

RUBICON FINANCIAL INC
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

Commission File Number 000-29315

RUBICON FINANCIAL INCORPORATED
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

13-3349556
(I.R.S. Employer Identification No.)

18872 MacArthur Boulevard
First Floor
Irvine, California
(Address of principal executive offices)

92612
(Zip Code)

(888) 668-9567
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☐

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

The number of shares of Common Stock, \$0.001 par value, outstanding on May 12, 2014, was 24,455,693, which does not include 250,000 shares authorized but unissued.

Table of Contents

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.	<u>FINANCIAL STATEMENTS</u>	3
Item 2.	<u>MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	21
Item 4.	<u>CONTROLS AND PROCEDURES</u>	21

PART II - OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	22
Item 1A.	<u>RISK FACTORS</u>	24
	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	24
Item 2.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	24
Item 3.	<u>MINE SAFETY DISCLOSURES</u>	24
Item 4.	<u>OTHER INFORMATION</u>	24
Item 5.	<u>EXHIBITS</u>	25
Item 6.		

<u>SIGNATURES</u>	26
-------------------	----

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Rubicon Financial Incorporated
Condensed Consolidated Balance Sheets

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash	\$ 1,583,696	\$ 846,461
Cash – restricted	204,011	204,011
Marketable securities	84,099	201,921
Accounts receivable	1,022,672	826,246
Prepaid expenses	13,689	46,828
Notes receivable	35,209	43,569
Other current assets	126,279	137,500
Total current assets	3,069,655	2,306,536
Fixed assets, net of accumulated depreciation of \$291,853 and \$286,753, respectively	58,790	63,890
Other assets:		
Contract advances	122,500	96,402
Capitalized financing costs	11,089	16,917
Deposits	123,124	55,438
Total other assets	256,713	168,757
Total assets	\$ 3,385,158	\$ 2,539,183
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 406,019	\$ 404,236
Accrued expenses	1,117,920	873,147
Investment obligation	487,000	487,000
Line of credit	200,000	200,000
Note payable, current portion	310,895	307,768
Contingent liabilities	149,000	199,000
Total current liabilities	2,670,834	2,471,151
Long term liabilities:		
Note payable	254,077	334,386
Redeemable Preferred Stock, Series B, \$0.001 par value, 1,000,000 shares authorized, 426,000 issued and outstanding as of March 31, 2014 and December 31, 2013		
	426,000	426,000
Stockholders' equity		
Preferred series "A", \$0.001 par value, 1,000,000 shares authorized, 62,500 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	63	63
Common stock, \$0.001 par value, 100,000,000 shares	16,755	16,755

authorized, 16,755,691 and 16,755,691 shares issued
and outstanding as of March 31, 2013 and
December 31, 2012, respectively

Common stock owed but not issued, 7,083,335 and 750,000 shares as
of March 31, 2014 and December 31, 2013, respectively

	7,083	750
Additional paid in capital	19,725,491	18,781,824
Subscription Receivable	(250,000)	-
Other comprehensive losses	(165)	(7,137)
Accumulated (deficit)	(19,464,980)	(19,484,609)
Total stockholders' equity	34,247	(692,354)
Total liabilities and stockholders' equity	\$ 3,385,158	\$ 2,539,183

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

Table of Contents

Rubicon Financial Incorporated
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31,	
	2014	2013 RESTATED
Revenue:		
Commissions	\$ 2,002,064	\$ 1,514,130
Investment banking fees	1,826,320	1,280,326
Selling concessions		
Insurance	306,625	613,244
Mutual funds	303,686	155,889
Managed fee accounts	255,631	268,069
Other income	528,788	139,049
Total Revenue	5,223,114	3,970,707
Expenses:		
Direct costs	4,009,014	3,219,104
Professional fees	85,153	198,155
Executive compensation	179,259	162,992
General and administrative expenses	895,888	516,190
Depreciation	5,099	124,114
Total operating expenses	5,174,413	4,220,555
Net operating income (loss)	48,701	(249,848)
Other income (expense):		
Interest expense	(29,272)	(29,284)
Interest income	200	2,101
Other income	-	4,200
Total other income (expense)	(29,072)	(22,983)
Net income (loss)	19,629	(272,831)
Other comprehensive income (loss)	6,972	-
Total comprehensive income (loss)	\$ 26,601	\$ (272,831)
Weighted average number of common shares		
Outstanding – basic	16,755,691	15,089,023
Net income (loss) per share – basic	\$ 0.00	\$ (0.02)
Weighted average number of common shares		
Outstanding – diluted	26,469,026	N/A

Net income (loss) per share – diluted	\$	0.00	N/A
---------------------------------------	----	------	-----

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

Table of Contents

Rubicon Financial Incorporated
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,	
	2014	2013 RESTATED
Cash flows from operating activities		
Net income (loss)	\$ 19,629	\$ (272,831)
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation expense	5,099	3,931
Amortization of contract advances	30,123	29,306
Amortization of notes receivable	8,125	5,416
Amortization of capitalized financing costs	5,828	-
Amortization of intangible asset – customer list	-	120,183
Changes in operating assets and liabilities		
Accounts receivable	(196,191)	(72,811)
Prepaid expenses	33,139	5,365
Deposits and other assets	(70,686)	(18,522)
Accounts payable and accrued liabilities	199,557	(38,085)
Contract advances	(45,000)	(20,000)
Note receivable, net	-	(10,000)
Net cash (used) by operating activities	(10,377)	(268,048)
Cash flows from investing activities		
Purchase of fixed assets	-	(25,504)
Purchase/proceeds of investments, net	124,794	(15,397)
Net cash (used) by investing activities	124,794	(40,901)
Cash flows from financing activities		
Payments on note payable	(77,182)	(67,041)
Proceeds from stock issuances	700,000	426,000
Net cash provided by financing activities	622,818	358,959
Net (decrease) increase in cash	737,235	50,010
Cash – beginning	1,050,472	1,947,538
Cash – ending	\$ 1,787,707	\$ 1,997,548
Supplemental disclosure		
Interest paid	\$ 28,825	\$ 29,284
Income taxes paid	\$ -	\$ -

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

Table of Contents

Rubicon Financial Incorporated
Notes to Condensed Consolidated Financial Statements

NOTE 1 – Significant Accounting Policies and Procedures

Organization

The Company was incorporated in the State of Delaware on April 28, 1986 and was formerly known as Art World Industries (“AWI”). On August 6, 2002, the Company changed its name to ISSG, Inc. In addition, on March 9, 2004, the Company completed the acquisition of a wholly owned subsidiary, Dial-A-Cup Corporation (“DAC”), a New York Corporation. Further, on June 2, 2005, the Company completed a merger with Rub Investments Ltd., (“Rub”) on September 6, 2006; the Company changed its name to Rubicon Financial Incorporated. Effective February 1, 2007, the Company acquired Rubicon Financial Insurance Services, Inc. a California corporation (“RFIS”). Effective May 11, 2007, the Company acquired Rubicon Real Estate and Mortgages, Inc., a California corporation (“RREM”). On June 2, 2008, the Company acquired Newport Coast Securities, Inc. (“NCS”) (formerly Grant Bettingen, Inc.), a California corporation registered with the Financial Industry Regulatory Authority and the Securities and Exchange Commission. During the year ended December 31, 2010, the Company dissolved RREM and disposed of RFIS.

