

RUBICON FINANCIAL INC
Form 10-Q
August 14, 2008

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended June 30, 2008

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

19200 Von Karman Avenue
Suite 350
Irvine, California 92612
(Address of principal executive offices)

(949) 798-7220
(Registrant's telephone number, including area code)

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Stoecklein Law Group
4695 MacArthur Court, 11th Floor
Newport Beach, CA 92660
(949) 798-5541
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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

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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 August 12, 2008, was 12,478,162 shares, which includes 501,389 shares authorized but unissued and 100,000 shares currently subject to cancellation.

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Rubicon Financial Incorporated
Condensed Consolidated Balance Sheets

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Current assets:		
Cash	\$ 516,489	\$ 1,892,541
Restricted cash	200,000	-
Marketable securities	778,000	956,000
Accounts receivable	310,260	-
Prepaid expenses	2,309,613	2,969,412
Notes receivable	100,000	-
Notes receivable – related party	24,202	5,192
Other current assets	11,423	800
Total current assets	4,249,987	5,823,945
Fixed assets, net of accumulated depreciation of \$107,338 and \$14,633, respectively	148,674	59,104
Other assets:		
Deposits	16,554	-
Intangible assets – customer lists, net of amortization of \$20,653	2,457,660	-
Long-term investments	33,243	175,000
Total other assets	2,507,457	175,000
Total assets	\$ 6,906,118	\$ 6,058,049
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 172,455	\$ 79,775
Accrued expenses	464,130	23,352
Investment obligation	523,000	104,000
Deferred revenue	91,194	35,109
Current portion of capital lease	12,335	-
Accrued interest payable – related party	62,294	54,493
Notes payable – related party	160,539	160,539
Total current liabilities	1,485,947	457,268
Long-term capital lease	5,125	-
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	-	-
Common stock, \$0.001 par value, 50,000,000 shares		

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authorized, 11,976,773 and 10,724,273 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	11,979	10,724
Common stock owed but not issued, 501,389 and 559,790 as of June 30, 2008 and December 31, 2008, respectively	501	559
Additional paid in capital	17,696,113	15,077,094
Other comprehensive (loss)	(217,983)	(359,000)
Accumulated (deficit)	(12,075,563)	(9,128,556)
Total stockholders' equity	5,415,047	5,600,821
Total liabilities and stockholders' equity	\$ 6,906,118	\$ 6,058,089

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

Rubicon Financial Incorporated
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 704,283	\$ 112,903	\$ 799,503	\$ 133,701
Expenses:				
Direct costs	726,926	62,274	740,876	63,628
Consulting	65,205	17,788	114,915	90,875
Professional fees	49,656	74,743	165,590	230,743
Executive compensation	1,240,936	461,965	1,683,865	813,493
General and administrative expenses	372,952	120,793	707,499	193,994
Impairment of goodwill	-	2,111,700	-	2,234,200
Depreciation and amortization	32,190	3,119	39,020	6,081
Total expenses	2,496,427	2,852,382	3,451,765	3,633,014
Net operating (loss)	(1,792,144)	(2,739,479)	(2,652,262)	(3,499,313)
Other income (expense):				
Interest expense	(1,730)	(3,227)	(3,260)	(3,406)
Interest expense - related party	(3,901)	(2,399)	(7,801)	(7,928)
Interest income	15,540	19,257	28,735	36,352
Interest income - related party	-	267	-	267
Other income	42,841	-	42,841	-
Minority interest income (loss)	19,763	-	(40,160)	-
Total other income (expense)	72,513	13,898	20,355	25,285
Net (loss)	(1,719,631)	(2,725,581)	(2,631,907)	(3,474,028)
Other comprehensive (loss)	-	-	(315,000)	-
Total comprehensive (loss)	\$ (1,719,631)	\$ (2,725,581)	\$ (2,946,907)	\$ (3,474,028)
Weighted average number of common shares outstanding - basic and fully diluted				
	10,093,812	15,091,443	11,518,151	13,866,234
Net (loss) per share - basic and fully diluted	\$ (0.17)	\$ (0.18)	\$ (0.26)	\$ (0.25)

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

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

	For the Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities		
Net (loss)	\$ (2,631,907)	\$ (3,474,028)
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation expense	39,020	6,081
Impairment of goodwill	-	2,234,200
Minority interest losses	40,160	
Amortization of prepaid share-based compensation	698,481	
Shares and options issued for services	737,764	787,461
Changes in operating assets and liabilities:		
Accounts receivable	26,110	(29,074)
Prepaid expenses	45,053	(182,318)
Deposits	-	(2,400)
Employee advances	(8,452)	(24,828)
Accrued interest receivable	(1,130)	(425)
Accounts payable	33,820	(59,640)
Accrued expenses	64,411	(4,102)
Investment obligation	(104,000)	-
Deferred revenue	56,085	(13,326)
Accrued interest payable	-	569
Accrued interest payable - related party	7,801	7,801
Net cash (used) by operating activities	(996,784)	(754,029)
Cash flows from investing activities		
Proceeds for notes receivable	-	(10,000)
Proceeds for notes receivable - related party	-	(26,700)
Payments on notes receivable – related party	(2,000)	-
Purchase of fixed assets	(63,281)	(4,791)
Distribution of assets – related party	89,716	-
Purchase of intangible assets	(762,313)	-
Purchase of investments	-	(175,000)
Net cash (used) by investing activities	(737,878)	(216,491)
Cash flows from financing activities		
Cash acquired with mergers	388,610	933,207
Donated capital	-	456
Proceeds from notes payable	-	795
Payments on notes payable	-	(3,699)
Payments from notes payable - related party	-	(3,976)

