

Hilltop Holdings Inc.
Form 10-Q
August 09, 2007

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, 2007

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 of incorporation)
7887 East Belleview Avenue, Suite 200
Englewood, Colorado
(Address of principal executive offices)

84-1477939
(I.R.S. employer identification no.)

80111
(Zip code)

(303) 291-0222

(Registrant's telephone number, including area code)

Affordable Residential Communities Inc.

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of the Registrant's common stock outstanding at August 9, 2007 was 56,459,298.

**HILLTOP HOLDINGS INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2007**

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HILLTOP HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006
(in thousands, except share data)
(unaudited)

	June 30, 2007	December 31, 2006
Assets		
Rental and other property, net	\$ 1,359,657	\$ 1,390,564
Assets held for sale	15,435	15,326
Investments		
Trading securities, at fair value (cost of \$592)	657	
Securities available for sale, at fair value (amortized cost of \$119,028)	117,937	
Securities held to maturity, at amortized cost (fair value of \$6,467)	6,469	
Cash and cash equivalents	74,855	29,281
Restricted cash	6,982	6,784
Tenant and other receivables, net	3,481	4,651
Reinsurance receivables, net of uncollectible amounts	3,984	
Premiums receivable	23,158	
Notes receivable, net	28,714	29,904
Loan origination costs, net	15,157	16,736
Loan reserves	36,225	33,305
Goodwill	23,708	
Indefinite lived intangible assets	3,000	
Finite lived intangible assets	18,025	6,457
Deferred income taxes	26,531	
Deferred acquisition costs	7,288	
Prepaid expenses and other assets	14,369	9,693
Total assets	\$ 1,785,632	\$ 1,542,701

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

HILLTOP HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS (Continued)
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006
(in thousands, except share data)
(unaudited)

	June 30, 2007	December 31, 2006
Liabilities and Stockholders Equity		
Notes payable	\$ 1,100,441	\$ 1,046,500
Reserve for losses and loss adjustment expenses	21,754	
Unearned premiums	64,178	
Liabilities related to assets held for sale	134	247
Accounts payable and accrued expenses	38,543	28,946
Dividends payable	1,719	1,903
Tenant deposits and other liabilities	18,928	17,727
Total liabilities	1,245,697	1,095,323
Minority interest	10,712	28,142
Commitments and contingencies		
Stockholders equity		
Preferred stock, no par value, 5,750,000 shares authorized, 5,000,000 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively; 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, 56,400,427 and 41,346,287 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	564	413
Additional paid-in capital	923,826	794,653
Accumulated other comprehensive income	(439)	
Retained deficit	(513,836)	(494,938)
Total stockholders equity	529,223	419,236
Total liabilities and stockholders equity	\$1,785,632	\$ 1,542,701

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

HILLTOP HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue				
Rental income	\$ 54,274	\$ 51,959	\$ 107,916	\$ 102,865
Net premiums earned	26,478		43,197	
Sales of manufactured homes	2,952	2,993	5,486	5,665
Utility and other income	6,843	6,270	13,963	12,747
Fee and other insurance income	1,784		3,101	
Net investment income	1,940		3,270	
Net realized gains on investments	117		184	
Net consumer finance interest income	388	245	762	424
Total revenue	94,776	61,467	177,879	121,701
Expenses				
Property operations	17,873	16,256	35,461	32,678
Real estate taxes	4,843	5,024	9,680	10,160
Losses and loss adjustment expenses	18,638		27,515	
Cost of manufactured homes sold	2,438	2,565	4,527	4,874
Retail home sales, finance and other	2,094	2,830	3,958	4,728
Property management	1,971	1,586	3,818	3,178
General and administrative	5,597	4,991	10,982	9,412
Underwriting expenses	7,933		14,536	
Depreciation and amortization	21,745	21,775	43,611	43,386
Loss on sale of airplane				541
Interest expense	19,663	20,006	38,151	39,587
Total expenses	102,795	75,033	192,239	148,544
Interest income	(643)	(448)	(1,137)	(871)
Loss from continuing operations before income tax benefit and allocation to minority interest	(7,376)	(13,118)	(13,223)	(25,972)
Income tax (expense) benefit from continuing operations	(256)	3,372	(943)	4,571
Loss from continuing operations before allocation to minority interest	(7,632)	(9,746)	(14,166)	(21,401)
Minority interest	256	166	527	402
Loss from continuing operations	(7,376)	(9,580)	(13,639)	(20,999)
(Loss) income from discontinued operations	22	689	(106)	2,381
Gain on sale of discontinued operations		15,613		25,909
Income tax expense from discontinued operations		(6,521)		(11,316)
Minority interest in discontinued operations	(1)	(343)	3	(596)
Net loss	(7,355)	(142)	(13,742)	(4,621)
Preferred stock dividend	(2,578)	(2,578)	(5,156)	(5,156)
Net loss attributable to common stockholders	\$ (9,933)	\$ (2,720)	\$ (18,898)	\$ (9,777)
Loss per share from continuing operations				
Basic loss per share	\$ (0.18)	\$ (0.28)	\$ (0.35)	\$ (0.60)
Diluted loss per share	\$ (0.18)	\$ (0.28)	\$ (0.35)	\$ (0.60)
Income per share from discontinued operations				
Basic income per share	\$	\$ 0.22	\$	\$ 0.38
Diluted income per share	\$	\$ 0.22	\$	\$ 0.38
Loss per share attributable to common stockholders				
Basic loss per share	\$ (0.18)	\$ (0.06)	\$ (0.35)	\$ (0.22)
Diluted loss per share	\$ (0.18)	\$ (0.06)	\$ (0.35)	\$ (0.22)
Weighted average share information				
Basic shares outstanding	56,394	43,696	54,372	43,632