Principles of Consolidation

The financial statements as of December 31, 2013 and for the three months ended March 31, 2014 and 2013 include Rubicon Financial Incorporated (“Rubicon”) and its wholly owned subsidiary, Newport Coast Securities, Inc. (“NCS”). All significant inter-company transactions and balances have been eliminated. RBCF and its subsidiary is collectively referred to herein as the “Company”.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could materially differ from those estimates. Significant estimates made by management include the recoverability of intangible assets.

Cash and Cash Equivalents

The Company maintains cash balances in interest and non-interest bearing accounts. For the purpose of these financial statements, all highly liquid cash and investments with a maturity of three months or less are considered to be cash equivalents.

Fixed Assets

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally accelerated) for tax purposes where appropriate. The estimated useful lives for significant property and equipment categories are as follows:

Equipment	5 years
Furniture	7 years

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there were no impairments needed as of December 31, 2013 or March 31, 2014. Depreciation expense for the three months ended March 31, 2014 and 2013 was \$5,099 and \$3,931, respectively.

Table of Contents

Impairment of long-lived assets

The Company reviews its long-lived assets and intangibles periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets and intangibles. The Company recognized no impairment losses during the three months ended March 31, 2014 and 2013.

Revenue Recognition

The Company recognizes revenue in accordance with ASC subtopic 605-10, net of expected cancellations and allowances. As of March 31, 2014 and December 31, 2013, the Company evaluated evidence of cancellation in order to make a reliable estimate and determined there were no material cancellations during the years and therefore no allowances have been made.

Investment banking revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are determined to be completed, generally as set forth under the terms of the engagement. Transaction related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. The Company recognizes commissions on a gross basis from its broker services on the trade-date. Fees billed and collected before services are performed are included in deferred revenue. Normal expenses are recorded when the obligation is incurred.

Available-for-sale securities

The Company classifies its marketable equity securities as available-for-sale and they are carried at fair market value, with the unrealized gains and losses included in the determination of comprehensive income and reported in stockholders' equity. See Note 5 for further details.

Income Taxes

The Company follows ASC subtopic 740-10 (formerly Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes") for recording the provision for income taxes. ASC 740-10 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

Fair Value of Financial Instruments

The Company has financial instruments whereby the fair value of the financial instruments could be different from that recorded on a historical basis in the accompanying balance sheets. The Company's financial instruments consist of cash, receivables, accounts payable, accrued liabilities, and notes payable. The carrying amounts of the Company's financial instruments approximate their fair values as of March 31, 2014 and December 31, 2013 due to their short-term nature. See Note 15 for further details.

Income (loss) per Common Share

Net income (loss) per share is computed in accordance with ASC subtopic 260-10. The Company presents basic loss per share ("EPS") and diluted EPS on the face of consolidated statements of operations. Basic EPS is computed by dividing reported earnings by the weighted average common shares outstanding. Diluted EPS is computed by adding to the weighted average common shares the dilutive effect of possible preferred stock conversions and in-the-money stock options and warrants exercises. For the three months ended March 31, 2014, the denominator in the diluted EPS computation is 9,713,335 shares higher than the denominator for basic EPS due of possible conversions of preferred stock, series A and B, and in-the-money warrants as of March 31, 2014. For the three months ended March 31, 2013, the denominator in the diluted EPS computation is 3,380,000 shares higher than the denominator for basic EPS due of possible conversions of preferred stock, series A and B. There were no in-the-money options or warrants as of March 31, 2013.

Table of Contents

Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2013, the Company had approximately \$162,000 in excess of FDIC insured limits. At March 31, 2014, the Company had approximately \$968,500 in excess of FDIC insured limits.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Recent Pronouncements

The Company reviewed all recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC and they did not or are not believed by management to have a material impact on the Company's present or future financial statements.

Year-end

The Company has adopted December 31, as its fiscal year end.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation. All such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative of the results to be expected for a full year. Certain amounts in the prior year statements have been reclassified to conform to the current year presentations. The statements should be read in conjunction with the financial statements and footnotes thereto included in our audit for the year ended December 31, 2013.

NOTE 2 – Restatements For Correction Of An Error

In its three 10-Q filings for the year ended December 31, 2013, the Company inadvertently reflected a \$2,403,671 asset as "Goodwill". The asset in question had been shown as an "Intangible asset – customer lists" on all previous filings by the Company and was, in fact, an intangible asset for customer lists/relationships acquired in the 2008 acquisition of Newport Coast Securities (See Note 4). Upon acquisition in 2008, the Company had determined that this asset had an indeterminate life and the Company did not amortize the asset but only tested it for impairment each year. No impairments were ever taken on the asset. The Company has concluded that this was an error and that the asset should have been amortized over the estimated useful life of five years. The correction of the error is going to amortize the \$2,403,671 asset over the five year estimated useful life starting with the date of acquisition in June of 2008 and running through May of 2013. As of December 31, 2012, the asset would have a balance of \$200,307, net of accumulated amortization. This remaining balance is amortized in the year ended December 31, 2013 (\$120,183 in the three months ended March 31, 2013 and \$80,124 in the three months ended June 30, 2013) so that the asset is fully amortized and has a \$0 balance, net of accumulated amortization, as of December 31, 2013. The restated 2013 numbers for the three months ended March 31, 2013 are reflected in these financial statements on a comparative basis with the financial statements for the three months ended March 31, 2014. The following table sets forth the changes to the income statement for the three months ended March 31, 2013 due to the restatement (amounts shown in

thousands except for net income per share data):

	Originally reported	Changes	As Restated
Revenue	\$ 3,971	\$ -	\$ 3,971
Expenses	4,101	120	4,221
Net operating loss	(130)	(120)	(250)
	(23)	-	(23)
Other income (expense)		1	
	(153)	(120)	(273)
Net income		1	
Net income per share - basic	\$ (0.01)		\$ (0.02)
Net income per share - diluted	\$ N/A		\$ N/A

1 = increase in expense due to \$120,183 of amortization expense relating to the intangible asset being amortized.

Table of Contents

NOTE 3 – Restricted Cash

The Company's wholly owned subsidiary, NCS, has entered into securities clearing agreements with APEX Clearing Corporation ("APEX"), Wedbush, Morgan Securities, Inc. ("Wedbush"), and COR Clearing, LLC (COR). Pursuant to these agreements, the Company is required to maintain a deposit account with each respective clearing firm in amounts determined based on the Company's transaction volume. As of December 31, 2013, the Company maintained deposits with APEX, Wedbush, and COR of \$92,599, \$61,412, and \$50,000, respectively, for total restricted cash of \$204,011. As of March 31, 2014, the Company maintained deposits with APEX, Wedbush, and COR of \$92,599, \$61,412, and \$50,000 respectively, for total restricted cash of \$204,011.

