



**Hilltop Securities Independent Network Inc.**  
**Financial Statements and Supplemental Schedules Pursuant to Rule**  
**17a-5 of the Securities and Exchange Commission**  
**For the Year Ended December 31, 2019**  
**With Report of Independent Registered Public Accounting Firm**

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

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2019 AND ENDING December 31, 2019  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Independent Network Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500

(No. and Street)

Dallas

(City)

TX

(State)

75270

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal

214-859-1026

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers

(Name - if individual, state last, first, middle name)

2121 N. Pearl Street

(Address)

Dallas

(City)

TX

(State)

75201

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, M. Bradley Wings, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Independent Network Inc., as of December 31, 20 19, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

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\_\_\_\_\_

\_\_\_\_\_

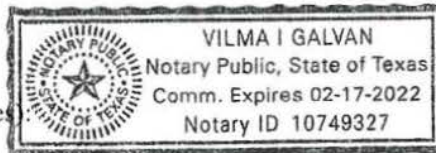
M. Bradley Wings  
Signature

President and Chief Executive Officer

Title

Vilma I. Galvan

Notary Public



This report \*\* contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**Hilltop Securities Independent Network Inc.**  
**Index**  
**December 31, 2019**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Hilltop Securities Independent Network Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Hilltop Securities Independent Network Inc. (the "Company") as of December 31, 2019, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplemental Information***

The accompanying information contained in Schedules I and II has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I and II is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
February 24, 2020

We have served as the Company's auditor since 2015.

**Hilltop Securities Independent Network Inc.**  
**Statement of Financial Condition**  
**December 31, 2019**

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**Assets**

Cash	\$	6,000
Securities owned, at fair value		3,394,872
Clearing deposit with affiliate		300,000
Receivable from affiliates		2,098,888
Fixed assets, net of accumulated depreciation of \$156,890		129,789
Prepaid FINRA registration fee		237,465
Deferred tax asset, net		134,481
Prepaid and other assets		<u>467,865</u>
Total assets	\$	<u><u>6,769,360</u></u>

**Liabilities and Stockholder's Equity**

Accounts payable and other liabilities	\$	50,599
Payable to affiliates		<u>207,387</u>
Total liabilities		<u>257,986</u>

Common stock without par value. Authorized 1,000,000  
shares, issued and outstanding 10,000 shares,

\$1,000 stated value		1,000
Additional paid-in capital		1,642,995
Retained earnings		<u>4,867,379</u>
Total stockholder's equity		<u>6,511,374</u>
Total liabilities and stockholder's equity	\$	<u><u>6,769,360</u></u>

The accompanying notes are an integral part of this financial statement.

**Hilltop Securities Independent Network Inc.**  
**Statement of Operations**  
**Year Ended December 31, 2019**

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Revenues:	
Commissions	\$ 9,944,358
Insurance revenue	7,675,417
Investment banking, advisory and administrative fees	6,435,446
12b-1 fees	5,132,042
Interest	53,732
Other	<u>1,320,046</u>
Total revenues	<u>30,561,041</u>
Expenses:	
Commissions and other employee compensation	26,468,264
Occupancy, equipment and computer service costs	991,870
Floor brokerage and clearing organization charges	432,155
Legal fees, reserves and settlements	392,312
Advertising and promotional	188,906
Communications	62,941
Other	<u>504,442</u>
Total expenses	<u>29,040,890</u>
Income before income tax expense	1,520,151
Income tax expense	<u>353,011</u>
Net income	<u><u>\$ 1,167,140</u></u>

The accompanying notes are an integral part of this financial statement.

**Hilltop Securities Independent Network Inc.**  
**Statement of Stockholder's Equity**  
**Year Ended December 31, 2019**

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	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Earnings</b>	<b>Total</b>
			<b>Capital</b>		
Balance at December 31, 2018	10,000	\$ 1,000	\$ 1,642,083	\$ 3,700,239	\$ 5,343,322
Net income	-	-		1,167,140	1,167,140
Restricted stock plan	-	-	912		912
Balance at December 31, 2019	<u>10,000</u>	<u>\$ 1,000</u>	<u>\$ 1,642,995</u>	<u>\$ 4,867,379</u>	<u>\$ 6,511,374</u>

The accompanying notes are an integral part of this financial statement.



