

RUBICON FINANCIAL INC
Form 10-Q
May 19, 2011

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, 2011

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)

Delaware
(State or other jurisdiction of incorporation or
organization) 13-3349556
(I.R.S. Employer Identification No.)

18872 MacArthur Boulevard
First Floor
Irvine, California 92612
(Address of principal executive offices) (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

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

(§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

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 17, 2011, was 15,033,439, which includes 135,416 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 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	18
Item 3.	<u>MARKET RISK</u>	25
Item 4T.	<u>CONTROLS AND PROCEDURES</u>	25

PART II - OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	26
Item 1A.	<u>RISK FACTORS</u>	28
	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	28
Item 2.	<u>PROCEEDS</u>	28
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	28
Item 4.	<u>(REMOVED AND RESERVED)</u>	28
Item 5.	<u>OTHER INFORMATION</u>	28
Item 6.	<u>EXHIBITS</u>	29

	<u>SIGNATURES</u>	30
--	-------------------	----

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Rubicon Financial Incorporated
Condensed Consolidated Balance Sheets

	March 31, 2011 (Unaudited)	December 31, 2010 Audited
Assets		
Current assets:		
Cash	\$ 1,365,092	\$ 1,048,729
Cash – restricted	311,801	311,775
Marketable securities	141,857	193,633
Accounts receivable	794,410	839,601
Prepaid expenses	101,410	158,194
Notes receivable	204,276	134,276
Other current assets	17,716	15,988
Total current assets	2,936,562	2,702,196
Fixed assets, net of accumulated depreciation of \$231,519 and \$223,329, respectively	52,366	60,557
Other assets:		
Contract advances	252,083	54,838
Deposits	11,917	11,917
Intangible assets – customer list	2,403,671	2,403,671
Total other assets	2,667,671	2,470,426
Total assets	\$ 5,656,599	\$ 5,233,179
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 517,754	\$ 479,577
Accrued expenses	1,042,068	998,130
Investment obligation	487,000	487,000
Deferred revenue	131,606	191,193
Note payable, current portion	271,192	133,082
Contingent liabilities	459,350	681,359
Total current liabilities	2,908,970	2,970,341
Long term liabilities:		
Note payable	96,507	42,320
Stockholders' equity		
Preferred stock, \$0.001 par value, 9,000,000 shares authorized, no shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	-	-
Preferred series "A", \$0.001 par value, 1,000,000 shares authorized, 62,500 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	63	63

Edgar Filing: RUBICON FINANCIAL INC - Form 10-Q

Common stock, \$0.001 par value, 50,000,000 shares		
authorized, 14,898,023 and 14,048,023 shares		
issued		
and outstanding as of March 31, 2011 and December 31, 2010, respectively	14,898	14,047
Common stock owed but not issued, 250,000 and 1,000,000 shares as of March 31, 2011 and December 31, 2010, respectively	250	1,000
Additional paid in capital	18,369,343	18,259,444
Other comprehensive losses	(933,720)	(1,081,077)
Accumulated (deficit)	(14,799,712)	(14,972,959)
Total stockholders' equity	2,651,122	2,220,518
Total liabilities and stockholders' equity	\$ 5,656,599	\$ 5,233,179

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,	
	2011	2010
Revenue	\$4,368,904	\$3,509,790
Expenses:		
Direct costs	3,440,804	2,862,391
Consulting	72,715	57,615
Professional fees	(88,067)	228,386
Executive compensation	141,716	91,500
General and administrative expenses	452,242	389,659
Depreciation	8,191	13,330
Total operating expenses	4,027,601	3,642,881
Net operating income (loss)	341,303	(133,091)
Other income (expense):		
Interest expense	(4,795)	(5,535)
Interest income	8,698	3,384
Loss on sale of investments	(171,884)	-
Other income	(75)	7,811
Total other income (expense)	(168,056)	5,660
Net income (loss)	173,247	(127,431)
Other comprehensive income (loss)	147,357	(220,386)
Total comprehensive income (loss)	\$320,604	\$(347,817)
Weighted average number of common shares		
Outstanding – basic and fully diluted	14,303,023	14,098,023
Net income (loss) per share – basic and fully diluted	\$0.01	\$(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 Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities	\$ 173,247	\$ (127,431)
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation expense	8,191	13,330
Loss on sale of investments	171,884	-
Stock issued for compensation	110,000	-
Changes in operating assets and liabilities		
Accounts receivable	45,191	(151,970)
Prepaid expenses	56,784	23,111
Accrued interest receivable	(1,728)	(1,863)
Deposits and other assets	-	17,781
Accounts payable and accrued liabilities	(140,761)	216,779
Deferred revenue	(59,587)	(9,815)
Contract advances	(197,245)	-
Note receivable	(70,000)	-
Net cash (used) by operating activities	95,976	(20,078)
Cash flows from investing activities		
Purchase of fixed assets	-	(8,450)
Proceeds from sale of investments	28,116	-
Purchase of investments	-	18,282
Net cash (used) by investing activities	28,116	9,832
Cash flows from financing activities		
Proceeds from line of credit	-	(468)
Payments on note payable	(107,703)	-
Proceeds from note payable	300,000	76,500
Net cash provided by financing activities	192,297	76,032
Net (decrease) increase in cash	316,389	65,786
Cash – beginning	1,360,504	1,058,558
Cash – ending	\$ 1,676,893	\$ 1,124,344
Supplemental disclosure		
Interest paid	\$ 4,795	\$ 5,535
Income taxes paid	\$ -	\$ -
Non-cash financing activities:		
Shares and options issued for services	\$ 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. Effective 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. The Company issued 50,000 shares of its common stock in exchange for 100% of the outstanding shares of RFIS. On February 13, 2007, the Company formed a wholly owned subsidiary, Rubicon Securities, Inc., a Nevada corporation. Effective 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. The Company issued 1,159,000 shares of its common stock in exchange for 100% of the outstanding shares of RREM. 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. Pursuant to an agreement and plan of merger, the Company issued 1,200,000 shares of its common stock and agreed to pay cash totaling \$974,000 in exchange for 100% of the outstanding shares of NCS. 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, 2010 and for the three months ended March 31, 2010 include those of: Rubicon Financial Incorporated (“Rubicon”); and its wholly owned subsidiaries, Rubicon Financial Insurance Services, Inc. (“RFIS”), Rubicon Real Estate and Mortgages, Inc. (“RREM”), Newport Coast Securities, Inc. (“NCS”). During the year ended December 31, 2010, the Company dissolved RREM and disposed of RFIS. Neither RREM or RFIS have any assets as of December 31, 2010 or March 31, 2011 and neither subsidiary has material activity on the income statement for the year ended December 31, 2010. Neither subsidiary is included in the activity for the three months ended March 31, 2011. All significant inter-company transactions and balances have been eliminated. RBCF and its subsidiaries 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.

