

Hilltop Holdings Inc.  
Form 424B3  
August 07, 2008

**SECOND PROSPECTUS SUPPLEMENT**  
(to Prospectus dated March 31, 2008)

Filed Pursuant to  
Rule 424(b)(3)  
Registration No. 333-129254

## **HILLTOP HOLDINGS INC.**

### **6,718,356 Shares** **Common Stock**

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This second prospectus supplement amends and supplements the prospectus dated March 31, 2008, and the prospectus supplement dated May 9, 2008, relating to the 6,718,356 shares of our common stock that may be issued upon the exchange of the 7<sup>1/2</sup>% Senior Exchangeable Notes due 2025, or the Senior Notes, of Affordable Residential Communities LP, held by the selling stockholders. Subject to the conditions described in the prospectus, holders of the Senior Notes may exchange, at any time on or prior to maturity or redemption, any outstanding Senior Notes, or portions thereof, into shares of our common stock, currently at an exchange rate of 73.94998 shares of our common stock per \$1,000 principal amount of the Senior Notes (equivalent to an exchange price of \$13.52 per share of our common stock).

Unless the context otherwise requires, the words "we," "our," "ours," "us" and the "Company" refer to Hilltop Holdings Inc., or Hilltop, Affordable Residential Communities LP, or ARC LP, and their respective subsidiaries, collectively, but not to the selling stockholders. "Selling stockholders" refers to the stockholders identified under the caption "Selling Stockholders" contained in the prospectus.

The distribution of the shares of common stock by the selling stockholders is not subject to any underwriting agreement. We will receive none of the proceeds from the sale of the shares offered by the prospectus. All expenses of registration incurred in connection with the offering are being borne by us, but all selling and other expenses incurred by the selling stockholders will be borne by the selling stockholder.

The shares of common stock may be sold by the selling stockholders, from time to time, on The New York Stock Exchange, or NYSE, or any other national securities exchange or automated inter-dealer quotation system on which shares of our common stock are then listed, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices.

Our common stock is listed on the NYSE under the symbol "HTH." The last reported price of our common stock on August 6, 2008, on the NYSE was \$10.51 per share. To preserve our net operating loss carryforwards, or NOLs, our charter limits the amount of common stock that may be owned by any single person or affiliated group to 4.9% of the outstanding shares and restricts the transferability of the shares under certain circumstances.

The prospectus, together with the prospectus supplement and this second prospectus supplement, constitutes the prospectus required to be delivered by Section 5(b) of the Securities Act of 1933 with respect to offers and sales of the shares of common stock. All references in the prospectus to "this prospectus" are hereby amended to read "this prospectus (as supplemented and amended)."

**YOU SHOULD READ THE PROSPECTUS, THE PROSPECTUS SUPPLEMENT AND THIS SECOND PROSPECTUS SUPPLEMENT CAREFULLY BEFORE YOU INVEST, INCLUDING THE RISK FACTORS THAT COMMENCE ON PAGE 2 OF THE PROSPECTUS.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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The date of this Prospectus Supplement is August 7, 2008.

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*The prospectus is hereby supplemented to add the following section titled "Second Quarter 2008 Developments."*

**Second Quarter 2008 Developments**

The information that follows is contained in Hilltop's Quarterly Report on Form 10-Q for the period ended June 30, 2008, which was filed with the Securities and Exchange Commission on August 7, 2008.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark  
One)

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

For the quarterly period ended June 30, 2008

OR

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

Commission File Number 1-31987

**Hilltop Holdings Inc.**

(Exact name of Registrant as specified in its charter)

**MARYLAND**

(State or other jurisdiction of  
incorporation or organization)

**84-1477939**

(I.R.S. employer identification no.)

**200 Crescent Court, Suite 1330**

**Dallas, Texas**

(Address of principal executive offices)

**75201**

(Zip code)

**(214) 855-2177**

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated  
filer

Accelerated  
filer

Non-accelerated  
filer

Smaller reporting  
company

(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

The number of shares of the Registrant's common stock outstanding at August 7, 2008 was 56,451,884.