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Shares issued for cash	170,000	-
Net cash provided by financing activities	558,610	926,783
Net increase (decrease) in cash	(1,176,052)	(43,737)
Cash - beginning	1,892,541	1,901,124
Cash - ending	\$ 716,489	\$ 1,857,387
Supplemental disclosures:		
Interest paid	\$ 3,572	\$ 2,268
Income taxes paid	\$ 3,750	\$ -
Non-cash financing activities:		
Shares and options issued for services	\$ 737,764	\$ 787,461
Shares issued for investment	\$ -	\$ 245,000
Shares issued for acquisition	\$ 1,680,000	\$ 3,135,900

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

RUBICON FINANCIAL INCORPORATED
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1- Summary of Significant Accounting Policies

Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of December 31, 2007 was derived from the audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial information and notes thereto should be read in conjunction with the December 31, 2007 Form 10-K. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of results to be expected for the entire year.

The financial statements 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”), Grant Bettingen, Inc. (“GBI”) and Dial-A-Cup, Inc. (“DAC”). All significant inter-company transactions and balances have been eliminated.

Recently Issued Accounting Standards:

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“FAS 141 (R)”) and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements” (“FAS 160”). These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. The provision of FAS 141(R) and FAS 160 are effective for the fiscal year beginning January 1, 2009. Rubicon is currently evaluating the impact of the provisions of FAS 141 (R) and FAS 160.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“FAS 161”). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on the entity’s financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for the year ending December 31, 2008. Rubicon is currently evaluating the impact of the provisions of FAS 160.

Concentration of credit risk for cash deposits:

Financial instruments that potentially subject Rubicon to credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$100,000. At June 30, 2008, Rubicon had approximately \$279,750 in excess of FDIC insured limits.

Reclassifications:

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

NOTE 2 – Business Combination Achieved in Stages

On June 2, 2008, Rubicon completed a merger with GBI, a private brokerage firm registered with the Financial Industry Regulatory Authority (“FINRA”), by completing the acquisition of 100% of the outstanding common stock of GBI for a total purchase price of \$3,229,364. In September of 2007, Rubicon originally purchased a 15% interest in GBI for cash totaling \$360,000. Rubicon accounted for this investment as “Available for Sale” as required by SFAS 115. In addition, in March of 2008, Rubicon purchased an additional 6% of GBI’s outstanding shares prior for a purchase price of \$400,000. Rubicon paid \$312,500 towards to additional interest leaving a balance owed of \$87,500, which was eliminated by GBI upon closing of the merger.

During the acquisition phases of GBI, Rubicon’s interest in GBI initially consisted of 15% of the total outstanding shares, which was subsequently increased to 21% with the purchase of an additional 6% interest. Upon completion of the continuation in management process with FINRA, Rubicon acquired the remaining 79% of the total outstanding shares in exchange for \$789,364 in cash and 1,200,000 shares of Rubicon’s common stock. During the acquisition stages, Rubicon adjusted accounting treatment of its investment in GBI initially from “Available for Sale”, to the equity method as required by SFAS 115. As a result, Rubicon expensed \$315,000 of previously unrecognized other comprehensive losses and recorded minority interest losses in the amount of \$43,403, resulting in a net investment of \$2,870,961.

Pursuant to SFAS 141, Rubicon recognized the identifiable assets acquired and the liabilities assumed as follows:

	At June 2, 2008
Consideration	
Cash	\$ 789,364
Equity instruments (1,200,000 common shares of Rubicon1)	1,680,000
Fair value of total consideration transferred	2,469,364
Fair value of Rubicon’s equity interest in GBI prior to combination	401,597
	\$ 2,870,961
Recognized amounts of identifiable assets acquired and liabilities assumed	
Financial assets	\$ 823,463
Property, plant and equipment	62,517
Identifiable intangible assets – Customer lists2 (See Note 4)	2,442,313
Financial liabilities	(457,332)
Total identifiable net assets	\$ 2,870,961

1The fair value of the 1,200,000 common shares issued as part of the consideration paid for 79% GBI was determined on the basis of the closing market price of Rubicon’s common shares on the acquisition date.

2We have allocated the consideration paid in excess of the fair value of assets acquired and liabilities assumed towards the identifiable intangible customer relationships acquired. The estimated net future cash flows from these relationships are estimated to be approximately \$3,250,000 annually based on the assets under management at the time of acquisition.

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The amount of GBI's revenue and expenses included in Rubicon's consolidated income statement for the period ended June 30, 2008, and the unaudited revenue and expenses of the combined entity had the acquisition date been January 1, 2008 or January 1, 2007 are:

	Revenue	Expenses
Actual from June 3, 2008 to June 30, 2008	\$ 521,064	\$ 568,414
Supplemental pro forma from January 1, 2008 to June 30, 2008	\$ 2,761,950	\$ 3,157,343
Supplemental pro forma from January 1, 2007 to June 30, 2007	\$ 6,059,650	\$ 10,154,164

Rubicon believes the acquisition will enhance its financial services platform by enhancing its ability to offer a broad range of services. RCBF further deems the synergies that exist between investment activities, insurance requirements and the current real estate environment, may create an opportunity for cross revenue generation for all of its financial service platforms.

