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

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 $7^1/_2$% 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 COMMISION 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.

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

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)

ý	**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

o	**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 ý No o

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 o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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, 2008	December 31, 2007
Assets		
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
Total Assets	$ 1,050,717	$ 1,085,491

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

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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, 2008	December 31, 2007
Liabilities and Stockholders' Equity		
Liabilities		
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
Total liabilities	254,482	261,306
Commitments and Contingencies (see Note 12)		
Stockholders' Equity		
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)
Total stockholders' equity	796,235	824,185
Total liabilities and stockholders' equity	$ 1,050,717	$ 1,085,491

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

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HILLTOP HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
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
Total revenue	17,691	30,319	36,920	49,752
Expenses:				
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
Total expenses	42,844	32,978	72,757	53,603
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)
Loss per share from continuing operations less preferred dividends				
Basic loss per share	$ (0.34)	$ (0.06)	$ (0.50)	$ (0.14)
Diluted loss per share	$ (0.34)	$ (0.06)	$ (0.50)	$ (0.14)
Loss per share from discontinued operations				
Basic loss per share	$	$ (0.12)	$	$ (0.21)

Diluted loss per share	$	$ (0.12)	$	$ (0.21)
Loss per share attributable to common stockholders				
Basic loss per share	$ (0.34)	$ (0.18)	$ (0.50)	$ (0.35)
Diluted loss per share	$ (0.34)	$ (0.18)	$ (0.50)	$ (0.35)
Weighted average share information				
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 Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Deficit	Equity
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 declared							(5,156)	(5,156)
Accumulated other comprehensive income, net of tax						347		347
Total comprehensive loss								(28,120)
Common stock issued to board members			8		90			90
Share redeemed			(21)					
Stock compensation 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.

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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 June 30, 2008	2007
Cash flow from operating activities:		
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
Cash flow from investing activities:		
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 assest 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.

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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 June 30, 2008	2007
Cash flow from financing activities:		
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)
Net cash (used in) provided by financing activities	(9,156)	90,167
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
Non-cash financing and investing transactions:		
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
Supplemental cash flow information:		
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

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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)

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).

	June 30, 2008			
	Cost and Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale securities:				
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
Held-to-maturity securities:				
Fixed maturities:				
Government securities	15,058	326	(21)	15,363
	$150,648	$ 1,952	$ (2,735)	$149,865

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

2. Investments (Continued)

	December 31, 2007			
	Cost and Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale securities:				
Fixed maturities:				
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
Held-to-maturity securities:				
Fixed maturities:				
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).

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available-for-sale securities:						
Fixed maturities:						
Government securities	$ 4,601	$ (364)	$ 2,715	$ (26)	$ 7,316	$ (390)
Mortgage-backed securities	2,795	(17)	1,083	(12)	3,878	(29)
Corporate debt securities	32,931	(589)	7,812	(509)	40,743	(1,098)
	40,327	(970)	11,610	(547)	51,937	(1,517)
Equity securities	5,573	(1,144)	2,040	(53)	7,613	(1,197)
	45,900	(2,114)	$ 13,650	$ (600)	$ 59,550	$ (2,714)
Held-to-maturity securities:						
Fixed maturities:						
Government securities	1,441	(21)			1,441	(21)

$ 47,341	$ (2,135)	$ 13,650	$ (600)	$ 60,991	$ (2,735)

In conjunction with the purchase of NLASCO on January 31, 2007, all "available-for-sale" securities were marked to their fair market value at that date. In the first and second quarter of 2008, the Company wrote down the value of equity securities held by HTH to market value, taking a loss of $20.3 million and $21.6 million on these securities, respectively. Generally, equity securities purchased

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

2. Investments (Continued)

by HTH are for strategic purposes, rather than investments. While some of the securities held in the investment portfolio of NLASCO have also decreased in value since the date of acquisition, the Company has the ability and intent to hold these securities until maturity or until the value recovers and, therefore, does not feel any other impairments, other than temporary impairments, exist as of June 30, 2008.

Fair values of investment securities are based on quoted market prices. Gross realized investment gains and losses for the three and six months ended June 30, 2008 and 2007 are summarized as follows (in thousands).

	Three Months Ended June 30,					
	2008			2007		
	Gross Gains	Gross Losses	Total	Gross Gains	Gross Losses	Total
Fixed maturities	$115	$ (16)	$ 99	$	$	$
Equity securities		(21,564)	(21,564)	121	(4)	117
	$115	$(21,580)	$(21,465)	$121	$ (4)	$117

	Six Months Ended June 30,					
	2008			2007		
	Gross Gains	Gross Losses	Total	Gross Gains	Gross Losses	Total
Fixed maturities	$213	$ (29)	$ 184	$ 6	$	$ 6
Equity securities		(41,878)	(41,878)	194	(16)	178
	$213	$(41,907)	$(41,694)	$200	$ (16)	$184

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The schedule of fixed maturities of

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

2. Investments (Continued)

available-for-sale and held-to-maturity securities at June 30, 2008 and December 31, 2007 by contractual maturity are as follows (in thousands).