**Hilltop Securities Independent Network Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2019**

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Cash flows from operating activities:	
Net income	\$ 1,167,140
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	81,234
Compensation expense for restricted stock	912
Deferred income tax benefit	(9,093)
Changes in operating assets and liabilities:	
Securities owned, net	(40,029)
Income taxes payable/receivable	137,705
Prepaid and other assets	(133,715)
Receivable/payable to affiliate	(932,235)
Accounts payable & other accrued liabilities	(267,678)
Net cash provided by operating activities	\$ 4,241
Cash flow from investing activities:	
Purchase of fixed assets	\$ (4,241)
Net cash used in investing activities	\$ (4,241)
Cash flow from financing activities:	
No cashflow from financing activities	\$ -
Net cash used in financing activities	\$ -
Net change in cash	\$ -
Cash at beginning of year	\$ 6,000
Cash at end of year	\$ 6,000
Supplemental cash flow disclosures	
Cash paid for interest	\$ -
Cash paid for taxes	\$ 224,280

The accompanying notes are an integral part of this financial statement.

**Hilltop Securities Independent Network Inc.**  
**Statement of Changes in Subordinated Borrowings**  
**Year Ended December 31, 2019**

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None

The accompanying notes are an integral part of this financial statement.

# Hilltop Securities Independent Network Inc.

## Notes to Financial Statements

December 31, 2019

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### 1. Organization

#### General

Hilltop Securities Independent Network Inc. (the "Company"), a Texas company, is a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"). The Company is a registered broker/dealer in securities under the Securities Exchange Act of 1934 ("Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

The Company contracts with individual licensed registered representatives who conduct their securities business through the Company. These contract-registered representatives are responsible for their own direct expenses. All customer transactions are cleared through an affiliate broker/dealer, Hilltop Securities Inc. ("HTS"), on a fully disclosed basis. Accordingly, the Company claims exemption from Exchange Act Rule 15c3-3 under the Securities Exchange Act of 1934, as amended ("Exchange Act Rule 15c3-3") under Section (k)(2)(ii) of this rule. HTS also provides all accounting, administrative services, management services and office facilities to the Company in accordance with an expense sharing agreement charging the Company \$50,000 per year for these services. Based on a clearing agreement (the "Clearing Agreement") between HTS and the Company, the Company pays a clearing fee to HTS for handling all trades for the Company and has a deposit with HTS for \$300,000. Additionally, HTS collects all revenues and pays all expenses on behalf of the Company. The net effects of these transactions are recorded in either receivable from affiliate or payable to affiliate on the Statement of Financial Condition. The amount of clearing fees paid to HTS for the Company's trades for the year ended December 31, 2019 was \$432,155.

On the Statement of Financial Condition, the total receivable from affiliates includes \$2,098,792 from HTS and \$96 from Southwest Insurance Agency, Inc., a wholly owned subsidiary of Securities Holdings. Total payable to affiliates includes \$202,845 to Securities Holdings and \$4,542 to the Parent.

The Company received insurance revenue from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. of \$7,675,417 for the year ended December 31, 2019. Southwest Financial Insurance Agency, Inc., as well as, Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

The Company makes loans to registered representatives, primarily to assist with the transition to the Company's platform. At December 31, 2019, the amount outstanding under the loans to the registered representatives was \$400,679 and included in other assets in the Statement of Financial Condition.



**Hilltop Securities Independent Network Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**

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**2. Summary of Significant Accounting Policies**

**Securities Owned, at fair value**

Marketable securities are valued at fair value based on quoted market prices for similar assets or liabilities in active markets. The increase or decrease in net unrealized appreciation or depreciation of securities owned, if any, is credited or charged to operations. At December 31, 2019, securities owned consisted of money market investments of \$3,394,872.

**Fixed Assets and Depreciation**

Fixed assets are comprised of furniture and equipment (\$231,601) and leasehold improvements (\$55,078) and are stated at cost less accumulated depreciation. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

**Prepaid FINRA Registration Fee**

The prepaid FINRA registration fee is the annual registration fee associated with the registration of individuals as representatives or principals with FINRA.

**Revenue Recognition**

*Commissions*

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*Insurance*

The Company receives commissions from the sale of insurance policies. The commissions are received in the form of up front commissions that are received upon the initial sale of the insurance product to the customer. Additional commissions are received over a stated period of time as long as the Company is the broker/dealer of record and the contract is viable. These commissions are variable in nature and the Company has determined that the additional commissions received subsequent to those received on the sale date are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. The Company is unable to estimate these subsequent commissions due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. As a result, these amounts are recognized as revenue upon receipt of payment from the insurance carriers.

*Investment Banking, Advisory and Administrative Fees*

The Company receives a management fee in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the



# Hilltop Securities Independent Network Inc.

## Notes to Financial Statements

December 31, 2019

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period-end assets in the accounts. Though these fees are variable in nature, the Company has determined that the fees are not constrained and are recognized as revenue during the period in which the services are provided.

