other interest expense | 2,352 | 4,829 |
| Total Interest Expense | 25,256 | 51,265 |
| Net Interest Income | 88,549 | 74,749 |
| Provision for loan losses | 16,866 | 14,243 |
| Net Interest Income After Provision for Loan Losses | 71,683 | 60,506 |
| Noninterest Income | | |
| Service charges on deposit accounts | 12,568 | 12,564 |
| Insurance commissions | 7,422 | 8,256 |
| Wealth management | 5,555 | 7,198 |
| General banking - other | 5,407 | 5,788 |
| Mortgage banking, net | 10,907 | 11,056 |
| Other, net | 1,115 | 3,221 |
| Securities gains, net | 30 | 433 |
| Total Noninterest Income | 43,004 | 48,516 |
| Noninterest Expense | | |
| Salaries and employee benefits | 43,425 | 43,584 |
| Services and fees | 10,000 | 9,430 |
| Net occupancy - premises | 5,178 | 4,801 |
| Equipment expense | 4,166 | 4,074 |
| Other expense | 11,638 | 7,937 |
| Total Noninterest Expense | 74,407 | 69,826 |
| Income Before Income Taxes | 40,280 | 39,196 |
| Income taxes | 13,795 | 13,017 |
| Net Income | 26,485 | 26,179 |
| Preferred stock dividends | 2,688 | - |

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| | | | | |
|---|----|--------|----|--------|
| Accretion of discount on preferred stock | | 438 | | - |
| Net Income Available to Common Shareholders | \$ | 23,359 | \$ | 26,179 |
| Earnings Per Common Share | | | | |
| Basic | \$ | 0.41 | \$ | 0.46 |
| Diluted | \$ | 0.41 | \$ | 0.46 |
| Dividends Per Common Share | \$ | 0.23 | \$ | 0.23 |

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(\$ in thousands)
(Unaudited)

| | 2009 | 2008 |
|---|--------------|------------|
| Balance, January 1, | \$ 1,178,466 | \$ 919,636 |
| Net income per consolidated statements of income | 26,485 | 26,179 |
| Other comprehensive income: | | |
| Net change in fair value of securities available for sale | 9,176 | 3,482 |
| Net change in defined benefit plans | 444 | - |
| Comprehensive income | 36,105 | 29,661 |
| Preferred dividends paid | (2,508) | - |
| Common stock dividends paid | (13,314) | (13,250) |
| Common stock issued-net, long-term incentive plans | (275) | - |
| Excess tax benefit from stock-based compensation arrangements | 373 | 188 |
| Compensation expense, long-term incentive plans | 1,521 | 1,106 |
| Balance, March 31, | \$ 1,200,368 | \$ 937,341 |

See notes to consolidated financial statements.

Trustmark Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(\$ in thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2009 | 2008 |
| Operating Activities | | |
| Net income | \$ 26,485 | \$ 26,179 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provision for loan losses | 16,866 | 14,243 |
| Depreciation and amortization | 7,053 | 6,904 |
| Net (accretion) amortization of securities | (48) | 244 |
| Securities gains, net | (30) | (433) |
| Gains on sales of loans | (4,614) | (1,090) |
| Deferred income tax benefit | (5,003) | (4,731) |
| Proceeds from sales of loans held for sale | 489,493 | 310,355 |
| Purchases and originations of loans held for sale | (567,326) | (356,886) |
| Originations of mortgage servicing rights | (5,369) | (4,479) |
| Net decrease in other assets | 20,268 | 14,461 |
| Net increase in other liabilities | 9,838 | 4,581 |
| Other operating activities, net | 1,634 | 11,055 |
| Net cash (used in) provided by operating activities | (10,753) | 20,403 |
| Investing Activities | | |
| Proceeds from calls and maturities of securities held to maturity | 8,322 | 7,804 |
| Proceeds from calls and maturities of securities available for sale | 69,472 | 79,581 |
| Proceeds from sales of securities available for sale | - | 42,879 |
| Purchases of securities held to maturity | (5,326) | - |
| Purchases of securities available for sale | (92,082) | (218,643) |
| Net decrease in federal funds sold and securities purchased under reverse repurchase agreements | 15,387 | 1,975 |
| Net decrease in loans | 63,227 | 14,854 |
| Purchases of premises and equipment | (3,156) | (2,638) |
| Proceeds from sales of premises and equipment | 11 | 1 |
| Proceeds from sales of other real estate | 4,046 | 361 |
| Net cash provided by (used in) investing activities | 59,901 | (73,826) |
| Financing Activities | | |
| Net increase in deposits | 333,070 | 475,063 |
| Net decrease in federal funds purchased and securities sold under repurchase agreements | (204,046) | (27,332) |
| Net decrease in short-term borrowings | (264,167) | (384,029) |
| Proceeds from long-term FHLB advances | 75,000 | - |
| Preferred stock dividends | (2,508) | - |
| Common stock dividends | (13,314) | (13,250) |
| Common stock issued-net, long-term incentive plan | (275) | - |
| Excess tax benefit from stock-based compensation arrangements | 373 | 188 |