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**HILLTOP HOLDINGS INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2008**

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**HILLTOP HOLDINGS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**  
**(in thousands, except share and per share data)**  
**(unaudited)**

|  | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| <b>Assets</b>  |                  |                      |
| Investments  |                  |                      |
| Fixed maturities   |                  |                      |
| Available for sale securities, at fair value (amortized cost of \$121,643 and \$130,253, respectively) | \$ 121,496       | \$ 131,904           |
| Held-to-maturity securities, at amortized cost (fair value of \$15,363 and \$6,819, respectively)      | 15,058           | 6,784                |
| Equity securities  |                  |                      |
| Available for sale securities, at fair value (cost of \$13,947 and \$55,607, respectively)             | 13,006           | 52,336               |
| Total investments  | 149,560          | 191,024              |
| Cash and cash equivalents  | 772,816          | 783,008              |
| Accrued interest and dividends   | 1,525            | 1,497                |
| Premiums receivable  | 22,165           | 21,287               |
| Deferred acquisition costs   | 17,094           | 14,521               |
| Reinsurance receivable, net of uncollectible amounts   | 2,308            | 2,692                |
| Prepaid reinsurance premiums   | 4,877            | 3,300                |
| Deferred income taxes  | 35,317           | 22,219               |
| Goodwill   | 23,988           | 23,613               |
| Intangible assets, definite life   | 11,936           | 12,880               |
| Intangible assets, indefinite life   | 3,000            | 3,000                |
| Property and equipment, net  | 416              | 533                  |
| Loan origination costs, net  | 3,364            | 3,462                |
| Other assets   | 2,351            | 2,455                |
| <br>Total Assets   | <br>\$ 1,050,717 | <br>\$ 1,085,491     |

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

**HILLTOP HOLDINGS INC.****CONSOLIDATED BALANCE SHEETS****AS OF JUNE 30, 2008 AND DECEMBER 31, 2007****(in thousands, except share and per share data)****(unaudited)**

|  | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|--------------------------|------------------------------|
| <b>Liabilities and Stockholders' Equity</b>  |                          |                              |
| <b>Liabilities</b>   |                          |                              |
| Reserve for losses and loss adjustment expenses  | \$ 23,826                | \$ 18,091                    |
| Unearned premiums  | 73,287                   | 68,410                       |
| Reinsurance payable  | 153                      | 190                          |
| Accounts payable and accrued expenses  | 9,586                    | 13,017                       |
| Income taxes payable   | 2,571                    | 12,238                       |
| Notes payable  | 138,368                  | 142,368                      |
| Dividends payable  | 1,719                    | 1,719                        |
| Other liabilities  | 4,972                    | 5,273                        |
| <b>Total liabilities</b>   | <b>254,482</b>           | <b>261,306</b>               |
| <b>Commitments and Contingencies (see Note 12)</b>   |                          |                              |
| <b>Stockholders' Equity</b>  |                          |                              |
| Preferred stock, no par value, 5,750,000 shares authorized, 5,000,000 shares issued and outstanding at June 30, 2008 and December 31, 2007; liquidation preference of \$25 per share plus accrued but unpaid dividends | 119,108                  | 119,108                      |
| Common stock, \$.01 par value, 100,000,000 shares authorized, 56,448,098 and 56,461,465 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively   | 564                      | 564                          |
| Additional paid-in capital   | 917,752                  | 917,582                      |
| Accumulated other comprehensive loss   | (706)                    | (1,053)                      |
| Accumulated deficit  | (240,483)                | (212,016)                    |
| <b>Total stockholders' equity</b>  | <b>796,235</b>           | <b>824,185</b>               |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 1,050,717</b>      | <b>\$ 1,085,491</b>          |