### *12b-1 fees*

As a mutual fund distributor, the Company incurs distribution costs and receives 12b-1 fees for marketing and distribution of mutual funds from the fund as compensation for these costs. The fees received from the fund are based on the assets/positions held by the Company at the end of the specified period notated in the contract. As these fees are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon receipt of funds from the mutual fund providers. Revenue from 12b-1 fees is recognized at a point in time when the fees become known, which is dictated by the contract payout terms, (i.e. weekly, bi-monthly, monthly and quarterly.)

### *Other Revenue*

Other revenue includes customer custody fees and shareholder services fees received from the Company's mutual fund providers. Revenue from custody fees is recognized in the same manner as discussed above for Commissions. Revenue for the shareholder services fees is variable in nature and predicated on the initial mutual fund transaction with the Company's customer. The Company has determined that the shareholder services fees are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the mutual fund is ultimately resolved. The Company is unable to estimate these fees as management has determined that these fees are highly susceptible to factors outside the Company's control and influence. As a result, these amounts are recognized as revenue upon receipt of payment from the mutual fund providers.

### *Contract Costs*

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the Statement of Operations.

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third party. As a result, the fees associated with the postage for customer correspondence are netted against the funds received from the customer for this service, which are included in other revenue on the Statement of Operations.

### **Cash Flow Reporting**

For purposes of the statement of cash flows, the Company considers cash to include cash on hand and in bank accounts. The Federal Deposit Insurance Corporation ("FDIC") insures accounts up to \$250,000. At December 31, 2019, the cash balances did not exceed the federally insured limit.

### **Income Taxes**

The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

## Hilltop Securities Independent Network Inc.

### Notes to Financial Statements

December 31, 2019

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets, including net operating loss and tax credit carry forwards, are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that any portion of these tax attributes will not be realized. Periodic reviews of the carrying amount of deferred tax assets are made when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

#### **Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available. The Company does not have any assets or liabilities utilizing Level 1 inputs.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. All of the Company's securities owned portfolio are valued using Level 2 inputs
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. The Company does not have any assets or liabilities categorized as Level 3.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Securities Owned Portfolio.*** Securities classified as Level 2 securities primarily consist of money market instruments whose value is based on quoted market prices for similar assets or liabilities in active markets.



# Hilltop Securities Independent Network Inc.

## Notes to Financial Statements

December 31, 2019

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Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Subsequent Events

The Company has performed an evaluation of subsequent events from January 1, 2020 through February 24, 2020, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2019.

## 3. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital of the larger of \$250,000 or 6-2/3% of aggregate indebtedness. At December 31, 2019, the Company had net capital of \$3,374,989 which was \$3,124,989 in excess of its minimum net capital requirement at that date. At December 31, 2019, the Company had aggregate indebtedness of \$257,986. Aggregate indebtedness as a percentage of net capital was 7.6% at December 31, 2019.

## 4. Income Taxes

Income tax expense for the year ended December 31, 2019, (effective rate of 23.2%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	\$	319,232
State income taxes, net of federal benefit		30,357
Other, net		<u>3,422</u>
	\$	<u>353,011</u>

**Hilltop Securities Independent Network Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**

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Income taxes as set forth in the statement of operations consist of the following components:

**Federal and state**

Current:

Federal	\$ 319,674	
State	<u>42,430</u>	
		\$ 362,104

Deferred:

Federal	(5,089)	
State	<u>(4,004)</u>	
		<u>(9,093)</u>

Total income taxes		<u>\$ 353,011</u>
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The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of December 31, 2019 are presented below:

**Deferred tax assets:**

Realized built-in loss carryforward	\$ 132,081
Net operating loss carryforward	32,525
Compensation and benefits	<u>6,224</u>
Total gross deferred tax asset	<u>170,830</u>

**Deferred tax liabilities:**

Fixed assets	(24,141)
Prepaid expenses	<u>(12,208)</u>
Net deferred tax asset	<u>\$ 134,481</u>

At December 31, 2019, the Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2019, the Company had recognized built-in losses ("RBIL") of \$132,081 from the 2015 merger with the Parent. These RBILs, that were recognized during a five year recognition period before January 1, 2020, are subject to the annual Section 382 limitation rules. At December 31, 2019, the Company had net operating loss carryforwards for state income tax purposes of \$41,171, tax effected. These net operating loss carryforwards expire in 2030 and later years. The Company expects to realize these net operating loss carryforwards through the implementation of certain tax planning strategies, core earnings, and reversal of timing differences.

The Company has no uncertain tax positions. Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There were no interest or penalties during the year ended December 31, 2019. With limited exception, the Company is no longer subject to U.S. federal tax examinations for tax years preceding 2016. The Company is open for various state tax audits for tax years 2015 and later.