NOTE 4 – Intangible Assets – Customer Lists

During the year ended December 31, 2008, the Company consummated the acquisition of 100% of the outstanding common shares of NCS. As a result of the acquisition, Rubicon identified intangible assets relating to customer lists/relationships of \$2,403,671. This asset was amortized over its five year estimated useful life (See note 2 regarding restatement). As of December 31, 2013, the balance of the asset, net of accumulated depreciation, was \$0. Amortization expense was \$0 and \$120,183 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 5 - Marketable securities

The Company classifies its marketable equity securities as available-for-sale and carries them at fair market value, with the unrealized gains and losses included in the determination of comprehensive income and reported in stockholders' equity. Losses that the Company believes are other-than-temporary are realized in the period that the determination is made. As of December 31, 2013 and March 31, 2014, the Company believed that all unrealized losses and gains are not other-than-temporary based on market conditions and the volatility of investments being held. All other unrealized losses and gains will be excluded from earnings and reported in other comprehensive income until realized. None of the investments have been hedged in any manner.

As of December 31, 2013:

The Company held five investments in publically-traded common stock in various corporations and one investment in a REIT with a total aggregate fair market value, based on published market prices, of \$201,921. The Company's total cost in these investments was \$209,058 resulting in an accumulated unrealized loss of \$7,137. This is shown as accumulated other comprehensive loss in the equity section of the balance sheet on these financial statements. Of the investments, one was in a loss position as of December 31, 2013, for a total aggregate unrealized loss of \$31,500.

As of March 31, 2014:

The Company held five investments in publically-traded common stock in various corporations and one investment in a REIT with a total aggregate fair market value, based on published market prices, of \$84,099. The Company's total cost in these investments was \$84,264 resulting in an accumulated unrealized loss of \$165. This is shown as accumulated other comprehensive loss in the equity section of the balance sheet on these financial statements. Of the investments, one was in a loss position as of March 31, 2014, for a total aggregate unrealized loss of \$10,500. The investment has been in a loss position for less than six months.

NOTE 6 – Notes receivable

During the year ended December 31, 2012, the Company issued a total of three notes receivable in the total amount of \$67,485. The notes do not bear interest. The balance due was \$43,569 as of December 31, 2013 relating to these notes. The balance due was \$35,209 as of March 31, 2014 relating to these notes.

NOTE 7 – Accounts Receivable

Amounts receivable from clearing organizations and others at December 31, 2013 consisted of the following:

COR Clearing, LLC	\$375,653
Others	299,251
Wedbush Morgan Securities	151,342
	\$826,246

Amounts receivable from clearing organizations and others at March 31, 2014 consisted of the following:

COR Clearing, LLC	\$734,562
Others	136,924
Wedbush Morgan Securities	151,186
	\$1,022,672

Table of Contents

NOTE 8 – Related Party Transactions

All intercompany transactions have been eliminated in consolidation. All intercompany balances do not bear interest.

As of December 31, 2013 and March 31, 2014, the Company owed accrued payroll to one of its officers/directors in the amount of \$97,150 and \$127,450 respectively.

In February of 2013, the Company sold 426,000 shares of series B preferred stock to an officer/director for \$426,000.

NOTE 9 – Fixed Assets

Fixed assets consisted of the following:

	March 31, 2014	Dec. 31, 2013
Furniture	\$ 73,077	\$ 73,077
Equipment	235,336	235,336
Software	42,230	42,230
	350,643	350,643
Accumulated depreciation	(291,853)	(286,753)
	\$ 58,790	\$ 63,890

During the three months ended March 31, 2014 and 2013, depreciation expense was \$5,099 and \$3,931, respectively.

NOTE 10 – Notes payable and Line of Credit

Notes payable consist of the following at December 31, 2013 and March 31, 2014:

	Dec. 31, 2013	March 31, 2014
Promissory note to a bank for \$100,000, secured by cash held in impound account at the bank. Bears interest at the prime rate, 3.25% as of December 31, 2013, and matures in March of 2014.	8,695	68
Promissory note to a bank for \$168,000, secured by cash held in impound account at the bank. Bears interest at the prime rate, 3.25% as of December 31, 2013, and matures in April of 2016	132,032	118,491
Promissory note to an unrelated party for \$726,500, secured by all the assets of the Company including the stock of NCS, interest of 14%, and matures in December of 2015.	501,427	446,412

\$ 642,154 \$ 564,972

As of December 31, 2013, \$307,768 of the notes payable is short-term and \$334,386 is long-term. As of March 31, 2014, \$310,895 of the notes payable is short-term and \$254,077 is long-term.

During the year ended December 31, 2011, Rubicon obtained a line of credit in the amount of \$200,000. The line is collateralized by Rubicon's deposits at the bank. The line bears interest at the rate Rubicon's money market account earns at the bank plus 2%, which was 2.45% as of December 31, 2013. The line matures on March of 2015. As of December 31, 2013 and March 31, 2014, Rubicon had borrowed \$200,000 on the line.

As part of the note payable the Company signed in December of 2012, the Company paid \$21,000 in financing related costs. These costs have been capitalized and will be amortized into interest expense using the interest method over the life of the note. \$5,828 and \$0 was amortized into expense during the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, capitalized financing costs are \$11,089, net of accumulated amortization of \$9,911.

As part of the note payable the Company signed in December of 2012, the Company agreed to certain covenants. The covenants include, but are not limited to, the Company continuing in good standing and in compliance with all statutes, laws, ordinances and government rules and regulations; the Company delivering financial statements to the lender within specified time periods; the Company providing the lender access to the records of the Company upon request; and the Company paying its taxes on a timely basis. As of March 31, 2014, the Company is in compliance with all the debt covenants.

Table of Contents

Interest expense for the three months ended March 31, 2014 and 2013 was \$29,272 and \$29,284, respectively.

NOTE 11 – Stockholders' equity

Common stock

The Company is authorized to issue 100,000,000 shares of Common Stock, \$0.001 par value per share. Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the stockholders, are without cumulative voting rights, and are entitled to share ratably in dividends. In the event of a liquidation, dissolution, or winding up of the Company, the holders of shares of Common Stock are entitled to share pro rata all assets remaining after payment in full of all liabilities. Holders of Common Stock have no preemptive rights to purchase the Company's Common Stock. There are no conversion rights or redemption or sinking fund provisions with respect to the common stock.

Preferred Stock

The Company is authorized to issue 10,000,000 shares of \$0.001 par value preferred stock; of which 1,000,000 shares are designated as Series A Convertible Preferred Stock and 1,000,000 shares are designated as Series B Convertible Preferred Stock. The preferred stock may be issued from time to time by the board of directors as shares of one or more classes or series.

Series A Convertible Preferred Stock

Holders of Series A Convertible Preferred Stock shall not have the right to vote on matters that come before the stockholders. The Series A Convertible Preferred Stock is redeemable at the Company's option, in whole or in part, at a redemption price of \$2.00 per share. Series A Convertible Preferred Stock may be converted at a rate of twenty shares of common stock for each share of Series A Convertible Preferred stock. Series A Convertible Preferred Stock ranks senior to common stock in the event of liquidation.