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| | | |
|---|------------|------------|
| Net cash (used in) provided by financing activities | (75,867) | 50,640 |
| Decrease in cash and cash equivalents | (26,719) | (2,783) |
| Cash and cash equivalents at beginning of period | 257,930 | 292,983 |
| Cash and cash equivalents at end of period | \$ 231,211 | \$ 290,200 |

See notes to consolidated financial statements.

TRUSTMARK CORPORATION & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements in this quarterly report on Form 10-Q include the accounts of Trustmark Corporation (Trustmark) and all other entities in which Trustmark has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and should be read in conjunction with the consolidated financial statements, and notes thereto, included in Trustmark's 2008 annual report on Form 10-K. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included.

NOTE 2 – SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

The following table is a summary of the estimated fair value of securities available for sale and the amortized cost of securities held to maturity (\$ in thousands):

| | March 31, 2009 | | December 31, 2008 | |
|--|---------------------|----------------------------|---------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Securities Available for Sale | | | | |
| U.S. Treasury and other U.S. Government agencies | \$ 25,601 | \$ 26,019 | \$ 31,323 | \$ 31,892 |
| Obligations of states and political subdivisions | 124,577 | 125,366 | 98,323 | 98,653 |
| Mortgage-backed securities | | | | |
| Pass-through securities: | | | | |
| Guaranteed by GNMA | 10,271 | 10,658 | 8,476 | 8,726 |
| Issued by FNMA and FHLMC | 78,018 | 79,007 | 18,519 | 19,186 |
| Other mortgage-backed securities: | | | | |
| Issued or guaranteed by FNMA, FHLMC, or GNMA | 1,321,731 | 1,363,928 | 1,348,181 | 1,376,514 |
| Corporate debt securities | 8,224 | 8,069 | 8,254 | 7,870 |
| Total securities available for sale | \$ 1,568,422 | \$ 1,613,047 | \$ 1,513,076 | \$ 1,542,841 |
| Securities Held to Maturity | | | | |
| Obligations of states and political subdivisions | \$ 95,799 | \$ 98,131 | \$ 102,901 | \$ 105,141 |
| Mortgage-backed securities | | | | |
| Pass-through securities: | | | | |
| Guaranteed by GNMA | 5,325 | 5,355 | - | - |

Other mortgage-backed securities:

| | | | | |
|--|------------|------------|------------|------------|
| Issued or guaranteed by FNMA, FHLMC, or GNMA | 155,553 | 160,193 | 156,728 | 158,898 |
| Total securities held to maturity | \$ 256,677 | \$ 263,679 | \$ 259,629 | \$ 264,039 |

Management continues to focus on asset quality as one of the strategic goals of the securities portfolio, which is evidenced by the investment of approximately 89% of the portfolio in U.S. Treasury, U.S. Government agency-backed obligations and other AAA rated securities. None of the securities in the portfolio are considered to be sub-prime. Furthermore, outside of membership in the Federal Home Loan Bank of Dallas, Federal Reserve Bank and Depository Trust and Clearing Corporation, Trustmark does not hold any equity investment in government sponsored entities.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

For the periods presented, loans consisted of the following (\$ in thousands):

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------------|
| Loans secured by real estate: | | |
| Construction, land development and other land loans | \$ 1,000,020 | \$ 1,028,788 |
| Secured by 1-4 family residential properties | 1,601,600 | 1,524,061 |
| Secured by nonfarm, nonresidential properties | 1,425,937 | 1,422,658 |
| Other real estate secured | 184,204 | 186,915 |
| Commercial and industrial loans | 1,258,887 | 1,305,938 |
| Consumer loans | 804,958 | 895,046 |
| Other loans | 364,991 | 358,997 |
| Loans | 6,640,597 | 6,722,403 |
| Less allowance for loan losses | 100,358 | 94,922 |
| Net loans | \$ 6,540,239 | \$ 6,627,481 |