# Hilltop Securities Independent Network Inc.

## Notes to Financial Statements

December 31, 2019

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The amount of current federal taxes receivable from the Parent included in prepaid and other assets on the Statement of Financial Condition was \$12,629 and the amount of current state taxes payable to the Parent included in accounts payable and other liabilities on the Statement of Financial Condition was \$570 at December 31, 2019.

### 5. Financial Instruments with Off-Balance-Sheet Risk

The Company clears all of its securities transactions through HTS on a fully disclosed basis. Accordingly, substantially all of the Company's credit exposures are concentrated with HTS. Pursuant to the terms of the agreement between the Company and HTS, HTS has the right to charge the Company for losses that result from a counterparty's failure to fulfill its obligations and the right to rehypothecate the securities held.

At December 31, 2019, the Company is not aware of any losses for which it will be charged by HTS. At December 31, 2019, the Company has recorded no liabilities with regard to this right.

### 6. Employee Benefits

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

In November 2019, the compensation committee of the board of directors of the Parent ("Compensation Committee") awarded certain executives and key employees of the Company 1,042 RSUs pursuant to the 2012 Plan. These awards and the associated costs amortize over a vesting period of three years. The grant date weighted average fair value of these awards was \$23.40 per share resulting in expected compensation expense of approximately \$24,400.

At December 31, 2019, the Company had unrecognized compensation expense related to restricted stock grants of approximately \$23,500. For the year ended December 31, 2019, the Company has recognized compensation expense of approximately \$900 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

### 7. Commitments and Contingencies

In the general course of its brokerage business, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

## **Supplemental Schedules**

**Hilltop Securities Independent Network Inc.**  
**Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of**  
**The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity**  
**Futures Trading Commission**  
**December 31, 2019**

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Total stockholder's equity from the statement of financial condition		\$	6,511,374
Deductions and/or charges - nonallowable assets			
Receivables from affiliates	\$	(2,098,888)	
Fixed assets, net		(129,789)	
Prepaid FINRA registration fee		(237,465)	
Deferred tax asset, net		(134,481)	
Prepaid and other assets		(467,865)	(3,068,488)
Net capital before haircuts			3,442,886
Haircuts on securities positions			(67,897)
Net capital			3,374,989
Net capital requirement (larger of 6-2/3% of aggregate indebtedness or \$250,000)			250,000
Excess net capital		\$	3,124,989
Aggregate indebtedness		\$	257,986
Ratio of aggregate indebtedness to net capital			7.6%

Note: The above computation does not differ materially from the computation of net capital under Rule 15c3-1 as of December 31, 2019 filed by the Company with the Financial Industry Regulatory Authority on January 27, 2020.

**Hilltop Securities Independent Network Inc.**  
**Supplemental Schedule II – Computation of Determination of Reserve**  
**Requirements under Rule 15c3-3 of the Securities Exchange Act of 1934**  
**December 31, 2019**

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The Company claims exemption from SEC Exchange Act Rule 15c3-3 under paragraph (k)(2)(ii) of that Rule.



## Hilltop Securities Independent Network Inc.'s Exemption Report

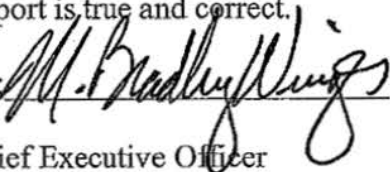
Hilltop Securities Independent Network Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. §240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

1. The Company claimed an exemption from 17 C.F.R. §240.15c3-3 under the following provision of 17 C.F.R. §240.15c3-3 (k): (2)(ii).
2. The Company met the identified exemption provision in 17 C.F.R. §240.15c3-3(k) throughout the most recent fiscal year ended December 31, 2019, without exception.

Hilltop Securities Independent Network Inc.

I, M. Bradley Winges, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.

By:



Chief Executive Officer

February 24, 2020



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Management of Hilltop Securities Independent Network Inc.

We have reviewed Hilltop Securities Independent Network Inc.'s assertions, included in the accompanying Hilltop Securities Independent Network Inc.'s Exemption Report, in which (1) the Company identified 17 C.F.R. § 240.15c3-3(k)(2)(ii) as the provision under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3 (the "exemption provision") and (2) the Company stated that it met the identified exemption provision throughout the year ended December 31, 2019 without exception. The Company's management is responsible for the assertions and for compliance with the identified exemption provision throughout the year ended December 31, 2019.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provision. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's assertions referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of 17 C.F.R. § 240.15c3-3.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
February 24, 2020