Series B Convertible Preferred Stock

The Company established Series B Convertible Preferred Stock on February 23, 2013. Holders of Series B Convertible Preferred Stock shall have the right to ten votes for each share held on matters that come before the stockholders. Following the expiration of twelve months from the date of issuance, Series B Convertible Preferred Stock may be converted at a rate of five shares of common stock for each share of Series B Convertible Preferred stock. Series B Convertible Preferred Stock ranks senior to common stock in the event of liquidation. The Series B Convertible Preferred Stock is redeemable, in whole or in part, at a redemption price of \$1.00 per share under the following conditions:

The Company shall be required to utilize certain amounts of funds it receives from equity or debt financing after the date of issuance of shares of Series B Preferred Stock to redeem the shares in accordance with the following: (i) the Company shall utilize 100% of funds received from the issuance and sale of shares of Series A preferred stock to redeem the shares of Series B Preferred Stock; (ii) the Company will not be required to redeem any shares of Series B Preferred stock for financings up to \$500,000 in the aggregate; (iii) the Company shall utilize a minimum of 10% of the funds received to redeem the shares of Series B Preferred Stock from financings from \$500,001 up to \$1,000,000 in the aggregate; and (iv) the Company shall utilize a minimum of 25% of the funds received to redeem the shares of Series B Preferred Stock for financings in excess of \$1,000,001 in the aggregate. The Company may choose to redeem the shares of Series B Preferred Stock from time to time after the date of issuance (each a "Redemption Date"), in whole or in part, by paying in cash in exchange for the shares of Preferred Stock to be redeemed a sum equal to \$1.00 per

Share of Preferred Stock.

As of December 31, 2012, there were 62,500 series A preferred shares issued and outstanding, no series B preferred shares issued and outstanding, 15,089,023 common shares issued and outstanding, and 250,000 common shares owed but not issued.

2013

In February of 2013, the Company sold 426,000 shares of series B preferred stock to an officer/director for \$426,000.

In the second quarter of 2013, the Company began conducting a private placement offering of up to \$525,000 of units of securities at \$0.15 per unit. Each unit consists of one share of common stock and one three-year warrant to purchase one share of common stock at an exercise price of \$0.50 per share. In May of 2013, the Company had its first closing related to the private placement offering and sold 1,666,667 units for a total of \$250,000.

In the fourth quarter of 2013, the Company began conducting a private placement offering of up to \$300,000 of units of securities at \$0.20 per unit. Each unit consists of one share of common stock and one three-year warrant to purchase one share of common stock at an exercise price of \$0.50 per share. In December of 2013, the Company had its first closing related to the private placement offering and sold 500,000 units for a total of \$100,000. As of March 31, 2014, these shares had not been issued yet and are therefore shown in these financial statements as common stock owed but not issued.

Table of Contents

As of December 31, 2013, there were 62,500 series A preferred shares issued and outstanding, 426,000 series B preferred shares issued and outstanding, 16,755,691 common shares issued and outstanding, and 750,000 common shares owed but not issued.

2014

In the first quarter of 2014, the Company began conducting a private placement offering of up to \$1,500,000 of units of securities at \$0.15 per unit. Each unit consists of one share of common stock and one five-year warrant to purchase one share of common stock at an exercise price of \$0.25 per share. During the three months ended March 31, 2014, the Company sold 6,333,335 units for a total of \$950,000. As of March 31, 2014, \$250,000 is shown as a subscription receivable that was subsequently received in April of 2014. As of March 31, 2014, these shares had not been issued yet and are therefore shown in these financial statements as common stock owed but not issued.

As of March 31, 2014, there were 62,500 series A preferred shares issued and outstanding, 426,000 series B preferred shares issued and outstanding, 16,755,691 common shares issued and outstanding, and 7,083,335 common shares owed but not issued.

NOTE 12 – Warrants and options

Warrants

As of December 31, 2012, there are no outstanding warrants.

During the year ended December 31, 2013, the Company issued three-year warrants in private placement offerings as described in Note 11 above. All have an exercise price of \$0.50 and expire in the year ended December 31, 2016.

During the three months ended March 31, 2014, the Company issued five-year warrants in private placement offerings as described in Note 11 above. All have an exercise price of \$0.25 and expire in the year ended December 31, 2019.

Options

On June 2, 2008, Rubicon granted Mr. Grant Bettingen an option to purchase 500,000 shares of its common stock with an exercise price of \$1.00 pursuant to his employment agreement with NCS. These options expired on June 2, 2013.

A summary of stock options and warrants as of December 31, 2013 and March 31, 2014 is as follows:

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding as of 01/01/13:	500,000	\$ 1.00	-	\$-
Granted	-	-	2,166,667	0.50
Cancelled	-	-	-	-
Expired	(500,000)	-	-	-
Outstanding as of 12/31/13:	-	\$-	2,166,667	\$0.50
Granted	-	-	6,333,335	0.25
Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding as of 3/31/14:	-	\$-	8,500,002	\$0.31

Vested as of 3/31/14:	-	\$-	8,500,002	\$0.31
-----------------------	---	-----	-----------	--------

NOTE 13 – Operating Segments

Rubicon’s operating segments are evidence of its internal organization. The major segments are defined by the type of services offered. Where applicable, “Corporate” represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity at the parent level and eliminations.

Net revenues as shown below represent commissions earned for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure.

Table of Contents

The Company evaluates performance of individual operating segments based on pre-tax income (loss). On a consolidated basis, this amount represents total net loss as shown in the consolidated statement of operations. Reconciling items represent corporate costs that are not allocated to the operating segments including; insurance, office, legal, accounting, depreciation, executive compensation, and other professional services expenses. Such costs have not been allocated from the parent to the subsidiaries.

	The Three Months Ended March 31,	
	2014	2013 RESTATED
Revenue		
Brokerage services	\$ 5,223,114	\$ 3,970,707
	5,223,114	3,970,707
Expenses		
Brokerage services	4,988,209	3,911,211
Corporate	215,276	332,327
	5,203,485	4,243,538
Net income (loss)	\$ 19,629	\$ (272,831)

NOTE 14 – Commitments and Contingencies

Litigation

Grant Bettingen Lawsuit:

In July of 2009, the Company filed its first amended complaint against Grant Bettingen and Grant Bettingen, as Trustee of the 1999 Bettingen Trust U/D/T October 8, 1999, seeking damages for (i) Breach of Contract, (ii) Fraud, (iii) Declaratory Relief, (iv) Breach of Covenant of Good Faith and Fair Dealing, and (v) Unjust Enrichment. These claims arise from the June 2008 merger between the Company and NCS (then known as Grant Bettingen, Inc.) On or about August 10, 2009, the Company was served with a suit from M. Grant Bettingen, the Bettingen 1999 Trust and Christi Bettingen stemming from the same transaction. The Bettingen cross-complaint was dismissed in July of 2010 and has been appealed. While it is not possible to predict with certainty what liability or damages the Company might incur in connection with this lawsuit, based on the advice of counsel and a management review of the existing facts and circumstances related to this lawsuit, the Company has accrued \$487,000 as of December 31, 2013 and March 31, 2014 for this matter, which is included in accrued investment obligation on its Consolidated Balance Sheet.

American International Industries, Inc. Lawsuit:

On December 7, 2011, the Company was served with a Notice of Entry of Judgment on Sister-State Judgment resulting from a purported default judgment entered against it from the District Court of Harris County, Texas 281st Judicial District on or about August 19, 2011. The default judgment was granted to American International Industries, Inc. ("AMIN") against the Company in the amount of \$2,030,114.40. As of December 31, 2011, the Company recorded a current liability for the default judgment in the amount of \$2,030,114.