NOTE 3 – Restricted Cash

As a result of Rubicon's acquisition of GBI, Rubicon acquired \$200,000 in cash residing in an impound account in the name of GBI. In consideration of the application for continuation in management, FINRA required GBI to maintain a restricted cash account in the amount of \$200,000 for an indefinite period of time for the sole purpose of ensuring GBI sufficiently maintains its net capital requirements as prescribed by FINRA regulations. The account is non-interest bearing.

NOTE 4 – Identifiable Intangible Assets

During the six months ended June 30, 2008 Rubicon consummated the acquisition of 100% of the outstanding common shares of GBI (see Note 2). As a result of the acquisition, Rubicon identified intangible assets in the GBI customer lists valued at approximately \$2,442,313. In addition, RFIS purchased a customer list for the purpose of seeking insurance business from the commercial trucking industry. The total purchase price was \$36,000 and will be amortized over a period of 10 years. As of June 30, 2008, Rubicon recorded amortization in the amount of \$20,653 attributable to its intangible assets.

NOTE 5 - Marketable securities

On November 27, 2007, Rubicon entered into a Share Purchase Agreement with American International Industries, Inc. ("AMIN"), whereby Rubicon agreed to issue 1,000,000 shares of its common stock in exchange for 200,000 shares of AMIN and \$1,000,000 in cash. Rubicon recorded marketable securities of \$1,000,000, representing the fair market value of AMIN's common stock (\$5 per share) on the date of agreement. On June 30, 2008, Rubicon evaluated the fair value of the securities and recorded other comprehensive loss in the amount of \$222,000 to adjust the recorded value to the market value at the balance sheet date.

NOTE 6 – Notes receivable

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 mature on April 18, 2009. On March 18, 2008, Rubicon received the initial payment of \$898 representing principal in the amount of \$798 and interest of \$100. The outstanding principal balance as of June 30, 2008 was \$19,202.

In addition, Mr. Newman owes \$5,000 in the form of a demand note, which accrues interest at a rate of 6% per annum. As of June 30, 2008, the principal balance owed was \$5,000 and accrued interest receivable was \$342.

On June 3, 2008, Rubicon issued a note receivable in the amount of \$100,000 to Marc Riviello pursuant to the “Stock Repurchase and Settlement Agreement” as discussed in note 7. The note accrues interest at a rate of 6% per annum and is due June 1, 2009. As of June 30, 2008 the principal balance was \$100,000 and Rubicon accrued \$500 in interest receivable.

NOTE 7 - Investments

Rubicon maintains a 24.9% interest in Maximum Financial Investment Group, Inc. (“MFIG”). Rubicon recorded its investment in accordance with the equity method, whereby the carrying value of the investment is adjusted based on the net income or losses and any dividends paid. During the six month period ended June 30, 2008 Rubicon recorded minority interest losses totaling \$16,757. The adjusted value of its investment at June 30, 2008 was \$33,243.

On June 3, 2008, Rubicon entered into a Stock Repurchase and Settlement Agreement with AIS Financial, Inc. (“AIS”) and Marc Riviello whereby Rubicon returned its previously purchased 24.9% interest in AIS in exchange for the cancellation of 100,000 shares of Rubicon common stock and a note receivable from Mr. Riviello in the amount of \$100,000, representing the original amounts paid by Rubicon for the acquisition of the minority interest in AIS. As a result of the repurchase agreement, Rubicon reduced its minority interest losses in the amount of \$19,524.

On June 2, 2008, Rubicon completed the acquisition of GBI through the purchase of 100% of GBI’s outstanding common shares (see Note 2). Prior to the consummation of the acquisition, Rubicon maintained a 21% minority interest in GBI accounted for under the equity method. As of the date of acquisition, Rubicon recorded minority interest losses totaling \$43,403.

As of June 30, 2008 Rubicon’s minority interest losses totaled \$40,160.

NOTE 8 – Related Party Transactions

Rubicon’s operations were previously funded by the sole officer of DAC. As of June 30, 2008, total amounts loaned to Rubicon by this officer were \$156,014. The proceeds loaned have been used to fund operations and for the development of a prototype of DAC’s beverage dispenser.

The note bears interest of 10% per annum and is due on demand. During the six months ended June 30, 2008 and 2007, Rubicon recorded \$7,801 and \$7,928, respectively of interest expense related to the note. As of June 30, 2008, Rubicon had interest payable in the amount of \$62,294 in connection with this note.

On March 27, 2008, Rubicon entered into an employment agreement with its President, Terence Davis. Pursuant to the agreement, Mr. Davis shall receive annual compensation in the amount of \$96,000 commencing on April 1, 2008 and expiring on March 31, 2009.

On April 3, 2008, Rubicon entered into an agreement with the former President of RREM, Joel Newman, whereby Rubicon agreed to extend Mr. Newman's amended note an additional one year period in exchange for a lock-up agreement on all 284,000 shares of Rubicon common stock currently held by Mr. Newman for a period of two years expiring on March 15, 2010.