The following table summarizes the activity in the allowance for loan losses for the periods presented (\$ in thousands):

| | Three Months Ended March 31, | |
|---------------------------|---------------------------------|-----------|
| | 2009 | 2008 |
| Beginning balance | \$ 94,922 | \$ 79,851 |
| Loans charged-off | (14,015) | (15,176) |
| Recoveries | 2,585 | 2,900 |
| Net charge-offs | (11,430) | (12,276) |
| Provision for loan losses | 16,866 | 14,243 |
| Balance at end of period | \$ 100,358 | \$ 81,818 |

The allowance for loan losses is maintained at a level believed adequate by Management, based on estimated probable losses within the existing loan portfolio. Trustmark's allowance for loan loss methodology is based on guidance provided in SEC Staff Accounting Bulletin (SAB) No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues," as well as on other regulatory guidance. Accordingly, Trustmark's methodology is based on historical loss experience by type of loan and internal risk ratings, homogeneous risk pools and specific loss allocations, with adjustments considering environmental factors such as current economic events, industry and geographical conditions and portfolio performance indicators. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors, in compliance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses published by the governmental regulating agencies for financial services companies. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timings of future cash flows expected to be received, and valuation adjustments on impaired loans that may be susceptible to significant changes. Management believes that the allowance for loan losses adequately provides for probable losses in its loan portfolio at March 31, 2009.

At March 31, 2009 and December 31, 2008, the carrying amounts of nonaccrual loans, which are considered for impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," were \$134.5

million and \$114.0 million, respectively. When a loan is deemed to be impaired, the full difference between the carrying amount of the loan and the most likely estimate of the assets fair value of the underlying collateral less cost to sell is typically charged-off and, as such, the impaired loan has no specific allowance for loan loss reserves. At March 31, 2009 and December 31, 2008, specifically evaluated impaired loans totaled \$61.5 million and \$56.9 million, respectively. For the first three months of 2009, specific charge-offs related to impaired loans totaled \$4.9 million while the provisions charged to net income totaled \$3.0 million. For the first three months of 2008, specific charge-offs related to impaired loans totaled \$9.3 million while the provisions charged to net income totaled \$2.3 million. The reserves allocated specifically to impaired loans were \$2.5 million at March 31, 2008 while there were no reserves allocated specifically to impaired loans at March 31, 2009. At March 31, 2009 and December 31, 2008, nonaccrual loans, which are impaired but not specifically evaluated and written down to fair value of the underlying collateral less cost to sell, totaled \$73.0 million and \$57.1 million, respectively. In addition, these nonaccrual loans had allocated allowance for loan losses of \$16.0 million and \$12.0 million at the end of the respective periods. No material interest income was recognized in the income statement on impaired or nonaccrual loans during the three months ended March 31, 2009 and 2008.

NOTE 4 – MORTGAGE BANKING

Trustmark recognizes as an asset the rights to service mortgage loans for others, or mortgage servicing rights (MSR), from the sale of loans originated by Trustmark or acquired through its wholesale network. Trustmark initially measures and carries MSR at fair value. At the end of each quarter, Trustmark determines the fair value of MSR using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, ancillary income and late fees. Prevailing market conditions at the time of analysis are factored into the accumulation of assumptions and determination of servicing value.

Trustmark utilizes derivative instruments to offset changes in the fair value of mortgage servicing rights (MSR) attributable to changes in interest rates. Changes in the fair value of the derivative instrument are recorded in mortgage banking income, net and are offset by the changes in the fair value of MSR, as shown in the accompanying table. MSR fair values represent the effect of present value decay and the effect of changes in interest rates. Ineffectiveness of hedging MSR fair value is measured by comparing total hedge cost to the fair value of the MSR asset attributable to market changes. The impact of this strategy resulted in a net positive ineffectiveness of \$2.1 million and \$7.4 million for the quarters ended March 31, 2009 and 2008, respectively. The accompanying table shows that the MSR value declined \$352 thousand due to market changes for the quarter ended March 31, 2009. This change is due to a slight decline in mortgage rates. More than offsetting the MSR change is a \$2.4 million increase in the value of derivative instruments. Although 10-year Treasury yields increased during the quarter, income produced by the steep yield curve and option premium more than offset the market value decrease of the derivative instruments.

