

RUBICON FINANCIAL INC
Form 10-Q
November 13, 2012

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 September 30, 2012

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 November 13, 2012, was 15,089,023, 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>	17
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	20
Item 4T.	<u>CONTROLS AND PROCEDURES</u>	20

PART II - OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	21
Item 1A.	<u>RISK FACTORS</u>	22
Item 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	22
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	23
Item 4.	<u>(REMOVED AND RESERVED)</u>	23
Item 5.	<u>OTHER INFORMATION</u>	23
Item 6.	<u>EXHIBITS</u>	23

	<u>SIGNATURES</u>	24
--	-------------------	----

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Rubicon Financial Incorporated
Condensed Consolidated Balance Sheets

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash	\$ 1,415,525	\$ 1,420,189
Cash – restricted	161,802	311,817
Marketable securities	27,383	55,864
Accounts receivable	449,496	527,019
Prepaid expenses	29,866	42,390
Notes receivable	21,022	69,941
Other current assets	95,010	85,004
Total current assets	2,200,104	2,512,224
Fixed assets, net of accumulated depreciation	27,663	41,019
Other assets:		
Contract advances	36,473	100,218
Deposits	11,917	14,607
Intangible assets – customer list	2,403,671	2,403,671
Total other assets	2,452,061	2,518,496
Total assets	\$ 4,679,828	\$ 5,071,739
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 682,791	\$ 725,380
Accrued expenses	731,673	805,778
Investment obligation	487,000	487,000
Deferred revenue	1,511	6,042
Line of credit	200,000	200,000
Note payable, current portion	51,228	67,270
Accrued legal judgment	-	2,030,114
Contingent liabilities	649,350	421,350
Total current liabilities	2,803,553	4,742,934
Long term liabilities:		
Note payable	17,274	51,428
Stockholders' equity		
Preferred stock, \$0.001 par value, 9,000,000 shares authorized, no shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	-	-
Preferred series "A", \$0.001 par value, 1,000,000 shares authorized, 62,500 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	63	63
Common stock, \$0.001 par value, 100,000,000 shares	15,089	14,714

authorized, 15,089,023 and 14,714,023 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively

Common stock owed but not issued, 250,000 and 525,000 shares as of September 30, 2012 and December 31, 2011, respectively

	250	525
Additional paid in capital	18,433,990	18,394,090
Other comprehensive losses	25,096	29,599
Accumulated (deficit)	(16,615,487)	(18,161,614)
Total stockholders' equity	1,859,001	277,377
Total liabilities and stockholders' equity	\$ 4,679,828	\$ 5,071,739

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 September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 3,721,188	\$ 3,494,991	\$ 11,669,298	\$ 11,909,577
Expenses:				
Direct costs	3,063,342	2,980,254	9,255,124	9,515,113
Consulting	15,789	70,581	55,158	301,723
Professional fees	320,071	6,466	650,942	142,953
Executive compensation	159,780	156,000	519,810	465,216
General and administrative expenses	231,601	420,635	1,424,789	1,215,147
Depreciation and amortization	4,343	6,341	13,356	20,873
Total expenses	3,794,926	3,640,277	11,919,179	11,661,025
Net operating income (loss)	(73,738)	(145,286)	(249,881)	248,552
Other income (expense):				
Interest expense	(11,123)	(4,770)	(18,532)	(14,743)
Interest income	1,819	5,876	7,237	23,414
Loss on sale of investments	1,219	(46,869)	1,266	(42,978)
Loss on uncollectable note receivable	-	(118,500)	-	(118,500)
Legal settlement income	-	-	1,762,114	-
Other income	15,177	13,167	43,925	34,344
Total other income (expense)	7,092	(151,096)	1,796,010	(118,463)
Net income (loss)	(66,646)	(296,382)	1,546,129	130,089
Other comprehensive income (loss):				
Unrealized gains (losses) on marketable securities	7,494	11,717	(4,503)	(36,312)
Adjustment to record other than temporary losses	-	46,869	-	46,869
Other comprehensive income (loss)	7,494	58,586	(4,503)	10,557
Total comprehensive income (loss)	\$ (59,152)	\$ (237,796)	\$ 1,541,626	\$ 140,646
Weighted average number of common shares outstanding - basic	15,074,893	14,852,023	14,992,216	14,689,481
Weighted average number of common shares outstanding- fully diluted	N/A	N/A	15,242,216	14,939,481
Net income (loss) from continuing operations per share - basic	\$ (0.00)	\$ (0.02)	\$ 0.10	\$ 0.01
Net income (loss) from continuing operations per share- fully diluted	N/A	N/A	0.10	0.01