The Company disputed the validity of the default judgment, believed it had settled any and all disputes with AMIN, the underlying suit was dismissed by the Texas court, and believed there are a number of other issues involved in this case; including, but not limited to, improper service, abuse of process, and accord and satisfaction. During the second quarter of 2012, the default judgment was set aside and the Company lowered the \$2,030,114 accrual to \$268,000

resulting in lawsuit settlement income of \$1,762,114 during the year ended December 31, 2012. While it is not possible to predict with certainty what liability or damages the Company might incur in connection with any legal matter, based on the advice of counsel and a management review of the existing facts and circumstances related to pending legal matters, the Company believed the \$268,000 accrual was adequate to cover the final settlement as of December 31, 2012. During the three months ended June 30, 2013, this case was settled for \$7,500 and the Company recorded a gain on settlement of \$260,500.

The case arises from a suit filed by AMIN in March of 2010 alleging breach of contract, rescission, fraudulent inducement, common law fraud and fraud in the sale of securities relating to a November 2007 Stock Purchase and Investment Agreement between the Company and AMIN. This suit was originally dismissed by the Texas court in December of 2010, prior to the date the Company was required to answer. The agreement with AMIN was for an aggregate of \$2,000,000 through the sale and issuance of 1,000,000 shares of the Company's restricted common stock for \$2.00 per share. Pursuant to the agreement, the Company issued 1,000,000 shares of restricted common stock in exchange for payment by AMIN of \$1,000,000 in cash and the issuance of 200,000 shares of AMIN's restricted common stock, valued at \$5.00 per share based on the trading price of AMIN's common stock at the time.

Table of Contents

Scott Lawsuit:

The Company was party to a lawsuit from a former employee for wrongful termination and harassment. It was the Company's belief that the suit had no merit and nothing had been accrued in relation to this suit. In February of 2013, a FINRA arbitration panel issued an order awarding \$300,000 in compensatory damages and \$125,863 in attorney's fees. Arbitration fees of \$19,650 were also incurred. A total of \$445,513 has been recorded as an accrued liability as of December 31, 2012 and legal settlement expense of \$425,863 has been recorded in the year ended December 31, 2012. During the year ended December 31, 2013, this legal settlement was paid and the accrued balance as of December 31, 2013 relating to this issue is \$0.

Wells notice:

During the three months ended March 31, 2014, the Company received a Wells notice from the Financial Industry Regulatory Authority, Inc. (FINRA) regarding a preliminary determination to recommend disciplinary action against the Company for possible FINRA rules violations from prior years. A Wells notice is neither a formal allegation nor a finding of wrongdoing. The Company is unable to estimate how long the FINRA process will last or its ultimate outcome. As of December 31, 2013 and March 31, 2014, management believes that no accrual for penalties or potential settlements is justified and that the ultimate outcome of the process will not have a material impact on the financial statements.

Subsequent to the quarter ended March 31, 2014, the Company received an additional Wells notice from FINRA regarding a preliminary determination to recommend disciplinary action against the Company for possible violations of NASD Conduct Rules 3010 and 3040(c) and FINRA Rule 2010.

General Litigation:

In addition to the above referenced lawsuit, the Company has several pending claims and arbitrations incurred in the normal course of business. In the Company's opinion, such claims can be resolved without any material adverse effect on its consolidated financial position, results of operations, or cash flows.

The Company maintains certain liability insurance; however, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by its insurance policies, or its insurance carriers could refuse to cover certain of these claims in whole or in part. The Company accrues costs to defend itself from litigation as it is incurred or as it becomes determinable.

The outcome of litigation may not be assured, and despite management's views of the merits of any litigation, or the reasonableness of the Company's estimates and reserves, the Company's financial statements could nonetheless be materially affected by an adverse judgment. The Company believes it has adequately reserved for the contingencies arising from currently pending legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated. While it is not possible to predict with certainty what liability or damages the Company might incur in connection with any legal matter, based on the advice of counsel and a management review of the existing facts and circumstances related to pending legal matters, the Company has accrued \$199,000 and \$149,000 as of December 31, 2013 and March 31, 2014, respectively, for these matters, which is included on its consolidated balance sheet. Management feels it is unlikely that any expense associated with current litigation or arbitrations would exceed the amount accrued.

Office lease agreements

In October of 2009, the Company entered into a long-term lease agreement for office space in Irvine, California commencing January 1, 2010 and ending on June 30, 2015. In December of 2012, the Company entered into a long-term lease agreement for office space in New York, New York commencing January 1, 2013 and ending on December 31, 2014. In May of 2013, the Company entered into a long-term lease agreement for office space in Chicago, Illinois commencing on June 1, 2013 and ending on November 30, 2018. In March of 2014, the Company entered into a long-term lease agreement for new office space in New York, New York commencing in April of 2014 and ending in November of 2017. The Company is currently trying to sublease their old New York office space.

Table of Contents

The annual lease payments due pursuant to these agreements are as follows:

Year Ending December 31,	Amount
2014	\$ 667,984
2015	605,734
2016	512,529
2017	489,284
2018	63,921
Total	\$ 2,339,452

Rent expense is included in general and administrative expense and totaled \$106,743 and \$66,154 for the three months ended March 31, 2014 and 2013 respectively.

Note 15 - Fair Value Measurements

The Company adopted ASC Topic 820-10 at the beginning of 2009 to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of ASC Topic 820-10 did not impact the Company's financial condition or results of operations. ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). ASC Topic 820-10 defines fair value as 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. The three levels of the fair value hierarchy under ASC Topic 820-10 are described below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Valuations based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 – Valuations based on inputs that are supportable by little or no market activity and that are significant to the fair value of the asset or liability. The Company has no level 3 assets or liabilities.

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of March 31, 2014:

	Level 1	Level 2	Level 3	Fair Value
Cash	\$ 1,787,707	\$ -	-	\$ 1,787,707
Accounts receivable	-	1,022,672	-	1,022,672
Marketable securities	84,099	-	-	84,099
Notes and interest receivable	-	35,209	-	35,209

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

Accounts payable	-	406,019	-	406,019
Accrued expenses	-	1,117,920	-	1,117,920
Notes payable	-	764,972	-	764,972

Table of Contents

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Level 1	Level 2	Level 3	Fair Value
Cash	\$ 1,050,472	\$ -	-	\$ 1,050,472
Accounts receivable	-	826,246	-	826,246
Marketable securities	201,921	-	-	201,921
Notes and interest receivable	-	43,569	-	43,569
Accounts payable	-	404,236	-	404,236
Accrued expenses	-	873,147	-	873,147
Notes payable	-	842,154	-	842,154

Note 16 – Subsequent Events

The Company has evaluated all subsequent events through the date these financial statements were issued and determined that there are no subsequent events to record and the following subsequent events to disclose:

In March of 2014, the Company entered into a long-term lease agreement for new office space in New York, New York commencing in April of 2014 and ending in November of 2017. The Company moved into the new office space in April of 2014. The Company is currently trying to sublease their old New York office space.

Subsequent to March 31, 2014, the Company issued the 6,333,335 shares sold in March as detailed out in Note 11.

In May of 2014, the Company had its third closing under a private offering and sold 866,667 units for \$130,000. Each unit consists of one share of common stock and one five year warrant to purchase one share of common stock for \$0.25 per share.

On April 17, 2014, NCS received an additional Wells notice from FINRA regarding a preliminary determination to recommend disciplinary action against Newport for possible violations of NASD Conduct Rules 3010 and 3040(c) and FINRA Rule 2010.