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

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|   | <b>Three Months Ended<br/>June 30,</b> |               | <b>Six Months Ended<br/>June 30,</b> |               |
|---|--|---------------|--------------------------------------|---------------|
|   | <b>2008</b>                            | <b>2007</b>   | <b>2008</b>                          | <b>2007</b>   |
| <b>Revenue:</b>   |  |               |                                      |               |
| Net premiums earned   | \$ 30,816                              | \$26,478      | \$ 60,272                            | \$ 43,197     |
| Net investment income   | 6,801                                  | 1,940         | 15,171                               | 3,270         |
| Net realized (losses) gains on investments  | (21,465)                               | 117           | (41,694)                             | 184           |
| Other income  | 1,539                                  | 1,784         | 3,171                                | 3,101         |
| <b>Total revenue</b>  | <b>17,691</b>                          | <b>30,319</b> | <b>36,920</b>                        | <b>49,752</b> |
| <b>Expenses:</b>  |  |               |                                      |               |
| Loss and loss adjustment expenses   | 24,829                                 | 18,638        | 39,282                               | 27,515        |
| Policy acquisition and other underwriting expenses  | 11,566                                 | 7,933         | 21,614                               | 14,536        |
| General and administrative expenses   | 3,382                                  | 2,805         | 5,457                                | 5,285         |
| Depreciation and amortization   | 541                                    | 543           | 1,096                                | 898           |
| Interest expense  | 2,526                                  | 3,059         | 5,308                                | 5,369         |
| <b>Total expenses</b>   | <b>42,844</b>                          | <b>32,978</b> | <b>72,757</b>                        | <b>53,603</b> |
| Loss from continuing operations before income tax benefit and allocation to minority interest | (25,153)                               | (2,659)       | (35,837)                             | (3,851)       |
| Income tax benefit from continuing operations   | 8,723                                  | 2,031         | 12,526                               | 1,386         |
| Loss from continuing operations before allocation to minority interest                        | (16,430)                               | (628)         | (23,311)                             | (2,465)       |
| Minority interest   |  | 98            |                                      | 214           |
| Loss from continuing operations   | (16,430)                               | (530)         | (23,311)                             | (2,251)       |
| Loss from discontinued operations   |  | (4,695)       |                                      | (9,478)       |
| Income tax expense from discontinuing operations  |  | (2,287)       |                                      | (2,329)       |
| Minority interest in discontinued operations  |  | 157           |                                      | 316           |
| Net loss  | (16,430)                               | (7,355)       | (23,311)                             | (13,742)      |
| Preferred stock dividend  | (2,578)                                | (2,578)       | (5,156)                              | (5,156)       |
| Net loss attributable to common stockholders  | \$(19,008)                             | \$(9,933)     | \$(28,467)                           | \$(18,898)    |
| <b>Loss per share from continuing operations less preferred dividends</b>                     |  |               |                                      |               |
| Basic loss per share  | \$ (0.34)                              | \$ (0.06)     | \$ (0.50)                            | \$ (0.14)     |
| Diluted loss per share  | \$ (0.34)                              | \$ (0.06)     | \$ (0.50)                            | \$ (0.14)     |
| <b>Loss per share from discontinued operations</b>  |  |               |                                      |               |
| Basic loss per share  | \$                                     | \$ (0.12)     | \$                                   | \$ (0.21)     |

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|   |        |           |           |                     |
|---|--------|-----------|-----------|---------------------|
| Diluted loss per share                                    | \$     | \$ (0.12) | \$        | \$ (0.21)           |
| <b>Loss per share attributable to common stockholders</b> |        |           |           |                     |
| Basic loss per share                                      | \$     | (0.34)    | \$ (0.18) | \$ (0.50) \$ (0.35) |
| Diluted loss per share                                    | \$     | (0.34)    | \$ (0.18) | \$ (0.50) \$ (0.35) |
| <b>Weighted average share information</b>                 |        |           |           |                     |
| Basic shares outstanding                                  | 56,448 | 56,394    | 56,765    | 54,372              |
| Diluted shares outstanding                                | 56,448 | 56,394    | 56,765    | 54,372              |

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



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**HILLTOP HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008**

(in thousands)