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 Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
Net (loss) income	\$ 1,546,129	\$ 130,089
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation expense	13,356	20,873
Shares and options issued for services	40,000	110,000
Loss on sale of investments	-	42,978
Loss on uncollectible note receivable	-	118,500
Changes in operating assets and liabilities:		
Accounts receivable	77,523	262,046
Prepaid expenses	12,524	119,295
Accrued interest receivable	-	12,815
Deposits and other assets	(7,320)	-
Accounts payable and accrued liabilities	(1,918,808)	(311,663)
Deferred revenue	(4,531)	(183,640)
Contract advances	63,749	(154,968)
Notes receivable	48,919	(58,334)
Net cash (used) by operating activities	(128,459)	107,991
Cash flows from investing activities		
Purchase of investments	23,978	28,116
Net cash (used) by investing activities	23,978	28,116
Cash flows from financing activities		
Payments on notes payable	-	(140,239)
Proceeds from note payable	(50,198)	300,000
Net cash provided by financing activities	(50,198)	159,761
Net (decrease) increase in cash	(154,679)	295,868
Cash – beginning	1,732,006	1,360,504
Cash – ending	\$ 1,577,327	\$ 1,656,372
Supplemental disclosure		
Interest paid	\$ 18,532	\$ 14,743
Income taxes paid	\$ -	\$ -
Non-cash financing activities:		
Shares and options issued for services	\$ 40,000	\$ 110,000

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 (“Inception”) 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. On February 1, 2007, the Company completed a merger with Rubicon Financial Insurance Services, Inc. a California corporation (“RFIS”), pursuant to an agreement and plan of merger. The agreement and plan of merger provided that ISSG Sub, Inc. our wholly owned subsidiary, merged with and into RFIS, with RFIS as the surviving corporation and new wholly-owned subsidiary of the Company. On February 13, 2007, the Company formed a wholly owned subsidiary, Rubicon Securities, Inc., a Nevada corporation. On May 11, 2007, the Company acquired Rubicon Real Estate and Mortgages, Inc., a California corporation (“RREM”), pursuant to an agreement and plan of merger. The agreement and plan of merger provided that DeeSound, Inc. our wholly owned subsidiary, merged with and into RREM, with RREM as the surviving corporation and new wholly owned subsidiary of the Company. On June 2, 2008, the Company completed its acquisition of Newport Coast Securities, Inc. (“NCS”) (formerly Grant Bettingen, Inc.), a California corporation registered with the Financial Industry Regulatory Authority. During the year ended December 31, 2010, the Company dissolved RREM and disposed of RFIS leaving NCS as its only subsidiary.

Principles of Consolidation

The financial statements as of December 31, 2011 and for the nine months ended September 30, 2012 include those of: 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 are 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 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 3-5 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, 2011 or September 30, 2012. Depreciation expense for the nine months ended September 30, 2012 and 2011 was \$13,356 and \$20,873, 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 nine months ended September 30, 2012 or 2011.

Revenue Recognition

The Company recognizes revenue in accordance with ASC subtopic 605-10, net of expected cancellations and allowances. As of September 30, 2012 and December 31, 2011, the Company evaluated evidence of cancellation in order to make a reliable estimate and determined there were no material cancellations during the periods and therefore no allowances has 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.

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.

Income Taxes

The Company follows ASC subtopic 740-10 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 September 30, 2012 and December 31, 2011 due to their short-term nature. See Note 13 for further details.

Earnings (Loss) per Common Share

Net earnings (loss) per share is computed in accordance with ASC subtopic 260-10. The Company presents basic earnings (loss) per share ("EPS") and diluted EPS on the face of consolidated statements of operations. Basic EPS is computed by dividing reported earnings (loss) by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if preferred stock, stock options and warrants were exercised into common stock. For the nine months ended September 30, 2012 and 2011, the denominator in the diluted EPS computation is greater than the denominator for basic EPS due to 250,000 shares of common stock that could be issued if the preferred stock was converted to common.

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.

Table of Contents

Recent Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. The amendments result in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs), and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The amendments in this update are effective during interim and annual periods beginning after December 15, 2011. Adoption of the new requirement did not have an effect on the Company’s financial position, results of operations or cash flow.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”. In this update, FASB eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendments require that all non-owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within these years, beginning after December 15, 2011. Adoption of the new requirement did not have an effect on the Company’s financial position, results of operations or cash flow.