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

HILLTOP HOLDINGS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(in thousands)
(unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Shares	Amount	Paid-in	Other	Deficit	Stockholders
					Capital	Income		Equity
Balance January 1, 2007	5,000	\$ 119,108	41,346	\$ 413	\$ 794,653	\$	\$ (494,938)	\$ 419,236
Common stock issued to board members			5		61			61
Rights offering shares			10,000	100	78,349			78,449
Preferred partnership unit redemption			1,628	16	17,626			17,642
Share issuance			3,374	34	33,324			33,358
Stock compensation expense					600			600
Amortization of unearned compensation					28			28
Transfer of minority interest ownership in Operating Partnership					(1,373)			(1,373)
Redemption of OP units for common stock			47	1	558			559
Accumulated other comprehensive income						(439)*		(439)
Net loss							(18,898)	(18,898)
Balance June 30, 2007	5,000	\$ 119,108	56,400	\$ 564	\$ 923,826	\$ (439)	\$ (513,836)	\$ 529,223

* Net of tax effect of \$229,000.

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, 2007 and 2006
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2007	2006
Cash flow from operating activities		
Net loss	\$ (13,742)	\$ (4,621)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	43,611	43,386
Intra-period income taxes		6,745
Deferred income taxes	943	
Increase in unearned premiums	14,607	
Increase in deferred acquisition costs	(7,288)	
Realized gains on investments	(184)	
Purchases of trading securities	(478)	
Proceeds from sales of trading securities	581	
Adjustments to fair value for interest rate caps	95	(436)
Amortization of loan origination costs	2,142	3,045
Stock grant compensation expense	690	98
Partnership preferred unit distributions	67	552
Minority interest	(594)	(954)
Depreciation and minority interest included in income from discontinued operations		801
Gain on sale of discontinued operations		(25,909)
Loss on sale of airplane		541
Gain on sale of manufactured homes	(959)	(791)
Changes in operating assets and liabilities	785	(7,002)
Net cash provided by operating activities	40,276	15,455
Cash flow from investing activities		
NLASCO acquisition	(115,794)	
Cash acquired from NLASCO	45,457	
Purchases of manufactured homes	(7,069)	(6,693)
Proceeds from community sales		123,431
Proceeds from manufactured home sales	4,901	5,428
Proceeds from sale of airplane		1,170
Community improvements and equipment purchases	(4,479)	(2,055)
Restricted cash	(198)	374
Loan reserves	(2,920)	(3,547)
Purchases of available-for-sale securities	(13,980)	
Purchases of held-to-maturity securities	(413)	
Proceeds from sales of available-for-sale securities	8,426	
Proceeds from maturities of held-to-maturity securities	1,200	
Net cash (used in) provided by investing activities	(84,869)	118,108