(unaudited)

|  | Preferred Stock |            | Common Stock |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|--|-----------------|------------|--------------|--------|----------------------------------|--|------------------------|----------------------------------|
|  | Shares          | Amount     | Shares       | Amount |                                  |  |                        |                                  |
| Balance, January 1, 2008                                 | 5,000           | \$ 119,108 | 56,461       | \$ 564 | \$ 917,582                       | \$ (1,053)   | \$ (212,016)           | \$ 824,185                       |
| Net loss   |                 |            |              |        |                                  |  | (23,311)               | (23,311)                         |
| Preferred stock dividends<br>declared                    |                 |            |              |        |                                  |  | (5,156)                | (5,156)                          |
| Accumulated other<br>comprehensive income, net<br>of tax |                 |            |              |        |                                  | 347  |                        | 347                              |
| Total comprehensive loss                                 |                 |            |              |        |                                  |  |                        | (28,120)                         |
| Common stock issued to<br>board members                  |                 |            | 8            |        | 90                               |  |                        | 90                               |
| Share redeemed   |                 |            | (21)         |        |                                  |  |                        |                                  |
| Stock compensation<br>expense                            |                 |            |              |        | 80                               |  |                        | 80                               |
| Balance, June 30, 2008                                   | 5,000           | \$ 119,108 | 56,448       | \$ 564 | \$ 917,752                       | \$ (706)   | \$ (240,483)           | \$ 796,235                       |

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

**HILLTOP HOLDINGS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**

(in thousands)

(unaudited)

|   | For the Six Months Ended<br>June 30, |             |
|---|--------------------------------------|-------------|
|   | 2008                                 | 2007        |
| <b>Cash flow from operating activities:</b>   |                                      |             |
| Net loss  | \$ (23,311)                          | \$ (13,742) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |                                      |             |
| Depreciation and amortization   | 1,096                                | 898         |
| Deferred income taxes   | (13,283)                             | 943         |
| Increase in unearned premiums   | 4,877                                | 14,607      |
| Increase in deferred acquisition costs  | (2,573)                              | (7,288)     |
| Realized losses (gains) on investments  | 41,694                               | (184)       |
| Purchases of trading securities   |                                      | (478)       |
| Proceeds from sales of trading securities   |                                      | 581         |
| Amortization of loan origination costs  | (65)                                 | 98          |
| Stock grant compensation expense  | 170                                  | 690         |
| Partnership preferred unit distributions declared   |                                      | 67          |
| Minority interest   |                                      | (594)       |
| Adjustments related to discontinued operations  |                                      | 43,893      |
| Changes in operating assets and liabilities   | (9,696)                              | 785         |
| Net cash (used in) provided by operating activities                                       | \$ (1,091)                           | \$ 40,276   |
| <b>Cash flow from investing activities:</b>   |                                      |             |
| NLASCO acquisition  |                                      | (115,794)   |
| Cash acquired from NLASCO   |                                      | 45,457      |
| Purchases of fixed assets   | (35)                                 |             |
| Purchases of available-for-sale securities  | (27,943)                             | (13,980)    |
| Purchases of held-to-maturity securities  | (7,582)                              | (413)       |
| Purchase of NALICO GA   | (375)                                |             |
| Proceeds from sales of available-for-sale securities                                      | 21,398                               | 8,426       |
| Proceeds from maturities of available-for-sale securities                                 | 9,754                                |             |
| Proceeds from maturities of held-to-maturity securities                                   | 4,838                                | 1,200       |
| Proceeds from or purchases of asset related to discontinued operations                    |                                      | (9,765)     |
| Net cash provided by (used in) investing activities                                       | \$ 55                                | \$ (84,869) |