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

International Financial Reporting Standards:

In November 2008, the Securities and Exchange Commission (“SEC”) issued for comment a proposed roadmap regarding potential use of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Under the proposed roadmap, the Company would be required to prepare financial statements in accordance with IFRS in fiscal year 2014, including comparative information also prepared under IFRS for fiscal 2013 and 2012. The Company is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments.

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, 2011.

NOTE 2 – Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has an accumulated deficit of \$16,615,487 since inception and incurred net losses of \$2,036,740 and \$1,729,039 for the years ended December 31, 2011 and 2010. These conditions give rise to doubt about the Company's ability to continue as a going concern. These financial statements do not include adjustments relating to the recoverability and classification of reported asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate profitability, obtain additional financing, or obtain proceeds from the sale of its stock.

NOTE 3 – Restricted Cash

The Company's wholly owned subsidiary, NCS, has entered into securities clearing agreements with Penson Financial Services, Inc. ("Penson") and Wedbush, Morgan Securities, Inc. ("Wedbush"). 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 September 30, 2012, the Company maintained deposits with Penson and Wedbush of \$100,390 and \$61,412, respectively, for total restricted cash of \$161,802. As of December 31, 2011, the Company maintained deposits with Penson and Wedbush of \$250,405 and \$61,412, respectively, for total restricted cash of \$311,817.

Table of Contents

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 in the NCS customer lists that were valued at \$2,403,671. This asset was evaluated for impairment as of September 30, 2012 and December 31, 2011 and management determined that no impairment was needed.

Total intangible assets as of September 30, 2012 and December 31, 2011 were \$2,403,671.

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. During the years ended December 31, 2010 and 2011, the Company made the determination that two of the investments had unrealized losses that were other-than-temporary and realized the losses. 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, 2011:

The Company held thirteen investments in publically-traded common stock in various corporations with an aggregate cost of \$26,265 (after adjustment for other-then-temporary losses – see below) and a fair market value, based on published market prices, of \$55,864. The accumulated unrealized gain on these securities is \$29,599 and is shown as accumulated other comprehensive gain.

Of the above investments, there are eleven investments with an aggregate cost of \$855 and an aggregate fair market value of \$37,384. Of these investments, one was in a loss positions for a total aggregate unrealized loss of \$1,074 and had been in a loss position for more than twelve months.

An investment in the publically-traded common stock of Clean Coal Technologies, Inc. had a cost of \$300,000 and a fair market value of \$423 as of December 31, 2010. This investment had been in a loss position for over twelve months, therefore, during the year ended December 31, 2010, the Company made the determination that this unrealized loss was other-then-temporary and should be realized. A total of \$299,577 was adjusted from unrealized to realized and the amount was moved from the other accumulated comprehensive loss on the balance sheet to the realized loss on investments on the statement of operations. During the year ended December 31, 2011, the remaining \$423 was adjusted from unrealized to realized and the amount was moved from the other accumulated comprehensive loss on the balance sheet to the realized loss on investments on the statement of operations. As of December 31, 2011, the entire \$300,000 cost had been recognized as a loss and the investment had no cost remaining.

An investment in the publically-traded common stock of American International Industries, Inc. had a cost of \$974,100 and a fair market value of \$121,762 as of December 31, 2010. This investment had been in a loss position for over twelve months, therefore, during the year ended December 31, 2010, the Company made the determination that this unrealized loss was other-then-temporary and should be realized. A total of \$852,338 was adjusted from unrealized to realized and the amount was moved from the other accumulated comprehensive loss on the balance sheet to the realized loss on investments on the statement of operations. During the nine months ended September 30, 2011, a portion of this investment with a remaining cost of \$24,225 was sold for proceeds of 28,116 resulting in a realized gain of \$3,891. As of September 30, 2011, the investment had a remaining cost of \$97,537 and a fair market value of \$51,091. This investment has been in a loss position for over twelve months. During the quarter ended September 30,

2011, the Company made the determination that this unrealized loss was other-than-temporary and should be realized. A total of \$46,446, the difference between the cost and market value as of September 30, 2011, was adjusted from unrealized to realized and the amount was moved from the other accumulated comprehensive loss on the balance sheet to the realized loss on investments on the statement of operations. During the quarter ended December 31, 2011, another portion of this investment with a remaining cost of \$25,681 was sold for proceeds of 15,423 resulting in a realized loss of \$10,258. As of December 31, 2011, the investment had a remaining cost of \$25,410 and a fair market value of \$18,480 for a total unrealized loss of \$6,930.

In total, during the year ended December 31, 2011, \$46,869 was adjusted from unrealized to realized and the amount was moved from the other accumulated comprehensive loss on the balance sheet to the realized loss on investments on the statement of operations.