The activity in mortgage servicing rights is detailed in the table below (\$ in thousands):

| | Three Months Ended | |
|---------------------------------|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| Balance at beginning of period | \$ 42,882 | \$ 67,192 |
| Origination of servicing assets | 7,205 | 5,131 |
| Disposals | (1,836) | (653) |
| Change in fair value: | | |
| Due to market changes | (352) | (10,193) |
| Due to runoff | (2,643) | (2,430) |
| Balance at end of period | \$ 45,256 | \$ 59,047 |

NOTE 5 - DEPOSITS

At March 31, 2009 and December 31, 2008, deposits consisted of the following (\$ in thousands):

| | December | |
|-------------------------------------|--------------|--------------|
| | March 31, | 31, |
| | 2009 | 2008 |
| Noninterest-bearing demand deposits | \$ 1,504,032 | \$ 1,496,166 |
| Interest-bearing deposits: | | |
| Interest-bearing demand | 1,198,322 | 1,128,426 |
| Savings | 1,846,427 | 1,658,255 |
| Time | 2,608,159 | 2,541,023 |
| Total interest-bearing deposits | 5,652,908 | 5,327,704 |

| | | |
|----------------|--------------|--------------|
| Total deposits | \$ 7,156,940 | \$ 6,823,870 |
|----------------|--------------|--------------|

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NOTE 6 – STOCK AND INCENTIVE COMPENSATION PLANS

Trustmark has granted and currently has outstanding, stock and incentive compensation awards subject to the provisions of the 1997 Long Term Incentive Plan (the 1997 Plan) and the 2005 Stock and Incentive Compensation Plan (the 2005 Plan). New awards have not been issued under the 1997 Plan since it was replaced by the 2005 Plan. The 2005 Plan is designed to provide flexibility to Trustmark regarding its ability to motivate, attract and retain the services of key associates and directors upon whose judgment, interest and special efforts the successful conduct of its operations is largely dependent. The 2005 Plan allows Trustmark to make grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units to key associates and directors.

Stock Option Grants

Stock option awards under the 2005 Plan are granted with an exercise price equal to the market price of Trustmark's stock on the date of grant. Stock options granted under the 2005 Plan vest 20% per year and have a contractual term of seven years. Stock option awards, which were granted under the 1997 Plan, had an exercise price equal to the market price of Trustmark's stock on the date of grant, vested equally over four years with a contractual ten-year term. Compensation expense for stock options granted under these plans is estimated using the fair value of each option granted using the Black-Scholes option-pricing model and is recognized on the straight-line method over the requisite service period. During the first three months of 2009, there were no grants of stock option awards. Stock option-based compensation expense for these plans totaled \$177 thousand and \$285 thousand for the first three months of 2009 and 2008, respectively.

Restricted Stock Grants

Performance Awards

Trustmark's performance awards are granted to Trustmark's executive and senior management team, as well as Trustmark's Board of Directors. Performance awards granted vest based on performance goals of return on average tangible equity (ROATE) or return on average equity (ROAE) and total shareholder return (TSR) compared to a defined peer group. Awards based on TSR are valued under SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," utilizing a Monte Carlo simulation to estimate fair value of the awards at the grant date, while ROATE and ROAE awards are valued under SFAS No. 123R utilizing the fair value of Trustmark's stock at the grant date based on the estimated number of shares expected to vest. The restriction period for performance awards covers a three-year vesting period. These awards are recognized on the straight-line method over the requisite service period. These awards provide for excess shares, if performance measures exceed 100%. Any excess shares are granted at the end of the vesting period and vest over an additional three-year period. The restricted share agreement provides for voting rights and dividend privileges. On January 27, 2009, Trustmark awarded 67,731 shares of performance based restricted stock to key members of its executive management team. The performance based restricted stock issued in February 2006, vested on December 31, 2008. On February 18, 2009, the stock related to this grant was issued to the participants free of restriction. As a result of achieving 168% of the performance goals during the performance period, 41,683 excess time-vested restricted shares were awarded and will vest on December 31, 2011. Trustmark recorded compensation expense for performance awards of \$544 thousand and \$622 thousand for the first three months of 2009 and 2008, respectively.