On June 2, 2008, GBI entered into a five (5) year employment agreement with Grant Bettingen, the former principal and shareholder of GBI. Pursuant to the agreement, Mr. Bettingen will receive annual compensation of \$120,000 during the first year of the agreement. For each subsequent year, the annual compensation will increase at a rate of 10% per annum. In addition, Mr. Bettingen was granted 500,000 options to purchase Rubicon's common stock at a price of \$1 per share for a period of five (5) years as a signing bonus. The fair value of the options using the Black-Scholes pricing model was \$699,764. The options are fully vested and Rubicon recorded the full value as executive compensation as of June 30, 2008.

On June 24, 2008, Rubicon issued a total of 17,500 shares of its restricted common stock to its Board of Director's as compensation for their services. The fair value of the shares issued was \$28,000 and has been expensed as of June 30, 2008.

NOTE 9 – Stockholders' equity

On April 8, 2008, Rubicon issued 45,000 shares of its common stock pursuant to previously received subscription agreements.

During the six months ended June 30, 2008, Rubicon issued 85,000 shares of its common stock pursuant to subscription agreements for cash totaling \$170,000 or \$2 per share. Rubicon paid fees in connection with the sale of its common stock totaling \$26,000, which was deducted from the proceeds.

During the six months ended June 30, 2008, Rubicon issued 5,000 shares of its common stock to an employee as a bonus for past services. The fair value of the shares on the date of grant was \$10,000, which was expensed as additional compensation.

On March 31, 2008, Rubicon cancelled 13,401 shares previously authorized and unissued pursuant to an agreement with its former Chief Financial Officer.

On June 2, 2008, Rubicon issued 1,200,000 shares of its common stock as partial consideration for the acquisition of GBI (see Note 2). In addition, Rubicon granted Mr. Grant Bettingen, the former stockholder and principal of GBI, an option to purchase 500,000 shares of Rubicon common stock at \$1 per share for a period of five years in connection with Mr. Bettingen's employment agreement with GBI.

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On June 3, 2008, Rubicon entered into an agreement for the cancellation of 100,000 shares previously issued as partial consideration for its purchase of 24.9% of the total outstanding shares of AIS pursuant to the Share Repurchase and Settlement Agreement (see Note 7). As of June 30, 2008 the shares had not been cancelled.

On June 24, 2008, Rubicon issued 17,500 shares of its restricted common stock to its Board of Director's for their services. The fair value of the shares was \$28,000 and expensed as of June 30, 2008.

NOTE 10 – Warrants and Options

During the three months ended March 31, 2008, Rubicon cancelled 200,000 options previously granted to the former President of RREM, upon his resignation. The options had not vested.

On June 2, 2008, Rubicon granted Mr. Grant Bettingen an option to purchase 500,000 shares of its common stock with an exercise price of \$1 pursuant to his employment agreement with GBI. The fair market value of the options based on the Black-Scholes model is \$699,764 using the following assumptions: Strike Price \$1; Stock Price \$1.40; Volatility 315%; Term 5 years; Dividend Yield 0%; Interest Rate 3.25%. As of June 30, 2008, Rubicon recorded executive compensation in the amount of \$699,764.

A summary of stock options and warrants as of June 30, 2008 is as follows:

	Options		Warrants	
Outstanding 01/01/08	1,500,000	\$ 1.79	100,000	\$ 3.00
Granted	500,000	1.00	-	-
Cancelled	(200,000)	1.00	-	-
Exercised	-	-	-	-
Outstanding 06/30/08	1,800,000	\$ 1.66	100,000	\$ 3.00
Vested as of 06/30/08	1,500,000	\$ 1.50	100,000	\$ 3.00

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. Each segment operates in a distinct industry: brokerage services (GBI), mortgage and real estate services (RREM) and personal and commercial insurance services (RREM). DAC is currently inactive and not considered an operating segment of Rubicon.

Where applicable, "Corporate" represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity and eliminations.

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Net revenues as shown below represent commissions earned for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure. Rubicon evaluates performance of individual operating segments based on pre-tax income (loss). On a consolidated basis, this amount represents total comprehensive loss as shown in the unaudited condensed consolidated statement of operations. Reconciling items represent corporate costs that are not allocated to the operating segments including; stock-based compensation expense and intercompany eliminations.

	Three Months Ended		Six Months Ended	
	June 30,		June 30	
	2008	2007	2008	2007
Net Revenue				
Insurance services	\$ 74,860	\$ 112,903	\$ 144,911	\$ 133,701
Mortgage services	108,359	-	133,528	-
Brokerage services(1)	521,064	-	521,064	-
	704,283	112,903	799,503	133,701
Expenses				
Insurance services	126,884	99,615	233,339	130,965
Mortgage services	146,512	307,741	245,244	309,741
Brokerage services(1)	799,235	-	799,235	-
Corporate	1,351,283	2,431,128	2,468,592	3,167,023
	2,423,914	2,838,484	3,746,410	3,607,729
	\$ (1,719,631)	\$ (2,725,581)	\$ (2,946,907)	\$ (3,474,028)

(1) Represents the 28 day period from June 2, 2008 (the date of the GBI acquisition through June 30, 2008).

NOTE 12 – Commitments

Employment agreements

On March 27, 2008, Rubicon entered into an employment agreement with its President, Terence Davis. Pursuant to the agreement, Mr. Davis shall receive annual compensation in the amount of \$96,000 commencing on April 1, 2008 and expiring on March 31, 2009.