As of September 30, 2012:

The Company held twelve investments in publically-traded common stock in various corporations with an aggregate cost of \$24,801 and a fair market value, based on published market prices, of \$27,383. The accumulated unrealized gain on these securities is \$25,096 and is shown as accumulated other comprehensive gain on these financial statements.

Of the above investments, there are two investments in loss positions with an aggregate cost of \$24,801 and an aggregate fair market value of \$13,854. The accumulated unrealized loss on these two investments was \$10,947. Of these investments, both have been in a loss position for more than twelve months. Management feels that the unrealized losses are temporary in nature and immaterial to the overall financial statements.

Table of Contents

NOTE 6 – Notes receivable

Newman:

On April 18, 2008, Rubicon amended its \$20,000 note receivable with its RREM subsidiary, whereby Joel Newman, the former President of RREM accepted full liability for the principal balance of \$20,000. The amended terms require interest to accrue at a rate of 6% per annum and matured on April 18, 2009. In addition, Mr. Newman owes \$5,000 in the form of a demand note, which accrues interest at a rate of 6% per annum. On March 18, 2008, Rubicon received the initial payment of \$898 representing principal in the amount of \$798 and interest of \$100. The combined outstanding principal balance as of December 31, 2009 was \$24,202. Accrued interest earned on this note was \$2,858 as of December 31, 2009. During the year ended December 31, 2010, the Company and Mr. Newman reached an agreement consolidating the outstanding principal balance and accrued interest balance into a new note in the amount of \$27,739. The note bears interest of 6% and was due on December 31, 2010. As of December 31, 2010 the note balance was \$15,239 and the balance of accrued interest was \$488. In September of 2011, the note balance was \$15,239 and the balance of accrued interest was \$1,173 for a total amount receivable of \$16,412. In September of 2011, the Company reached a settlement with Mr. Newman for the note to be relieved with Mr. Newman returning 184,000 shares of common stock to the Company for cancellation. As of December 31, 2011, there is no balance due on this note receivable.

Riviello:

On June 3, 2008, Rubicon was issued a note receivable in the amount of \$100,000 from Marc Riviello pursuant to the “Stock Repurchase and Settlement Agreement”. The note accrues interest at a rate of 6% per annum and was due June 1, 2009. The loan was not repaid and subsequently the Company took legal action against Mr. Riviello and won an initial settlement claim in excess of \$100,000. As of December 31, 2010, the Company, has not been able to collect on the principal balance and the balance remained \$100,000. Accrued interest earned on this note was \$15,500 as of December 31, 2010 and \$18,500 as of September 30, 2011. During the quarter ended September 30, 2011, The Company determined that the settlement agreement’s collection was in doubt and took a bad debt write-off of the full \$118,500. As of December 31, 2011, there is no balance due on this note receivable.

Brown:

On December 27, 2010, Rubicon was issued a note receivable in the amount of \$19,037. The note does not bear interest and is due in monthly installments through May of 2013. The balance of the note as of December 31, 2010 was \$19,037. During the year ended December 31, 2011, no payments were received and the balance of the note as of December 31, 2011 was \$19,037. During the nine months ended September 30, 2012, no payments were received and the balance of the note as of September 30, 2012 was \$19,037.

Miscellaneous:

During the year ended December 31, 2011, Rubicon issued a total of four notes receivable in the total amount of \$95,571. \$44,667 in payments were received during the year and the balance due was \$50,904 as of December 31, 2011. The notes do not bear interest and mature during 2012. \$50,904 in payments were received during the nine months ended September 30, 2012 and the balance due was \$0 as of September 30, 2012.

As of December 31, 2011 and September 30, 2012, there is a total of \$69,941 and \$21,022 in notes receivable, respectively.

NOTE 7 – Related Party Transactions

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

In May of 2010, the Company authorized 750,000 shares of its restricted common stock to an employee and two officers for their services. The fair value of the shares issued was \$150,000, or \$0.20 per share, and was expensed as of December 31, 2010 but not issued. 850,000 of the shares were issued and 150,000 shares were canceled in the three months ended March 31, 2011.

As of September 30, 2012 and December 31, 2011, the Company owed accrued payroll to one of its officers/directors in the amount of \$13,500.