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

**HILLTOP HOLDINGS INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007****(in thousands)****(unaudited)**

|  | <b>For the Six Months Ended<br/>June 30,</b> |               |
|--|--|---------------|
|  | <b>2008</b>                                  | <b>2007</b>   |
| <b>Cash flow from financing activities:</b>                  |  |               |
| Cash flow from rights offering and stock issuances           |  |               |
| Common stock rights offering                                 |  | 80,000        |
| Common stock offering expenses                               |  | (1,551)       |
| Proceeds from issuances of common stock                      |  | 20,000        |
| Proceeds from issuance of debt                               |  | 20,074        |
| Repayment of debt  | (4,000)                                      | (22,386)      |
| Payment of preferred dividends                               | (5,156)                                      | (5,156)       |
| Payment of partnership preferred distributions               |  | (251)         |
| Loan origination costs                                       |  | (563)         |
| <b>Net cash (used in) provided by financing activities</b>   | <b>(9,156)</b>                               | <b>90,167</b> |
| Net (decrease) increase in cash and cash equivalents         | (10,192)                                     | 45,574        |
| Cash and cash equivalents, beginning of period               | 783,008                                      | 29,281        |
| Cash and cash equivalents, end of period                     | \$ 772,816                                   | \$ 74,855     |
| <b>Non-cash financing and investing transactions:</b>        |  |               |
| Debt and other liabilities assumed in the NLASCO acquisition | \$   | \$ 136,288    |
| Redemption of OP units for common stock                      | \$   | \$ 18,201     |
| Fair value of common stock issued in the NLASCO acquisition  | \$   | \$ 13,359     |
| Notes receivable issued for manufactured home sales          | \$   | \$ 2,386      |
| Dividends declared but unpaid                                | \$ 1,719                                     | \$ 1,719      |
| <b>Supplemental cash flow information:</b>                   |  |               |
| Cash paid for interest                                       | \$ 5,327                                     | \$ 38,290     |
| Cash paid for income taxes                                   | \$ 10,104                                    | \$            |

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

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**HILLTOP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**(unaudited)**

**1. Business, Basis of Presentation and Summary of Significant Accounting Policies**

**Business**

Hilltop Holdings Inc., formerly known as Affordable Residential Communities Inc. ("Hilltop", "HTH", or the "Company"), was organized in July 1998 as a Maryland corporation that was primarily engaged in the acquisition, renovation, repositioning and operation of all-age manufactured home communities, the retail sale and financing of manufactured homes, the rental of manufactured homes and other related businesses.

On January 31, 2007, we acquired all of the stock of NLASCO, Inc. ("NLASCO"), a privately held property and casualty insurance holding company. NLASCO is a Delaware corporation that specializes in providing fire and homeowners insurance to low value dwellings and manufactured homes primarily in Texas and other areas of the south, southeastern and southwestern United States. NLASCO operates through its wholly-owned subsidiaries, National Lloyds Insurance Company ("NLIC") and American Summit Insurance Company ("ASIC"). Texas comprises approximately 73% of our business, with Arizona (10%), Tennessee (7%), Oklahoma (1%), Louisiana (2%), and the remaining states we do business makes up the other 7%.

On July 31, 2007, the Company sold the manufactured home communities, retail sales and financing of manufactured home businesses to American Residential Communities LLC and retained ownership of NLASCO. In conjunction with this sale, the Company transferred the rights to the "Affordable Residential Communities" name, changed its name to Hilltop Holdings Inc., and moved its headquarters to Dallas, Texas. Our insurance operations are headquartered in Waco, Texas.

Our common stock is listed on the New York Stock Exchange under the symbol "HTH". Our Series A Cumulative Redeemable Preferred Stock is listed on the New York Stock Exchange under the symbol "HTH-PA". We have no public trading history prior to February 12, 2004.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP, however, have been condensed or omitted pursuant to Article 10 of Regulation S-X. The consolidated financial statements include the accounts of all wholly-owned subsidiaries of the Company. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Certain accounts have been reclassified to conform to the current period's presentation. In the opinion of management, these financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the Company's financial position, results of operations and cash flows. These adjustments were of a normal, recurring nature. The results of operations for the interim period ended June 30, 2008 are not indicative of the results that may be expected for the year ended December 31, 2008. Operating results and cash flows of NLASCO are for the five months from the date of acquisition, January 31, 2007, through June 30, 2007, as compared to six months for 2008. These financial statements should be read

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**HILLTOP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2008**

**(unaudited)**

**1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

We are required by GAAP to make estimates and assumptions that affect our reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements and our reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. These estimates and assumptions are particularly important in determining revenue recognition, reserves for losses and loss adjustment expenses, deferred policy acquisition costs, reinsurance receivables and potential impairment of assets.