On June 2, 2008, GBI entered into an employment agreement with Grant Bettingen, the former principal and founding shareholder of GBI. Pursuant to the agreement, Mr. Bettingen shall receive annual compensation in the amount of \$120,000, subject to 10% annual increases, for a period of five (5) years. In addition, Mr. Bettingen will receive quarterly incentive compensation equal to 5% of all net investment banking income and 10% incentive bonus on net investment income referred directly by Mr. Bettingen. As an inducement to enter into the agreement, Rubicon granted Mr. Bettingen and option to purchase up to 500,000 shares of its common stock as a signing bonus. The options are fully vested and valued at \$699,764 (see note 10). Rubicon further agreed to provide a monthly auto allowance in the amount of \$1,000 and a

life insurance policy with death benefit of \$1,000,000. GBI's future commitment under this agreement is as follows:

2009	144,000
2010	157,200
2011	171,720
2012	187,692
2013	205,261
Total	\$ 865,873

Lease agreements

The following is a schedule by years of future minimum rental payments required under operating leases that have non-cancelable lease terms in excess of one year as of June 30, 2008:

2008	\$ 120,540
2009	190,986
2010	15,915
Total	\$ 327,441

Rent expense is included in general and administrative expense and totaled \$64,475 and \$26,194 for the six months ended June 30, 2008 and 2007, respectively.

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” or “anticipate” or other similar words. These forward-looking statements present Rubicon’s 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. Rubicon does 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 Rubicon makes in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Although Rubicon believes that the expectations reflected in any of its forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of its forward-looking statements. Rubicon’s 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:

- inability to raise additional financing for working capital;
- Rubicon’s ability to successfully compete in the financial services industry;
 - actions and initiatives taken by both current and potential competitors;
- inability to locate potential mergers and acquisitions within the financial services industry and integrate acquired companies into our organization;
- deterioration in general or regional (especially Southern California) economic, market and political conditions;
 - deterioration in both the lending markets and the real estate markets in general;
 - the level of volatility of interest rates as well as the shape of the yield curve;
- the fact that Rubicon’s accounting policies and methods are fundamental to how it reports its 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 operations;
 - inability to achieve future operating results;
 - the unavailability of funds for capital expenditures;
 - ability to recruit and hire key employees;
- the inability of management to effectively implement 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 Rubicon’s Annual Report on Form 10-K for the year ended December 31, 2007.

All references in this report to “we,” “us,” “our,” “company” and “Rubicon” refer to Rubicon Financial Incorporated and its wholly-owned operating subsidiaries, Rubicon Financial Insurance Services, Inc., Rubicon Real Estate and Mortgages, Inc. and Grant Bettingen, Inc., unless the context requires otherwise.

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

Overview of Current Operations

We are a publicly-traded financial service holding company with three wholly-owned operating subsidiaries: (i) Rubicon Financial Insurance Services, Inc. (“RFIS”), a full service insurance agency offering personal lines, life and commercial insurance products to individuals and companies primarily in the State of California; (ii) Rubicon Real Estate and Mortgages, Inc. (“RREM”), which provides professional assistance in the fields of residential and commercial real estate and mortgage loans in California; and (iii) Grant Bettingen, Inc. (“GBI”) 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 our 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 and the record date will be set as the 10th day following effectiveness of the registration statement. As of the date of this filing, the Form S-1 has not been filed.

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.

We own a 24.9% interest in Maximum Financial Investment Group, Inc. (“Maximum”), a FINRA licensed broker/dealer that focuses on wholesale and online trading. On June 15, 2007, we acquired a 24.9% interest in AIS Financial, Inc. (“AIS”) through the issuance of 100,000 shares of our common stock and a cash payment of \$100,000 to its principal, Mr. Marc Riviello. On June 3, 2008, we entered into a Stock Repurchase and Settlement Agreement with AIS and Marc Riviello whereby we returned the 24.9% of AIS in exchange for the cancellation of 100,000 shares of our common stock initially issued as partial payment of the purchase and an unsecured promissory note from Mr. Riviello in the amount of \$100,000. The note bears interest at a rate of 6% per annum and matures on June 1, 2009. As of the date of this report, the 100,000 shares have not been cancelled; however, it is anticipated that the shares will be cancelled on or before August 31, 2008.

As part of our long term growth strategy, we continually evaluate our existing portfolio of businesses as well as new business opportunities to ensure we are investing in those businesses with the largest growth potential. In June of 2008, we completed our acquisition of GBI. As we continue to expand our operations into that of an independent boutique firm offering multiple financial services, we intend to continue to acquire other financial service companies to enhance our ability to be a single-source provider of financial services to our clientele, with Rubicon being the holding company of these various financial services entities. We intend to utilize a cross-marketing strategy between all of our financial service subsidiaries to provide various product offerings to clients with the ability to gather all the assets and financial services of clients specific and customized to their needs.

Results of Operations

The following tables summarize selected items from the statement of operations for the three and six months ended June 30, 2008 and the comparable periods ended June 30, 2007.