Table of Contents

NOTE 8 – Notes payable

Notes payable consist of the following at December 31, 2011 and June 30, 2012:

	December 31, 2011	September 30, 2012
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, 2011, and matures in March of 2013.	\$ 42,812	\$ 17,299
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, 2011, and matures in March of 2014.	75,886	51,203
	\$ 118,698	\$ 68,502

As of September 30, 2012, \$51,228 of the notes payable is short-term and \$17,274 is long-term. As of December 31, 2011 \$67,270 of the notes payable is short-term and \$51,428 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, 2011. The line matures on March 11, 2013. As of December 31, 2011 and September 30, 2012, Rubicon had borrowed \$200,000 on the line.

Interest expense, related to the above, for the nine months ended September 30, 2012 and 2011 was \$18,532 and \$14,743, respectively.

NOTE 9 – 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 8% Series A 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.

8% Series A Convertible Preferred Stock

Holders of 8% 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 four 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.

As of December 31, 2010, there were 62,500 preferred shares issued and outstanding, 14,048,023 common shares issued and outstanding, and 1,000,000 common shares owed but not issued.

Table of Contents

Year Ended December 31, 2011

In March of 2011, 850,000 shares owed as of December 31, 2010 were issued and 150,000 were canceled.

In February of 2011, 250,000 shares were granted to a new employee as a signing bonus. As of December 31, 2011, the shares had not been issued and are therefore shown as owed but not issued on these financial statements. The shares were valued at market value on the day they were granted and \$110,000 was expensed.

In September of 2011, 184,000 shares were surrendered to the Company and canceled in settlement of a note receivable. See note 6 for further details.

In December of 2011, 275,000 shares were granted to employees for services rendered. As of December 31, 2011, the shares had not been issued and are therefore shown as owed but not issued on these financial statements. The shares were valued at market value on the day they were granted and \$41,250 was expensed. 225,000 of these shares were issued in January of 2012.

As of December 31, 2011, there were 62,500 preferred shares issued and outstanding, 14,714,023 common shares issued and outstanding, and 525,000 common shares owed but not issued.

Nine months Ended September 30, 2012

In January of 2012, 225,000 shares of common stock that were owed but not issued at December 31, 2011 were issued.

In March of 2012, 50,000 shares of common stock that were owed but not issued at December 31, 2011 were issued.

In July of 2012, 100,000 shares of common stock were issued to an employee as compensation valued at \$40,000. The common stock was valued at the market value on the day of the grant.

As of September 30, 2012, there were 62,500 preferred shares issued and outstanding, 15,089,023 common shares issued and outstanding, and 250,000 common shares owed but not issued.

NOTE 10 – Warrants and options

Warrants

As of September 30, 2012 and December 31, 2011, there are no outstanding warrants.

Options

On January 1, 2007, the Company granted options to purchase up to 500,000 shares of its common stock pursuant to its employment agreement with the chief executive officer. The holder has the right to purchase up to 500,000 shares of common stock of the Company for an aggregate purchase price of \$500,000 or \$1 per share. The options expired on December 31, 2011.

On June 2, 2008, the Company 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. The options expire on June 2, 2013.

A summary of stock options and warrants as of September 30, 2012 and December 31, 2011 is as follows:

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding as of 01/01/11:	1,000,000	\$ 1.00	-	\$ -
Granted	-	-	-	-
Cancelled	-	-	-	-
Expired	(500,000)	1.00	-	-
Outstanding as of 12/31/11:	500,000	\$ 1.00	-	\$ -
Granted	-	-	-	-
Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding as of 9/30/12:	500,000	\$ 1.00	-	\$ -
Vested as of 9/30/12:	500,000	\$ 1.00	-	\$ -

Table of Contents

NOTE 11 – Operating Segments

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

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

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 Nine Months Ended September 30,	
	2012	2011
Revenue		
Brokerage services	\$ 11,669,298	\$ 11,909,577
	11,669,298	11,909,577
Expenses		
Brokerage services	11,264,123	11,079,365
Corporate	(1,140,954)	700,123
	10,123,169	11,779,488
Net income (loss)	\$ 1,546,129	\$ 130,089

NOTE 12 – 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, 2011 and September 30, 2012 for this matter, which is included in accrued investment obligation on its Consolidated Balance Sheet.

American International Industries, Inc. Default Judgment:

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 the Company 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.

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 believes there are a number of other legal issues involved in this case; including, but not limited to, improper service, abuse of process, and accord and satisfaction. The Company's counsel is aggressively pursuing setting aside the default judgment, or at a minimum staying any enforcement of the judgment, and pursuing possible sanctions against AMIN and its attorneys.

Table of Contents

The default judgment 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.