**Summary of Significant Accounting Policies**

*Recent Accounting Developments*

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133" (SFAS161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and improving the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The scope of this Statement is the same scope as Statement 133. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company currently is evaluating the impact of adopting SFAS 161 on its financial statements.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and the Company has adopted SFAS 157 effective January 1, 2008 for financial assets and liabilities. The adoption of SFAS 157 had no accumulative effects on the Company's retained earnings. In February 2008, FASB issued Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays, for one year, the effective date of SFAS 157 for nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis. Accordingly, we deferred the adoption of SFAS 157 as it related to nonfinancial assets and liabilities until January 2009.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). This Statement will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for

Table of Contents**HILLTOP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2008****(unaudited)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Corporation does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51" (SFAS 160). This Statement will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008, with early adoption permitted. The Corporation does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

**2. Investments**

The amortized cost (original cost for equity securities), gross unrealized holding gains and losses, and fair value of available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2008 and December 31, 2007 were as follows (in thousands).

|                                       | <b>June 30, 2008</b>                       |   |  |                       |
|---------------------------------------|--|---|--|-----------------------|
|                                       | <b>Cost<br/>and<br/>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <b>Available-for-sale securities:</b> |  |   |  |                       |
| Fixed maturities:                     |  |   |  |                       |
| Government securities                 | \$ 37,431                                  | \$ 883  | \$ (390)   | \$ 37,924             |
| Mortgage-backed securities            | 11,787                                     | 50  | (29)   | 11,808                |
| Corporate debt securities             | 72,425                                     | 437   | (1,098)  | 71,764                |
|                                       | 121,643                                    | 1,370   | (1,517)  | 121,496               |
| Equity securities                     | 13,947                                     | 256   | (1,197)  | 13,006                |
|                                       | 135,590                                    | 1,626   | (2,714)  | 134,502               |
| <b>Held-to-maturity securities:</b>   |  |   |  |                       |
| Fixed maturities:                     |  |   |  |                       |
| Government securities                 | 15,058                                     | 326   | (21)   | 15,363                |
|                                       | \$ 150,648                                 | \$ 1,952  | \$ (2,735)   | \$ 149,865            |

Table of Contents**HILLTOP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2008****(unaudited)****2. Investments (Continued)**

|                                       | <b>Cost<br/>and<br/>Amortized<br/>Cost</b> | <b>December 31, 2007<br/>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses</b> | <b>Fair<br/>Value</b> |
|---------------------------------------|--|---|--|-----------------------|
| <b>Available-for-sale securities:</b> |  |   |  |                       |
| <b>Fixed maturities:</b>              |  |   |  |                       |
| Government securities                 | \$ 46,274                                  | \$ 1,275  | \$ (133)   | \$ 47,416             |
| Mortgage-backed securities            | 12,661                                     | 155   | (1)  | 12,815                |
| Corporate debt securities             | 71,318                                     | 863   | (508)  | 71,673                |
|                                       | 130,253                                    | 2,293   | (642)  | 131,904               |
| Equity securities                     | 55,607                                     |   | (3,271)  | 52,336                |
|                                       | 185,860                                    | 2,293   | (3,913)  | 184,240               |
| <b>Held-to-maturity securities:</b>   |  |   |  |                       |
| <b>Fixed maturities:</b>              |  |   |  |                       |
| Government securities                 | 6,784                                      | 35  |  | 6,819                 |
|                                       | \$ 192,644                                 | \$ 2,328  | \$ (3,913)   | \$ 191,059            |

The following table summarizes the length of time securities with unrealized losses at June 30, 2008 have been in an unrealized loss position (in thousands).

|                                | <b>Less than 12 Months</b>          |  | <b>12 Months or More</b>            |  | <b>Total</b>                        |  |
|--------------------------------|-------------------------------------|--|-------------------------------------|--|-------------------------------------|--|
|                                | <b>Estimated<br/>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated<br/>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated<br/>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
| Available-for-sale securities: |                                     |  |                                     |  |                                     |  |