Revenue:

	Three Months Ended			Six Months Ended		
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Consolidated						
Revenue	\$ 704,283	\$ 112,903	524%	\$ 799,503	\$ 133,701	498%
Operating expenses	\$ 2,496,427	\$ 2,852,382	(12%)	\$ 3,451,765	\$ 3,633,014	(5%)
Net operating (loss)	\$ (1,792,144)	\$ (2,739,479)	(35%)	\$ (2,652,262)	\$ (3,499,313)	(24%)

Overall revenues increased 524% during the second fiscal quarter of 2008 and 498% during the six months ended June 30, 2008. 2007 was targeted to be a year of merger and acquisitions. In 2007 we acquired RFIS, RREM and the minority interest in Maximum. In 2008, we continued to explore additional acquisition targets and consummated the acquisition of GBI during the second fiscal quarter. Our significant revenue increase is the direct result of the acquisition of GBI for the 28 day period from June 2, 2008 through June 30, 2008.

Revenue by Segment

	Three Months Ended			Six Months Ended		
	June 30, 2008	2007	% Change	June 30, 2008	2007	% Change
Revenue						
Insurance services	\$ 74,860	\$ 112,903	(34%)	\$ 144,911	\$ 133,701	8%
Mortgage services	108,359	-	-	133,528	-	-
Brokerage services	521,064	-	-	521,064	-	-
Total revenue	\$ 704,283	\$ 112,903		\$ 799,503	\$ 133,701	

Insurance Services: RFIS experienced an expected decline of 34% in revenues from insurance services. RFIS earned \$74,860 during the second quarter compared to \$112,903 over the same three month period in 2007. This is the result of an augmented focus towards increasing the ratio of commercial lines verses personal lines in its overall market base. RFIS believes the commercial lines will provide greater ability to increase the insurance services revenue stream as well as provide further stability to our long term growth platform. RFIS anticipates a financial recognition of these efforts through increased commission revenue during the third fiscal quarter of 2008. RFIS's six month gross revenue increased slightly by 8% or \$144,911 compared to \$133,701 due to renewal revenue and a minor increase in personal policies during the first quarter of 2008.

Mortgage Services: RREM was acquired in May 2007 and had limited activity during the second quarter of 2007. In 2008, RREM generated revenue through commissions earned on the sale of residential real estate and mortgage brokerage services. During the three months ended June 30, 2008 we earned \$108,359 in commissions compared to \$133,528 for the six month period in 2008. The current economic conditions of the real estate market have limited RREM's ability to generate revenue on the sales of residential real estate. As a means of ensuring stability in a declining market, RREM has introduced "loan modifications" to its existing portfolio of services. The fees earned on loan modification services represent approximately 33% of RREM's total revenue for the period. RREM is continuing to seek additional sources of revenue while also increasing its marketing area.

Brokerage Services: The acquisition of GBI was completed on June 2, 2008 and accordingly we have only included revenue from the date of consummation to June 30, 2008. GBI represents our cornerstone of services and has contributed approximately 74% of our total revenue in the second fiscal quarter and 65% for the six-month period ended June 30, 2008. Consolidated revenue for the twenty-eight days of June totaled approximately \$521,064. GBI anticipates significant increases in commission revenue as it enters the third quarter through an aggressive campaign to build broker base and efforts to seek and add additional brokerage and investment banking branches.

Selling and Administrative Expenses:

	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2008	2007			2008	2007		
Direct costs	\$ 726,926	\$ 62,274	107%	\$ 740,876	\$ 63,628	106%		
Consulting	65,205	17,788	267%	114,915	90,875	26%		
Professional fees	49,646	74,743	(34%)	165,590	230,743	(28%)		
Executive compensation	1,240,936	461,965	169%	1,683,865	813,493	107%		
General expenses	372,952	120,793	216%	707,499	193,994	265%		
Depreciation and amortization	32,190	3,119	932%	39,020	6,081	542%		
Operating expenses	\$ 2,496,427	\$ 740,682	237%	\$ 3,451,765	\$ 1,398,814	147%		

Operating overhead, excluding impairments, increased 237% over the previous three month comparable period and 147% for the six month comparable period ended June 30, 2008. Significant increases were expected as we completed our acquisition schedule; employed full time executive and administrative staff; and commenced operations in each business segment of our financial services platform.

Our direct costs are comprised of commissions paid to associates and miscellaneous fees related directly to the generation of revenue. These costs have a direct relationship to our revenue and will increase or decrease with changes in revenue.

Expenses by Segment

RFIS:

	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2008	2007			2008	2007		
Insurance services								
Direct costs	\$ 41,460	\$ 293	1405%	\$ 55,135	\$ 891	609%		
Consulting	9,000	62,739	(86%)	12,000	62,739	(81%)		
Professional fees	6,000	13,500	(56%)	15,000	20,000	(25%)		
Executive compensation	15,000	15,000	-	30,000	27,500	9%		
General expenses	53,462	7,631	601%	117,473	18,717	528%		
Depreciation	164	121	36%	329	242	36%		
Operating expenses	\$ 125,085	\$ 91,532	37%	\$ 229,937	\$ 130,089	77%		

RFIS experienced an overall increase in operating expenses due to full commencement of operations. RFIS was acquired on February 1, 2007 with one month of historic operations. To meet the objectives of our business plan, RFIS initially focused on personal insurance lines including home, auto and life. RFIS now expanded focus to include full commercial lines in its product mix. Through the addition of commercial products, RFIS's gross commission income is anticipated to increase substantially. With the increased commission revenue, RFIS's commission expense included in its direct costs has also increased. On average, RFIS will pay a 50% commission to

its agents on each commercial policy written versus approximately 5% on personal lines. During the second fiscal quarter, RFIS acquired a customer list for the commercial trucking industry. This was the primary increase in direct costs for the three-months ended June 30, 2008. RFIS's six-month increase of 609% is attributable to increases in all policies written.