The Company believes AMIN's claims are totally without merit and intends to vigorously defend itself from this malicious suit. However, the Company can provide no assurance as to the ultimate outcome of this matter and if the default judgment is upheld it will have a material adverse effect upon the Company. As of March 31, 2012 and December 31, 2011, \$2,030,114 had been accrued in the consolidated financial statements. During the three months ended June 30, 2012, the default judgement 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 three months ended June 30, 2012 and the nine months ended September 30, 2012.

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 \$649,350 (including \$268,000 noted above) and \$421,350 as of September 30, 2012 and December 31, 2011, respectively, for these matters. Management feels it is unlikely that any expense associated with current litigation or arbitrations would exceed the amount accrued.

Office lease agreement

On October 21, 2009, the Company entered into a long-term lease agreement commencing January 1, 2010 and ending on June 30, 2015. The annual lease payments due pursuant to this agreement are as follows:

Year Ending December 31,	Amount
-----------------------------------	--------

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

2012	\$193,016
2013	199,310
2014	205,604
2015	104,900
Total	\$702,830

Table of Contents

NOTE 13 - 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 December 31, 2011:

	Level 1	Level 2	Level 3	Fair Value
Cash	\$ 1,732,006	\$ -	-	\$ 1,732,006
Accounts receivable	-	527,019	-	527,019
Marketable securities	55,864	-	-	55,864
Notes and interest receivable	-	69,941	-	69,941
Accounts payable	-	725,380	-	725,380
Accrued expenses	-	1,298,820	-	1,298,820
Accrued legal settlement	-	2,030,114	-	2,030,114
Notes payable	-	318,698	-	318,698

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of September 30, 2012:

	Level 1	Level 2	Level 3	Fair Value
--	---------	---------	---------	------------

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

Cash	\$	1,577,327	\$	-	-	\$	1,577,327
Accounts receivable	-		449,496	-		449,496	
Marketable securities	27,383		-	-		27,383	
Notes and interest receivable	-		21,022	-		21,022	
Accounts payable	-		682,791	-		682,791	
Accrued expenses	-		1,869,534	-		1,869,534	
Notes payable & line of credit	-		268,502	-		268,502	

NOTE 14 – Subsequent Events

In preparing these financial statements, the Company evaluated events and transactions for potential recognition or disclosure through the date these financial statements were issued.

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 Quarterly Report on Form 10-Q, Annual Report on Form 10-K 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 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;
- 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, 2011.

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

On February 22, 2011, DAC issued a press release announcing that it had entered into a letter of intent to merge with Horizon Exterior Technology, Inc. ("Horizon"). In May of 2012, DAC and Horizon agreed to cancel merger discussions. However, pursuant to the terms of the cancellation, Horizon agreed to issue us 100,000 shares of its common stock.

Overview of Financial Services

We have established our headquarters in Orange County, California to capitalize on the perceived large and affluent demographic base for our products in the financial services industry. 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.

Results of Operations

The following tables summarize selected items from the statement of operations for the three and nine months ended September 30, 2012 and 2011.

Revenue:

	Three Months Ended			Nine Months Ended		
	September 30,		%	September 30,		%
	2012	2011	Change	2012	2011	Change
Consolidated						
Revenue	\$ 3,721,188	\$ 3,494,991	7%	\$ 11,669,298	\$ 11,909,577	(2%)
Operating expenses	\$ 3,794,926	\$ 3,640,277	4%	\$ 11,919,179	\$ 11,661,025	2%
Net operating income (loss)	\$ (73,738)	\$ (145,286)	(49%)	\$ (249,881)	\$ 248,552	-

The third quarter is consistently our slowest quarter for business, primarily due to Summer seasonal slowdown; however, we were able to increase revenues by 7% for the three months ended September 30, 2012, but experienced a modest 2% decrease in revenues for the nine months ended September 30, 2012 over the same period of 2011.

During the three and nine months ended September 30, 2012 our operating expenses increased by only 4% and 2%, respectively, over the same periods of 2011. We previously increased administrative and compliance staffing to support anticipated growth in registered representatives, which has helped us to maintain operating expenses at a reduced level with increases being relative to increases in revenues. In addition, we intend to continue our focus on reducing operating expenses as efficiently as possible while continuing to plan for anticipated growth.

During the three months ended September 30, 2012 we generated a net operating loss of \$73,738, compared to a net operating loss of \$145,286 for the same period in 2011, resulting in an almost 50% reduction in net loss. However, for the nine months ended September 30, 2012 we generated a net operating loss of \$249,881, compared to a net operating income of \$248,552 for the same nine month period in 2011, which was primarily the result of the \$240,279 decrease in revenues and substantial increases in professional fees for the nine months ended September 30, 2012.