Table of Contents

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, 2010 or March 31, 2011. Depreciation expense for the three months ended March 31, 2011 and 2010 was \$8,191 and \$13,330, respectively.

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, 2011 or 2010.

Revenue Recognition

The Company 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 March 31, 2011 and December 31, 2010, 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 has been made.

For real estate and/or mortgage services, the Company recognizes revenue upon the closing of a sale of real estate and/or mortgage.

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.

Table of Contents

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, 2011 and December 31, 2010 due to their short-term nature. See Note 13 for further details.

Loss per Common Share

Net 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 shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three months ended March 31, 2010, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company's net loss. As of March 31, 2011, the diluted EPS is the same as the basic EPS because there were no in-the-money options or warrants or other items that could be converted into common stock.

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

On July 1, 2009, FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles", also known as FASB Accounting Standards Codification ("ASC") 105, "Generally Accepted Accounting Principles" ("ASC 105") (the Codification). ASC 105 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification will supersede all existing non-SEC accounting and reporting standards. Management has determined that adoption of this pronouncement has not material impact on the financial statements.

The FASB issued ASC subtopic 855-10 (formerly SFAS 165 “Subsequent Events”), incorporating guidance on subsequent events into authoritative accounting literature and clarifying the time following the balance sheet date which management reviewed for events and transactions that may require disclosure in the financial statements. The Company adopted this standard effective the second quarter of 2009. The standard increased our disclosure by requiring disclosure reviewing subsequent events. ASC 855-10 is included in the “Subsequent Events” accounting guidance.

Table of Contents

In April 2009, the FASB issued ASC subtopic 820-10 (formerly Staff Position No. FAS 157-4, Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"). ASC 820-10 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. The Company evaluated the effect of the adoption of FSP 157-4 and determined that it did not have a material impact on its results of operations and financial position.

In July 2006, the FASB issued ASC subtopic 740-10 (formerly Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes"). ASC 740-10 sets forth a recognition threshold and valuation method to recognize and measure an income tax position taken, or expected to be taken, in a tax return. The evaluation is based on a two-step approach. The first step requires an entity to evaluate whether the tax position would "more likely than not," based upon its technical merits, be sustained upon examination by the appropriate taxing authority. The second step requires the tax position to be measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In addition, previously recognized benefits from tax positions that no longer meet the new criteria would no longer be recognized. The application of this Interpretation will be considered a change in accounting principle with the cumulative effect of the change recorded to the opening balance of retained earnings in the period of adoption. Adoption of this new standard did not have a material impact on our financial position, results of operations or cash flows.

In April 2008, the FASB issued ASC 815-40 (formerly Emerging Issues Task Force ("EITF") 07-05, "Determining whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock"). ASC 815-40 applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own common stock. ASC 815-40 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued ASC 105 Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles. The FASB Accounting Standards Codification TM (the "Codification") has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. Rules and interpretive releases of the SEC issued under the authority of federal securities laws, however, will continue to be the source of authoritative generally accepted accounting principles for SEC registrants. Effective September 30, 2009, all references made to GAAP in our consolidated financial statements will include references to the new Codification. The Codification does not change or alter existing GAAP and, therefore, did not have an impact on our financial position, results of operations or cash flows.

In June 2009, the FASB issued changes to the consolidation guidance applicable to a variable interest entity (VIE). FASB ASC Topic 810, "Consolidation," amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. FASB ASC 810 also requires enhanced disclosures about an enterprise's involvement with a VIE. Topic 810 is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash

flows.

In June 2009, the FASB issued Financial Accounting Standards Codification No. 860 - Transfers and Servicing. FASB ASC No. 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. FASB ASC No. 860 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this pronouncement did not have a material impact on its financial position, results of operations or cash flows.

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.

Table of Contents

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, 2010.

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