Time-Vested Awards

Trustmark's time-vested awards are granted in both employee recruitment and retention and are restricted for thirty-six months from the award dates. Time-vested awards are valued under SFAS No. 123 utilizing the fair value of Trustmark's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period. On January 27, 2009, Trustmark awarded 112,123 shares of time-vested restricted stock to key members of its management team and board of directors. Trustmark recorded compensation expense for time-vested stock awards of \$422 thousand and \$199 thousand for the first three months of 2009 and 2008, respectively.

On March 31, 2009, Trustmark approved the payment of the 2008 bonus awards, in the form of time-vested restricted stock, earned under the Trustmark's management incentive plan for certain named executive officers. Trustmark participated in the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP) under the Emergency Economic Stabilization Act of 2008 (EESA), as amended by the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA places limitations on Trustmark's ability to pay cash bonuses to certain employees. These restrictions apply during the period in which the obligation to Treasury remains outstanding (the TARP Period). Therefore, Trustmark awarded 20,528 shares of time-vested restricted stock in lieu of a cash payment related to the amount of the 2008 bonus awards earned by certain named executive officers. The restricted stock awards were granted under Trustmark's 2005 Stock and Incentive Compensation Plan (the 2005 Plan) and are substantially similar to the time-based restricted stock previously granted to employees under the 2005 Plan, except that the restricted stock is entitled to receive dividends when paid and the restricted stock will vest at the end of the TARP Period.

Performance-Based Restricted Stock Unit Award

On January 27, 2009, Trustmark's Chairman and CEO was granted a cash-settled performance-based restricted stock unit award for 23,123 units, with each unit having the value of one share of Trustmark's common stock (the RSU award). This award was granted in connection with an employment agreement dated November 20, 2008 that provides for in lieu of receiving an equity compensation award in 2010 or 2011, the 2009 equity compensation award to be twice the amount of a normal award, with one-half of the award being performance-based and one-half service-based. The RSU award was granted outside of the Trustmark's 2005 Stock and Incentive Compensation Plan (the 2005 Plan) in lieu of granting shares of performance-based restricted stock that would exceed the annual limit permitted to be granted under the 2005 Plan, in order to satisfy the equity compensation provisions of the employment agreement.

The RSU award may be settled only in cash and vests only if both performance-based and service-based requirements are met. The performance-based vesting requires performance goals to be achieved within a two-year performance period commencing January 1, 2009 and ending December 31, 2010. The performance-based vesting of the RSU award is based on the achievement of target percentages related to ROATE (50%), with vesting up to and including 100%, and TSR (50%), with vesting up to and including 100%, compared to the Trustmark's defined peer group. If a greater than 100% vesting level with respect to the ROATE and TSR targets is achieved in the aggregate (with the maximum being 200%), an additional award of service-based restricted stock units (Excess Units) will be granted within the first 2½ months after the performance period ends. The number of Excess Units granted will equal the number of units awarded initially (Original Units) multiplied by the vesting percentage exceeding 100%. In addition to the performance-based vesting requirements, the RSU award's service-based vesting provisions require continued employment with Trustmark through May 10, 2011, which is the expected date of Trustmark's annual meeting in 2011, for the Original Units and the Excess Units to vest. Dividend equivalents on the Original Units will be credited from the award date and will vest and be paid only when and to the extent the Original Units vest. Dividend equivalents on the Excess Units will be credited from the date Trustmark grants the Excess Units, and will vest and be paid only when and to the extent the Excess Units vest. During the first three months of 2009, Trustmark recorded compensation expense for the RSU award of \$94 thousand, based on the share price of \$18.38 at March 31, 2009.

NOTE 7 – BENEFIT PLANS

Capital Accumulation Plan

Trustmark maintains a noncontributory defined benefit pension plan (Trustmark Capital Accumulation Plan), which covers substantially all associates employed prior to January 1, 2007. The plan provides retirement benefits that are based on the length of credited service and final average compensation, as defined in the plan and vest upon three years of service.

In an effort to control expenses, the Board voted to freeze the plan effective May 15, 2009. Individuals will not earn additional benefits, except for interest as required by IRS regulations, after the effective date. Associates will retain their previously-earned pension benefits.

The following table presents information regarding the net periodic benefit cost for the periods ended March 31, 2009 and 2008 (\$ in thousands):