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During the 2007 fiscal period ended June 30, 2008, RFIS employed two full-time agents. As of June 30, 2008, RFIS had six additional full-time agents and two full-time administrative staff. Base salaries are included in the general expenses and although RFIS has experienced an approximate 601% increase in the three-month period, it has been able to reduce external consulting fees and professional fees by 86% and 56%, respectively. In addition, during the six-month period RFIS had reductions of 81% and 25%, respectively.

RREM:

	Three Months Ended June 30, 2008	May 2, 2007 to June 30, 2007	% Change	Six Months Ended June 30, 2008	May 2, 2007 to June 30, 2007	% Change
Mortgage services						
Direct costs	\$ 50,149	\$ -	-	\$ 50,424	\$ -	-
Consulting	-	-	-	1,710	-	-
Professional fees	3,000	15,605	(81%)	6,000	15,605	(62%)
Executive compensation	22,893	16,000	43%	58,211	16,000	264%
General expenses	72,976	26,548	175%	140,012	26,548	427%
Depreciation	240	-	-	452	-	-
Operating expenses	\$ 149,258	\$ 58,153	157%	\$ 256,809	\$ 58,153	342%

These comparative results are not a clear representation of actual change. We acquired RREM in May of 2007 and therefore have only included the activity since May 2, 2007, the date of acquisition. Further, RREM had not fully commenced operations as of June 30, 2007. RREM's resources were allocated towards the development of mortgage leads and business structure. This resulted in non-recurring professional expenses represented by a decrease of 81% during the three-month period in 2008 over the same period in 2007. We expect outside professional fees to remain fairly consistent for the remainder of the year.

RREM recorded direct costs primarily comprised of commissions paid to agents and brokers, loan fees and miscellaneous costs directly attributed to the revenue earned. RREM had a 100% increase in both the three and six month periods ended June 30, 2008 due to the acquisition and operational commencement dates.

RREM's general and administrative expenses have increased from 2007 for the three and six month periods ended June 30, 2008, respectively. The increase was anticipated with the commencement of operations. RREM added both administrative staff as well as mortgage specialists to expand its operations and capture additional revenue streams in the volatile real estate market. During the second quarter of fiscal 2008, RREM hired four additional loan specialists for the primary purpose of developing a revenue stream in loan modifications and short sales. Approximately 60% of RREM's general and administrative expenses in the three and six month periods are attributable to salaries and wages.

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Executive compensation is comprised of cash compensation paid to real estate and mortgage executives. The annual compensation was by employment agreement and consisted of a base salary of \$120,000 annually, plus commissions. In March of 2008, the President of RREM resigned, eliminating further obligation for his compensation. Though RREM anticipates continued executive compensation, it intends to re-structure the compensation package by lowering the base salary and focusing more of the compensation on net revenue generated.

GBI:

On June 2, 2008, we consummated our staged acquisition of GBI, which began with the purchase of a 15% interest in September 2007 and an additional 6% in March of this year. We have included the revenue and expenses of GBI from the date of acquisition through June 30, 2008 in our unaudited condensed consolidated financial statements. We expect the amounts recognized in the short period ended June 30, 2008 to be indicative of future operating expenses. The amounts consolidated from the activities of GBI are as follows:

	Acquisition to June 30, 2008
Brokerage services	
Direct costs	\$ 404,497
Consulting	18,705
Professional fees	8,853
Executive compensation	102,669
General expenses	85,202
Depreciation	2,677
Operating expenses	\$ 622,603

Other income and (expense)

	Three Months Ended			Six Months Ended		
	2008	June 30, 2007	%	2008	June 30, 2007	%%
Consolidated			Change			Change
Interest income	\$ 15,540	\$ 19,524	(20%)	\$ 28,735	\$ 36,619	(22%)
Interest (expense)	(5,631)	(5,626)	-	(11,061)	(11,334)	-
Other income	42,841	-	-	42,841	-	-
Minority interest	19,763	-	-	(40,160)	-	-

Other income and expense consists of interest earned and expenses, rental income from sub-lease of facilities and our minority interest investments. We experienced a 20% and 22% decline in interest income as a direct result of our depletion of cash resources held in interest bearing money market accounts. 71% of our interest expense is attributable to our related party note payable to the founder of DAC. The remaining interest was incurred during ordinary course of business through the use of corporate credit cards. We expect this amount to remain unchanged throughout the remainder of the fiscal year.

We have recorded \$42,841 in other income arising from our consolidation of GBI. Historically, GBI has sub-leased its excess office space. With the completion of the acquisition, our intention is to fully utilize all space available and therefore do not expect future income from this source.

We currently own a 24.9% interest in Maximum and record the minority interest gains and losses as prescribed by SFAS 115. Historically, included in our minority interest was a 24.9% interest in AIS and our previous minority interest in GBI. During the second fiscal quarter we sold our interest in AIS and completed our acquisition of GBI. The remainder of the fiscal year will represent only our 24.9% minority interest in Maximum.