HILLTOP HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 and 2006
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2007	2006
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	30,535
Repayment of debt	(22,386)	(147,372)
Deposits on refinance transaction		(4,900)
Payment of preferred dividends	(5,156)	(5,156)
Payment of partnership preferred distributions	(251)	(552)
Loan origination costs	(563)	(1,849)
Net cash provided by (used in) financing activities	90,167	(129,294)
Net increase in cash and cash equivalents	45,574	4,269
Cash and cash equivalents, beginning of period	29,281	27,926
Cash and cash equivalents, end of period	\$ 74,855	\$ 32,195
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	\$ 3,176
Fair value of common stock issued in the NLASCO acquisition	\$ 13,359	\$
Notes receivable issued for manufactured home sales	\$ 2,386	\$ 3,740
Dividends declared but unpaid	\$ 1,719	\$ 1,903
Supplemental cash flow information:		
Payments on notes receivable included in proceeds from manufactured home sales	\$ 3,838	\$ 3,804
Cash paid for interest	\$ 38,290	\$ 40,187

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

HILLTOP HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Business

At June 30, 2007, Affordable Residential Communities Inc. was a Maryland corporation that was engaged in the acquisition, renovation, repositioning and operation of primarily all-age manufactured home communities, the retail sale and financing of manufactured homes, the rental of manufactured homes and other related businesses, all exclusively to residents in our communities. Subsequently, and as of July 31, 2007, the Company closed the sale of these businesses, and retained ownership of the recently acquired NLASCO, Inc. In conjunction with this sale, the Company transferred the rights to the Affordable Residential Communities name and has changed its name to Hilltop Holdings Inc.

As of June 30, 2007, the Company was not required to reflect the sale of the business as discontinued operations due to the special meeting of stockholders on July 27, 2007, with regard to the sale, being subsequent to the reporting period.

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 Summit Insurance Company (ASIC).

We were organized in July 1998 and operate primarily through Affordable Residential Communities LP (the Operating Partnership or OP) and its subsidiaries, of which we are the sole general partner and owned 97.4% as of June 30, 2007.

As of June 30, 2007, we owned and operated 275 communities consisting of 57,272 homesites in 23 states with occupancy of 82.4%. Our five largest markets are Dallas-Fort Worth, Texas, with 12.5% of our total homesites; Atlanta, Georgia, with 8.7% of our total homesites; Salt Lake City, Utah, with 6.6% of our total homesites; the Front Range of Colorado, with 5.8% of our total homesites; and Kansas City-Lawrence-Topeka, with 4.2% of our total homesites. Our insurance operations are headquartered in Waco, Texas.

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

RECENT EVENTS

During the reporting period, we had the following changes in executive management

On June 20, 2007, we announced the resignation of Lawrence E. Kreider as Executive Vice President, Chief Financial Officer and Chief Information Officer. Pursuant to his severance agreement, Mr. Kreider received \$.4 million to be paid over the next 12 months and a one time lump sum payment of \$.1 million bonus to assist in the closing of the Farallon transaction.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and in conformity with the rules and regulations of the Securities and Exchange Commission requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results may differ from previously estimated amounts.

The interim consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows of the Company, and all such adjustments are of a normal and recurring nature. The results of operations for the interim period ended June 30, 2007 are not indicative of the results that may be expected for the year ended December 31, 2007. Operating results and cash flows of NLASCO are for the five months from the date of acquisition, January 31, 2007, through June 30, 2007. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

We have reclassified certain prior period amounts to conform to the current year presentation.

Summary of Significant Accounting Policies

Rental and Other Property

We carry rental property at cost, less accumulated depreciation. We capitalize significant renovations and improvements that extend the useful life of assets and depreciate them over their estimated remaining useful lives. We expense maintenance and repairs as incurred. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the various classes of rental property assets are as follows:

Asset Class	Estimated Useful Lives (Years)
Manufactured home communities and improvements	10 to 30
Buildings	10 to 20
Rental homes	10 or rent-to-own term
Furniture and other equipment	5
Computer software and hardware	3

We evaluate the recoverability of our investment in rental property whenever events or changes in circumstances indicate that the recoverability of the net book value of the asset is questionable. Our assessment of the recoverability of rental property includes, but is not limited to, recent operating results and expected net operating cash flows from future operations. In the event that facts and circumstances indicate that the carrying amount of rental property may be impaired, we perform an evaluation of recoverability in which we compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if an impairment adjustment is required. If