	June 30, 2008	
	Amortized Cost	Fair Value
Available-for-sale fixed maturities:		
Due within one year	$ 6,767	$ 6,689
Due after one year through five years	49,522	50,085
Due after six years through ten years	38,658	38,259
Due after ten years	14,909	14,654
Mortgage-backed securities	11,787	11,809
	$ 121,643	$ 121,496
Held-to-maturity debt securities:		
Due within one year	$ 1,585	$ 1,597
Due after one year through five years	3,375	3,355
Due after six years through ten years	10,098	10,411
Due after ten years		
	$ 15,058	$ 15,363

	December 31, 2007	
	Amortized Cost	Fair Value
Available-for-sale fixed maturities:		
Due within one year	$ 9,328	$ 9,338
Due after one year through five years	47,124	47,739
Due after six years through ten years	42,319	43,115
Due after ten years	18,821	18,897
Mortgage-backed securities	12,661	12,815
	$ 130,253	$ 131,904
Held-to-maturity debt securities:		
Due within one year	$ 5,138	$ 5,167
Due after one year through five years	1,228	1,234
Due after six years through ten years		
Due after ten years	418	418
	$ 6,784	$ 6,819

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

2. Investments (Continued)

Net investment income for the three and six months ended June 30, 2008 and 2007 is as follows (in thousands).

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
Cash equivalents	$4,843	$ 356	$4,487	$11,338	$ 648	$10,690
Fixed maturities	1,748	1,400	348	3,501	2,359	1,142
Equity securities	308	184	124	576	253	323
	6,899	1,940	4,959	15,415	3,260	12,155
Other income net of expenses	(98)		(98)	(244)	10	(254)
Net investment income	$6,801	$1,940	$4,861	$15,171	$3,270	$11,901

At June 30, 2008, the Company had on deposit in custody for various State Insurance Departments investments with carrying values totaling $15.1 million.

3. Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in SFAS 157. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the SFAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

3. Fair Value Measurements (Continued)

The following table presents the hierarchy used by the Company by asset and liability type to determine their value at June 30, 2008 (in thousands).

	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$772,816	$772,816	$	$
Available-for-sale fixed maturities	121,496		121,496	
Available-for-sale equity securities	13,006	13,006		
Total	$907,318	$785,822	$121,496	$

Level 1 financial assets

The Company's Level 1 investments are limited to cash and cash equivalent balances and actively-traded debt and equity securities. Cash and cash equivalents are carried at fair value, which approximates cost. Fair value of actively traded debt and equity securities are based on unadjusted quoted market prices.

Level 2 financial assets

All of the Company's fixed maturity securities are classified in Level 2, including private and corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage and asset-backed securities. Fair values of inactively traded fixed maturity and equity securities are based on quoted market prices of identical or similar securities or based on observable inputs, such as interest rates, using either a market or income valuation approach and are generally classified as Level 2.

The following table presents the carrying value and fair value of assets and liabilities where they differ in value at June 30, 2008 (in thousands):

	June 30, 2008	
	Carrying Value	Fair Value
Financial assets		
Held to maturity fixed maturities	$ 15,058	$ 15,363
Financial liabilities		
Notes payable	$138,368	$147,453

4. Deferred Acquisition Costs

Policy acquisition expenses, primarily consisting of commissions, premium taxes and underwriting expenses related to issuing a policy, incurred by NLASCO are deferred and charged against income

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

4. Deferred Acquisition Costs (Continued)

ratably over the terms of the related policies. The activity in deferred acquisition costs for the six months ended June 30, 2008 is as follows (in thousands).

	Six Months Ended June 30, 2008
Beginning of period deferred acquisition cost	$ 14,521
Acquisition expenses deferred	16,191
Amortization charged to income	(13,618)
End of period deferred acquisition costs	$ 17,094

5. Insurance Holding Company Line of Credit

Our insurance subsidiary has a line of credit with a financial institution. The line allows for borrowings by NLASCO up to $5.0 million and is secured by substantially all of NLASCO's assets. The line of credit bears interest equal to a base rate less 0.5% (4.50% at June 30, 2008), which is due quarterly. This line is scheduled to mature in October 2008. During the six months ended June 30, 2008, the principal balance on this note was paid down $4.0 million. The line of credit balance payable at June 30, 2008 is $18,000.

6. Reserve for Unpaid Losses and Loss Adjustment Expenses

A roll-forward of the reserve for unpaid losses and loss adjustment expenses for the six months ended June 30, 2008 is as follows (in thousands).

Balance at January 1, 2008	$ 18,091
Less reinsurance recoverables	(2,692)
Net balance at January 1, 2008	15,399
Incurred related to:	
Current Year	39,003
Prior Year	279
Total incurred	39,282
Payments related to:	
Current Year	(28,037)
Prior Year	(5,126)
Total payments	(33,163)
Net balance at June 30, 2008	21,518
Plus reinsurance recoverables	2,308
Balance at June 30, 2008	$ 23,826

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HILLTOP HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2008

(unaudited)

6. Reserve for Unpaid Losses and Loss Adjustment Expenses (Continued)

The reserve for losses and loss adjustment expenses includes amounts that may be due to, or payable by, the sellers of NLASCO by January 2010 based on actual losses incurred as compared to the reserve as of the acquisition date. Prior year losses and payments include amounts back to the purchase of NLASCO on January 31, 2007 only, as all other prior losses and payments are the responsibility of the sellers.

7. Reinsurance Activity

NLASCO limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk. Substantial amounts of business are ceded; however, these reinsurance contracts do not relieve NLASCO from its obligations to policyholders. Such reinsurance includes quota share, excess of loss, catastrophe, and other forms of reinsurance on essentially all property and casualty lines of insurance. Failure of reinsurers to honor their obligations could result in losses to NLASCO; consequently, allowances are established for amounts deemed uncollectible. NLASCO evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At June 30, 2008, we had reinsurance receivables with a carrying value of approximately $2.3 million.

The effect of reinsurance on premiums written and earned for the three and six months ended June 30, 2008 and 2007 is as follows (in thousands):

	Three Months Ended				Six Months Ended			
	June 30, 2008		June 30, 2007		June 30, 2008		June 30, 2007	
	Written	Earned	Written	Earned	Written	Earned	Written	Earned
Premiums from direct business	$34,733	$33,777						