Table of Contents

FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objections of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- deterioration in general or regional (especially Southern California) economic, market and political conditions;
 - adverse actions by regulatory agencies, including the SEC or FINRA;
 - adverse outcomes of current or future arbitrations and litigation;
 - our ability to successfully compete in the financial services industry;
 - actions and initiatives taken by both current and potential competitors;
 - inability to raise additional financing for working capital;
- inability to locate potential mergers and acquisitions within the financial services industry and integrate acquired companies into our organization;
- the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)), regulation (including capital, leverage and liquidity requirements), policies (including fiscal and monetary) and legal and regulatory actions in the United States (“U.S.”) and worldwide;
- deterioration in the financial services markets, lending markets and the real estate markets in general as a result of the delinquencies in the “subprime” mortgage markets;
 - the level of volatility of interest rates as well as the shape of the yield curve;
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;
 - inability to efficiently manage our operations;
 - inability to achieve future operating results;
 - the unavailability of funds for capital expenditures;
 - our ability to recruit and hire key employees;
 - the inability of management to effectively implement our strategies and business plans; and
 - the other risks and uncertainties detailed in this report.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in this document and in our Annual Report on Form 10-K for the year ended December 31, 2012.

In this form 10-Q references to “Rubicon”, “the Company”, “we,” “us,” and “our” refer to Rubicon Financial Incorporated and wholly owned operating subsidiary, Newport Coast Securities, Inc.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are a financial service holding company operating primarily through our wholly-owned subsidiary, Newport Coast Securities, Inc. ("NCS"), a private brokerage firm registered with the Financial Industry Regulatory Authority ("FINRA") providing retail brokerage services and investment banking.

We also have a non-operating subsidiary, Dial-A-Cup, Inc. ("DAC"), which has developed a hot-water dispensing system that will brew one fresh cup of coffee, tea, hot chocolate, soup, etc. on demand. On July 31, 2007, we entered into a Separation and Distribution Agreement with DAC, whereby we agreed to spin-out at least 50% of the shares of DAC common stock owned by us to our stockholders on a one for ten basis. The Separation and Distribution Agreement also provides that DAC will take all of the businesses, assets and liabilities relating to the DAC business previously held by us. DAC intends to file a registration statement on Form S-1 to register the shares of DAC common stock to be distributed. As of the date of this report, the Form S-1 has not been filed because DAC is dormant. When and if DAC is able to raise adequate capital, which is not anticipated to be within the next twelve months, DAC will commence the registration process.

Overview of Financial Services

The types of financial services we offer are: insurance, both personal and commercial; mortgage loan and real estate services, both residential and commercial; and retail brokerage services, securities market making, as well as investment banking services for small to mid-sized companies. Each subsidiary providing these services is an individually licensed corporation doing business under the parent holding company, which is intended to allow us to become a unique, single-source, financial services provider.

Restatement of Prior Periods

In our three 10-Q filings for the year ended December 31, 2013, we inadvertently reflected a \$2,403,671 asset as "Goodwill". The asset in question had been shown as an "Intangible asset – customer lists" on all previous filings and was, in fact, an intangible asset for customer lists/relationships acquired in the 2008 acquisition of Newport Coast Securities (See Note 4 to our financials included in the report). Upon acquisition in 2008, we had determined that this asset had an indeterminate life and we did not amortize the asset but only tested it for impairment each year. No impairments were ever taken on the asset.

We concluded that this was an error and that the asset should have been amortized over the estimated useful life of five years. The correction of the error amortized the \$2,403,671 asset over the five year estimated useful life starting with the date of acquisition in June of 2008 and running through May of 2013. As of December 31, 2012, the asset would have a balance of \$200,307, net of accumulated amortization. This remaining balance was amortized in the year ended December 31, 2013 (\$120,183 in the three months ended March 31, 2013 and \$80,124 in the three months ended June 30, 2013) so that the asset was fully amortized and has a \$0 balance, net of accumulated amortization, as of December 31, 2013. The restated 2013 financials for the three months ended March 31, 2013 are reflected in these financial statements on a comparative basis with the financial statements for the three months ended March 31, 2014. The following table sets forth the changes to the income statement for the three months ended March 31, 2013 due to the restatement (amounts shown in thousands except for net income per share data):

	Originally reported	Changes	As Restated
Revenue	\$ 3,971	\$ -	\$ 3,971
Expenses	4,101	120	4,221
Net operating loss	(130)	(120)	(250)

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

Other income (expense)	(23)	- 1	(23)
Net income	(153)	(120)1	(273)
Net income per share - basic	\$ (0.01)	\$ (0.02)	
Net income per share - diluted	\$ N/A	\$ N/A	

1 = increase in expense due to \$120,183 of amortization expense relating to the intangible asset being amortized.

Table of Contents

Results of Operations

The following tables summarize selected items from the statement of operations for the three months ended March 31, 2013 and 2012.

Revenue:

	Three Months Ended March 31,		Increase/(Decrease)	
	2014	2013 RESTATED	\$	%
Consolidated				
Revenue	\$ 5,223,114	\$ 3,970,707	\$ 1,252,407	32%
Operating expenses	5,174,413	4,220,555	953,858	23%
Net operating income (loss)	\$ 48,701	\$ (249,848)	\$ -	-

Our overall revenues increased 32% during the three months ended March 31, 2014 over the same period in 2013. The revenue increase for the period is the result of substantial increases in investment banking revenues and revenues associated with our new Chicago and New York offices.

During the three months ended March 31, 2014, our operating expenses increased by 23%, primarily as the result of significant increase in general and administrative expenses, mainly attributable to the opening of the Chicago and New York offices. Due to the increase in revenues overcoming the increased expenses, we were able to generate a minor net operating income of \$48,701 for the three months ended March 31, 2014, compared to a net operating loss of \$249,848 for the same quarter of 2013.

Sources of Revenues:

	Three Months Ended March 31,		Increase/(Decrease)	
	2014	2013 RESTATED	\$	%
Commissions	\$ 2,002,064	\$ 1,514,130	\$ 487,934	32%
Investment Banking Fees	1,826,320	1,280,326	545,994	43%
Selling Concessions:				
Insurance	306,625	613,244	(306,619)	(50%)
Mutual Funds	303,686	155,889	147,797	95%
Managed fee accounts	255,631	268,069	(12,438)	(5%)
Other income	528,788	139,049	389,739	280%

Commissions increased for the three months ending March 31, 2014 compared to the same quarter of 2013 due to the additions of the New York and Chicago offices. Investment Banking Fees also increased due to the participation in equity deals from the additions of the New York and Chicago office. Other Income increased as well, due to trading gains on the bond desk which was not present in the same quarter for 2013.

Selling and Administrative Expenses:

	Three Months Ended March 31,	Increase/(Decrease)
--	---------------------------------	---------------------

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

	2014	2013 RESTATED	\$	%
Direct costs	\$ 4,009,014	\$ 3,219,104	\$ 789,910	25%
Professional fees	85,153	198,155	(113,002)	(57%)
Executive compensation	179,259	162,992	16,267	10%
General expenses	895,888	516,190	379,698	74%
Depreciation	5,099	124,114	(119,015)	(96%)
Operating expenses	\$ 5,174,413	\$ 4,220,555	\$ 953,858	23%

Table of Contents

Operating expenses increased by 23% for the first quarter of 2014 compared to the same period of 2013. The substantial decrease in professional fees (57%) was the result of decreased arbitration and litigation expenses in the three months ended March 31, 2014. In addition, the increase in general expenses (22%) related to increased compliance matters and the costs associated therewith, however these were somewhat offset by the reduction in consulting fees and depreciation.