Table of Contents

Selling and Administrative Expenses:

	Three Months Ended			Nine Months Ended		
	September 30,		%	September 30,		%
	2012	2011	Change	2012	2011	Change
Direct costs	\$ 3,063,342	\$ 2,980,254	3 %	\$ 9,255,124	\$ 9,515,113	3%
Consulting	15,789	70,581	(78%)	55,158	301,723	(82%)
Professional fees	320,071	6,466	-	650,942	142,953	355%
Executive compensation	159,780	156,000	2%	519,810	465,216	12%
General expenses	231,601	420,635	(45%)	1,424,789	1,215,147	17%
Depreciation and amortization	4,342	6,341	(32%)	13,356	20,873	(36%)
Operating expenses	\$ 3,794,926	\$ 3,640,277	4%	\$ 11,919,179	\$ 11,661,025	2%

Operating expenses increased only 4% and 2%, respectively, for the three and nine month periods ended September 30, 2012 compared to the same periods of 2011. Increases in professional fees (\$313,605) for the three months ended September 30, 2012, were somewhat offset by substantial decreases in consulting fees (78%) and general expenses (45%) over the same period in 2011. Likewise, the substantial increase in professional fees (355%), resulting from increased arbitration and litigation expenses, for the nine months ended September 30, 2012, were moderately offset by the 82% decrease in consulting fees for the same period in 2011.

Our direct costs, which increased by 3% for the first three quarters of 2012, have a direct relationship to our revenue and will increase or decrease with changes in revenue.

Other income and (expense)

	Three Months Ended			Nine Months Ended		
	September 30,		%	September 30,		%
	2012	2011	Change	2012	2011	Change
Consolidated						
Interest income	\$ 1,819	\$ 5,876	(69%)	\$ 7,237	\$ 23,414	(69%)
Interest (expense)	(11,123)	(4,770)	133%	(18,532)	(14,743)	26%
Gain (loss) on sale of investments	1,219	(46,869)	103%	1,266	(42,978)	(103%)
Loss on uncollectable note	-	(118,500)	-	-	(118,500)	-
Legal settlement income	-	-	-	1,762,114	-	-
Other income	15,177	13,167	15%	43,925	34,344	28%

Other income and expense consists of interest earned and expenses. We experienced a 695% decrease in interest income for the three and nine months ended September 30, 2012, as a direct result of decreased cash resources held in interest bearing money market accounts. Interest was incurred during ordinary course of business through the use of corporate credit cards and outstanding bank loans.

On June 3, 2008, Rubicon was issued a note receivable in the amount of \$100,000 from Marc Riviello pursuant to the “Stock Repurchase and Settlement Agreement”. The note accrues interest at a rate of 6% per annum and was due June 1, 2009. The loan was not repaid and subsequently the Company took legal action against Mr. Riviello and was awarded a judgment in excess of \$100,000. During the quarter ended September 30, 2011, the Company determined that collecting on the judgment was in doubt due to Mr. Riviello’s incarceration and took a bad debt write-off of the full \$118,500. However, the judgment remains valid and the Company may pursue collection efforts through the balance of the term of the judgment.

During the nine months ended September 30, 2012, an accrued legal judgment in the amount of \$2,030,114.40 was set aside. We have accrued a contingent liability for the ongoing litigation in the amount of \$268,000, thereby resulting in legal settlement income of \$1,762,114 for the nine months ended September 30, 2012.

Table of Contents

Satisfaction of our cash obligations for the next 12 months.

As of September 30, 2012 we had available cash of \$1,415,525. 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 2012 and into fiscal 2013. 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.

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 two 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 September 30, 2012 compared to December 31, 2011.

	September 30, 2012	December 31, 2011	Increase / (Decrease)	
			\$	%
Current Assets	\$ 2,200,104	\$ 2,512,224	\$ (312,120)	(12%)
Current Liabilities	2,803,553	4,742,934	(1,939,381)	(41%)

Working Capital	\$ (603,449)	\$ (2,230,710)	\$ (1,627,261)	(73%)
--------------------	--------------	----------------	----------------	-------

A substantial portion of our current liabilities and resulting deficit in working capital as of December 31, 2011 was primarily the result of an accrued legal judgment granted to American International Industries, Inc. (“AMIN”) against us in the amount of \$2,030,114.40. This judgment was set aside in May of 2012 and resulted in a substantial decrease in current liabilities as of September 30, 2012.