Our direct costs, which increased by 25%, have a direct relationship to our revenue and will increase or decrease with changes in revenue.

Satisfaction of our cash obligations for the next 12 months.

As of March 31, 2014 we had available cash of \$1,583,696. We believe these funds will help support existing operational costs and along with revenues from operations will be sufficient to satisfy our working capital requirements through fiscal 2014 and into fiscal 2015. However, if we experience other than ordinary expenses or extraordinary events, we may need to raise additional funds through either equity, including convertible securities such as preferred stock or debentures, or debt financing. During the first quarter of 2014, we completed three closings under a private placement, raising a total of \$950,000.

Summary of any product research and development that we will perform for the term of our plan of operation.

We do not anticipate performing any additional significant product research and development under our plan of operation with Dial-A-Cup, NCS or in the financial services industry.

Expected purchase or sale of plant and significant equipment.

We do not anticipate the purchase or sale of any plant or significant equipment; as such items are not required by us at this time.

Significant changes in the number of employees.

We have experienced significant changes in our staffing and executive management team as a result of our business acquisitions. Historically we have relied on outside consultants to fulfill the needs of the Company while also relying heavily on our CEO, Joseph Mangiapane, Jr. whom with we have a full time employment agreement. As we have achieved milestones in our growth projections, it has become financially prudent to increase our internal staff to satisfy the operational needs of our business. Likewise, as we have been impacted by the overall economic recession we have also reduced staffing as appropriate.

In NCS we have increased our number of employees to a level which satisfies not only our current requirements in an economically sensible manner but allows for growth over the next year. As the economic conditions improve, we anticipate an increase in our staffing levels as a measure to ensure continued growth. Currently, we employ three executives and fifteen administrative staff within NCS.

Liquidity and Capital Resources

A critical component of our operating plan impacting our continued existence is the ability to obtain additional capital through additional equity and/or debt financing. We do not anticipate generating sufficient positive internal operating cash flow until such time as we can deliver our product to market, complete additional financial service company acquisitions and generate substantial revenues, which may take the next few years to fully realize. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to cease or significantly curtail our

operations. This would materially impact our ability to continue operations.

The following table summarizes our current assets, liabilities and working capital at March 31, 2014 compared to December 31, 2013.

	March 31, 2014	December 31, 2013	Increase / (Decrease)	
			\$	%
Current Assets	\$ 3,069,655	\$ 2,306,536	\$ 736,119	33%
Current Liabilities	2,670,834	2,471,151	199,683	8%
Working Capital	\$ 398,821	\$ (164,615)	\$ 563,436	342%

As we expand our activities, we may continue to experience net negative cash flows from operations, pending receipt of additional revenues.

Table of Contents

We believe the \$1,583,696 in un-restricted cash on hand at March 31, 2014 will be sufficient to sustain operations through fiscal 2014 and into fiscal 2015. However, as we expand operations or experience unforeseen expenditures or other demands on cash, we may need to seek additional funding for operations through equity or debt offerings and may need to further do so in the future through additional financing, acquisitions, joint ventures or other means available to us.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results or operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies and Estimates

Revenue Recognition: We recognizes revenue in accordance with ASC subtopic 605-10 (formerly SEC Staff Accounting Bulletin No. 104 and 13A, “Revenue Recognition”) net of expected cancellations and allowances. As of December 31, 2010 and 2009, we evaluated evidence of cancellation in order to make a reliable estimate and determined there were no material cancellations during the years and therefore no allowances have been made.

Investment banking revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are determined to be completed, generally as set forth under the terms of the engagement. Transaction related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenue. Underwriting revenues are presented net of related expenses. The Company recognizes commissions from its broker services based on a settlement date basis. Fees billed and collected before services are performed are included in deferred revenue. Normal expenses are recorded when the obligation is incurred.

Recent Accounting Developments

We reviewed all recent accounting pronouncements issued by the FASB (including the Emerging Issues Task Force), the AICPA, and the SEC and we did not or are not believed by management to have a material impact on our present or future financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

In connection with the filing of this Form 10-Q, our chief executive officer and principal financial officer, Joseph Mangiapane, Jr., evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2014. We seek to design our disclosure controls and procedures to provide reasonable assurance that the reports we file or submit under the Exchange Act contain the required information and that we submit these reports within the time periods specified in SEC rules and forms. We also seek to design these controls and procedures to ensure that we accumulate and communicate correct information to our management, to allow timely decisions regarding required disclosure.

Based on the evaluation, Mr. Mangiapane concluded that our disclosure controls and procedures are effective in timely altering him to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

(d) Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2013, we identified a material weakness in our internal control over financial reporting, which lead us to require our management to review accounting procedures for correct amortization of intangible assets in accordance with the remediation plan set forth in our annual report on Form 10-K for the year ended December 31, 2013; there were no other changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II--OTHER INFORMATION

Item 1. Legal Proceedings.

In addition to the matters described below, in the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a financial services company. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities or brokers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress or no longer registered with us.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, and involving, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

We contest liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Subject to the foregoing, we believe, based on current knowledge and after consultation with counsel, that the outcome of such proceedings could be material to our consolidated financial condition, operating results and cash flows depending on, among other things, the level of our revenues or income.

Over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies has increased materially in the financial services industry. As a result, we expect that we may become the subject of increased claims for damages and other relief and, while we have identified below certain proceedings that we believe to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material.

Rubicon Financial Incorporated v. Grant Bettingen

In July of 2009, we filed our first amended complaint in the Superior Court of the State of California, for the County of Orange – Central Justice Center (Case Number 30-2009-00124138-CU-BC-CJC), against Grant Bettingen and Grant Bettingen, as Trustee of the 1999 Bettingen Trust U/D/T October 8, 1999, seeking damages for:

1. Breach of Contract;
2. Fraud;
3. Declaratory Relief;
4. Breach of Covenant of Good Faith and Fair Dealing; and

5. Unjust Enrichment.

These claims arise from the June 2008 merger between us and Grant Bettingen, Inc. (now known as Newport Coast Securities, Inc.). On or about August 10, 2009, we were served with a suit from M. Grant Bettingen, the Bettingen 1999 Trust and Christi Bettingen (collectively the "Bettingens")(Case Number 30-2009-00290794) stemming from the same transaction and alleging 30 causes of action. These two cases were consolidated. On July 29, 2010, our demurrer to the second amended cross-complaint filed by the Bettingens was sustained without leave to amend. The Court's ruling effectively dismissed the Bettingens second amended cross-complaint and the causes of action resulting therefrom. The Bettingens appealed the Court's ruling on the demurrer.

In addition, on October 14, 2010, our motion for attorney's fees and costs against the Bettingens was granted and we were awarded attorneys' fees in the sum of \$337,634.00, and costs in the sum of \$18,235.50. The Bettingens appealed the Court's ruling on the motion for attorney's fees.

Table of Contents

Appeal Decisions

On December 27, 2011, we received the appeal opinions from the Court of Appeal of the State of California in both of the matters discussed above.