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

We believe the \$1,415,525 in un-restricted cash on hand at September 30, 2012 will be sufficient to sustain operations through fiscal 2012 and into fiscal 2013. 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.

Table of Contents

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of Rubicon as a going concern. Rubicon's cash position is currently inadequate to pay all of the costs associated with its operations. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should Rubicon be unable to continue existence.

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

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". The amendments result in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs), and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The amendments in this update are effective during interim and annual periods beginning after December 15, 2011. Adoption of the new requirement is did not have an effect on the Company's financial position, results of operations or cash flow.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". In this update, FASB eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within these years, beginning after December 15, 2011. Adoption of the new requirement did not have an effect on the Company's financial position, results of operations or cash flow.

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

International Financial Reporting Standards:

In November 2008, the Securities and Exchange Commission (“SEC”) issued for comment a proposed roadmap regarding potential use of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Under the proposed roadmap, the Company would be required to prepare financial statements in accordance with IFRS in fiscal year 2014, including comparative information also prepared under IFRS for fiscal 2013 and 2012. The Company is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4T. Controls and Procedures.

Our Chief Executive Officer and Principal Financial Officer, Joseph Mangiapane, Jr., evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. 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.

There were no 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 may, from time to time, be named as defendants in various judicial, regulatory, and arbitration proceedings in the future. The nature of such proceedings may involve large claims subjecting us to exposure. In addition, claims may be made against our broker-dealer subsidiary relating to investment banking underwritings, which may be brought as part of a class action, or may be routine retail customer complaints regarding losses in individual accounts, which are ordinarily subject to FINRA arbitration proceedings. Our broker-dealer subsidiary may also become subject to investigations or proceedings by governmental agencies and self-regulatory organizations, which can result in fines or other disciplinary action being imposed on the broker-dealer and/or individuals. Additionally, legal proceedings may be brought against us from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the plaintiffs seek substantial or indeterminate damages or where novel legal theories or a large number of parties are involved, we cannot state with confidence what the eventual outcome of currently pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual result in each pending matter will be.

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.

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.

Table of Contents

American International Industries v. Rubicon

On December 7, 2011, we were served with a Notice of Entry of Judgment on Sister-State Judgment resulting from a default judgment entered against us from the District Court of Harris County, Texas 281st Judicial District on or about August 19, 2011 the (“Default Judgment”). The Default Judgment was granted to American International Industries, Inc. (“AMIN”) against us in the amount of \$2,030,114.40.

On May 1, 2012, the District Court of Harris County, Texas granted us a final summary judgment on bill of review against AMIN. The summary judgment set aside and rendered the Default Judgment without force or effect.

Further, the final summary judgment reinstated the case (Cause No. 2010-14604) styled AMIN v. Rubicon Financial Incorporated. On May 24, 2011, AMIN filed a Motion for New Trial and we filed a response. At the time of hearing, the Court took the arguments of counsel under advisement and, on July 12, 2012, the Court granted the new trial, specifically setting out that new trial was being granted on the issue of negligence. We amended our Bill of Review and immediately filed a Second Motion for Summary Judgment, which was heard in September of 2012. On October 1, 2012, the Court (i) granted our Second Motion for Summary Judgment and Petition for Bill of Review, (ii) vacated the Default Judgment, and (iii) ordered a new trial on the merits in Cause No. 2011-75606, styled American International Industries, Inc. v. Rubicon Financial Inc.

AMIN’s suit alleges 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 us and AMIN. The agreement with AMIN was for an aggregate of \$2,000,000 through the sale and issuance of 1,000,000 shares of our restricted common stock for \$2.00 per share. Pursuant to the agreement, we issued 1,000,000 shares of our 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.

We believe AMIN’s claims are totally without merit and intend to vigorously defend ourselves from this malicious suit. However, we can provide no assurance as to the ultimate outcome of this matter and if a judgment is granted it will have a material adverse effect upon the Company. As of December 31, 2011, \$2,030,114 had been accrued in our consolidated financial statements. During the nine months ended September 30, 2012, the default judgment was set aside and we lowered the \$2,030,114 accrual to \$268,000, resulting in lawsuit settlement income of \$1,762,114 during the nine months ended September 30, 2012.

Item 1A. Risk Factors.

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 31, 2011 to which reference is made herein.

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

None.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the quarter ended September 30, 2012.

Table of Contents

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Exhibit Description	Filed herewith	Incorporated by reference			
			Form	Period ending	Exhibit	Filing 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
10.1†	Employment Agreement with Joseph Mangiapane, Jr.		8-K		10.3	01/17/07

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

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
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: November 13, 2012

Table of Contents