As to the demurrer on the Bettingens second amended cross-complaint, the Court of Appeals affirmed the dismissal of 21 of the Bettingens causes of action and reversed the judgment as to nine causes of action. The reversed causes of action include (1) breach of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief (1st through 5th and 23d causes of action) against us and Newport Coast Securities; (2) defamation against Joseph Mangiapane, Jr. (16th cause of action); and (3) the FEHA causes of action for discrimination and retaliation in violation of the FEHA (25th and 26th causes of action) against us and Newport Coast Securities. Further, the Court affirmed the dismissal as to the individual defendants, other than Mr. Mangiapane, included in the second amended cross-complaint.

Further, as to the award of attorney's fees, the Court of Appeals reversed the judgment stating that due to the reversal of parts of the demurrer, the award cannot stand and must be vacated.

We believe the Bettingen claims have no merit and intend to continue to aggressively pursue this action, which remains in complex litigation court.

NCS FINRA Wells Notices

On January 6, 2014, NCS received a Wells notice from the Financial Industry Regulatory Authority, Inc. ("FINRA") regarding a preliminary determination to recommend disciplinary action against NCS for possible Securities Exchange Act of 1934, NASD and FINRA rule violations; including, churning and excessively trading client accounts, recommending unsuitable transactions, failure to supervise certain registered representatives and other NASD rules of conduct. A Wells notice is neither a formal allegation nor a finding of wrongdoing.

On April 17, 2014, NCS received an additional Wells notice from FINRA regarding a preliminary determination to recommend disciplinary action against Newport for possible violations of NASD Conduct Rules 3010 and 3040(c) and FINRA Rule 1010.

We are unable to estimate with confidence or certainty how long the FINRA process will last or its ultimate outcome, including whether Newport will reach a settlement with FINRA on either or both of the above stated matters and, if so, the amount of any related monetary fine and other possible remedies.

General Litigation and Arbitration Claims

In addition to the above referenced matters, we have several pending claims and arbitrations incurred in the normal course of business. In our opinion, such claims can be resolved without any material adverse effect on our consolidated financial position, results of operations, or cash flows.

We maintain certain liability insurance; however, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by its insurance policies, or our insurance carriers could refuse to cover certain of these claims in whole or in part. We accrue costs to defend ourselves from litigation as it is incurred or as it becomes determinable.

The outcome of litigation may not be assured, and despite management's views of the merits of any litigation, or the reasonableness of our estimates and reserves, our financial statements could nonetheless be materially affected by an

adverse judgment. We believe we have adequately reserved for the contingencies arising from currently pending legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated. While it is not possible to predict with certainty what liability or damages we might incur in connection with any legal matter, based on the advice of counsel and a management review of the existing facts and circumstances related to pending legal matters, we have accrued \$199,000 and \$149,000 as of December 31, 2013 and March 31, 2014, respectively, for these matters, which is included on our Consolidated Balance Sheet. Management feels it is unlikely that any expense associated with current litigation or arbitrations would exceed the amount accrued.

Table of Contents

Item 1A. Risk Factors.

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 31, 2013 to which reference is made herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On March 3, 2014, we conducted the first closing under a private placement offering selling 2,666,667 units for \$400,000 to one accredited investor. Each unit consists of one share of common stock and one five year warrant to purchase one share of common stock for \$0.25 per share.

In March of 2014, we conducted the second closing under a private placement offering selling 3,666,668 units for \$550,000 to four accredited investors. Each unit consists of one share of common stock and one five year warrant to purchase one share of common stock for \$0.25 per share.

Subsequent Sales

On May 6, 2014, we conducted the third closing under a private placement offering selling 866,667 units for \$130,000 to two accredited investors. Each unit consists of one share of common stock and one five year warrant to purchase one share of common stock for \$0.25 per share.

All of the above-described issuances were exempt from registration pursuant to Section 4(2) and/or Regulation D of the Securities Act as transactions not involving a public offering. With respect to each transaction listed above, no general solicitation was made by either the Company or any person acting on its behalf. All such securities issued pursuant to such exemptions are restricted securities as defined in Rule 144(a)(3) promulgated under the Securities Act, appropriate legends have been placed on the documents evidencing the securities, and may not be offered or sold absent registration or pursuant to an exemption therefrom.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the quarter ended March 31, 2014.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

Exhibit	Exhibit Description	Filed herewith	Incorporated by reference		
			Form	Period ending	Exhibit date
2.1	Agreement and Plan of Merger and Reincorporation, dated August 22, 2011		8-K		2(c) 9/21/11
2.1(b)	Articles of Merger of Rubicon Financial Incorporated, a Nevada corporation and Rubicon Financial Incorporated, a Delaware corporation – Dated August 29, 2011		8-K		3(i)(i) 9/21/11
2.1(c)	Certificate of Merger of Rubicon Financial Incorporated, Nevada corporation and Rubicon Financial Incorporated, Delaware corporation		8-K		3(i)(j) 9/21/11
2.2	Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc.		8-K		2.7 07/05/07
2.2(b)	Amendment No. 1 to the Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc.		8-K		2.7(b) 09/14/07
2.2(c)	Amendment No.2 to the Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc., dated January 23, 2007		8-K		2.7(c) 01/24/08
2.2(d)	Amendment No. 3 to the Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc., dated March 18, 2008		8-K		2.7(d) 03/21/08
2.3	Separation and Distribution Agreement by and between Rubicon Financial Incorporated and Dial-A-Cup, Inc.		8-K		2.8 08/06/07
3.1(i)	Articles of Incorporation, as currently in effect		8-K		3(i)(h) 9/21/11
3.1(ii)	Bylaws, as currently in effect		8-K		3(ii)(c) 9/21/11
4.1	Amended and Restated Certificate of Designation of 8% Series A Convertible Preferred Stock		10-Q	09/30/08	4.1 11/19/08
4.2	Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock		8-K		4.1 03/07/13
4.3	Certificate of Designation for Series B Convertible Preferred Stock		8-K		4.2 03/07/13
10.1†	Employment Agreement with Joseph Mangiapane, Jr.		8-K		10.3 01/17/07
10.2	Share Purchase Agreement between Rubicon Financial Incorporated and Grant Bettingen, Inc.		8-K		10.9 09/14/07
10.3	Amendment No. 1 to NCS Stock Purchase Agreement dated March 18, 2008		8-K		10.12 03/21/08
10.4	Term Note with Gordon and Adele Binder, Community Property, dated November 30, 2012		8-K		10.1 12/14/12
10.5	Security Agreement in favor of Gordon and Adele Binder, Community Property, dated November 30, 2012		8-K		10.2 12/14/12
10.6		X			

	Series B Preferred Stock Purchase Agreement with Kathleen McPherson	
31.1	<u>Certification of Joseph Mangiapane, Jr., Chief Executive Officer and Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act</u>	X
32.1	<u>Certification of Joseph Mangiapane, Jr., Chief Executive Officer and Principal Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act</u>	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
101.LAB	XBRL Taxonomy Extension Label Linkbase	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X

† Indicates management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RUBICON FINANCIAL INCORPORATED
(Registrant)

By: /s/ Joseph Mangiapane, Jr.
Joseph Mangiapane, Jr., Chief Executive Officer
(On behalf of the Registrant and as Principal Financial Officer)

Date: May 15, 2014