Satisfaction of our cash obligations for the next 12 months.

Historically, our plan of operation has been stalled by a lack of adequate working capital. During the first quarter of 2008, we raised \$170,000 through a private placement and as of June 30, 2008 we had available cash of \$516,489. We believe these funds will help support existing operational costs, but will only be sufficient to satisfy our working capital requirements through September 30, 2008. Consequently, in addition to cash generated from operations, we will 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, RFIS, RREM, GBI 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.

Currently we have full-time employment agreements in place with three of our executive officers; Joseph Mangiapane, Jr. (CEO), Terence Davis (President) and Thomas Jandt (EVP of Business Development). The parent company has a total of 5 full time employees including the officers listed above.

In conjunction with the RFIS merger, RFIS entered into an employment agreement with Todd Torneo, to serve as its President. Currently, RFIS has 6 full time agents and 2 administrative people.

As a result of the merger with RREM, RREM entered into an employment agreement with Joel Newman, to serve as its President, which was subsequently terminated upon the resignation of Mr. Newman in March of 2008. On March 13, 2008, RREM entered into an employment agreement with its new president, Craig Triance, one of our directors, which was terminated during the quarter ended June 30, 2008 concurrent with Mr. Triance's resignation. RREM has 5 full time personnel assisting in the mortgage and real estate units of RREM.

During the year ended December 31, 2007, we entered into a consulting agreement with Kathleen McPherson whereby she agreed to provide consulting services in the area of corporate structure, marketing, strategic alliances, and other matters relating to our management and growth. The consulting agreement expires on August 30, 2008 or upon a formal employment agreement being executed with Ms. McPherson.

We intend to use the services of independent consultants and contractors to perform various professional services when appropriate. We believe the use of third-party service providers may enhance our ability to contain general and administrative expenses.

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 generate substantial additional 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 June 30, 2008 compared to December 31, 2007.

	June 30, 2008	December 31, 2007	Increase / (Decrease) \$	%
Current Assets	\$ 4,249,987	\$ 5,823,945	\$ (1,573,958)	(27%)
Current Liabilities	1,485,947	457,268	1,028,679	225%
Working Capital	\$ 2,764,040	\$ 5,366,677	\$ (2,602,637)	(49%)

Prior to the private placements at the end of 2006 and during fiscal 2007, the inventor of DAC's product primarily funded our operations. As of June 30, 2008, total amounts owed in principal and interest to this individual was \$214,433. The proceeds loaned have been used to fund operations and for the development of a prototype of our beverage dispenser. The note bears interest at 10% per annum and is due on demand. For the six months ended June 30, 2008, we recorded \$7,801 of interest expense related to the note. As we expand our activities, we may continue to experience net negative cash flows from operations, pending receipt of additional revenues.

During fiscal 2007 we completed a private placement for \$2 million and during the six months ended June 30, 2008 we raised an additional \$170,000. We believe the \$516,489 in cash on hand at June 30, 2008 will only be sufficient to sustain operations through the third quarter of fiscal 2008. As a result, we will need to seek additional funding for operations through equity or convertible securities offerings and may be required to do so in the future through additional financing, acquisitions, joint ventures or other means available to us. There can be no assurance that we will be able to complete a transaction or complete a transaction on terms favorable to our shareholders or us.

As we continue to expand in the financial services industry, we anticipate incurring operating losses over the next twelve months. Our continued losses from operations makes predictions of future operating results difficult to ascertain. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

Revenue Recognition: We recognize revenue from product sales once all of the following criteria for revenue recognition have been met: pervasive evidence that an agreement exists; the services have been rendered; the fee is fixed and determinable and not subject to refund or adjustment; and collection of the amount due is reasonably assured. We will primarily derive our revenues from anticipated financial service related fees, such as commissions.

RFIS currently earns commissions paid by insurance companies which are based on a percentage of the premium charged to the policyholder and considered earned over the term of the policy. Deferred commissions are related to the unexpired terms of the policies in force. The Company recognizes revenue net of expected cancellations in accordance with Staff Accounting Bulletin (“SAB”) 13A.

Concentration of credit risk for cash deposits: Financial instruments that potentially subject the Company to credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2008, we had approximately \$279,750 in excess of FDIC insured limits.

Recent Accounting Developments

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). SFAS No. 159 allows the company to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company’s financial position, results of operation or cash flows.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements”. This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the de-consolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years and interim periods beginning after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on the Company’s financial position, results of operation or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4T. Controls and Procedures.

Our Chief Executive Officer, Joseph Mangiapane, Jr., and Principal Financial Officer, Terence Davis, have 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, Messrs. Mangiapane and Davis concluded that our disclosure controls and procedures are effective in timely altering them 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.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us, which may materially affect us.

Item 1A. Risk Factors.

Risks Relating To Our Business and Marketplace

We will need additional capital in the future to finance our operations, which we may not be able to raise or it may only be available on terms unfavorable to us and or our shareholders. This may result in our inability to fund our working capital requirements and harm our operational results.

We have and expect to continue to have substantial capital expenditure and working capital needs. We believe that current cash on hand and the other sources of liquidity may not be sufficient enough to fund our operations beyond the third quarter of fiscal 2008. Therefore, we will need to raise additional funds to continue our operations. Furthermore, additional funds will be needed to pursue our intentions of acquiring private companies in the financial services industry.

Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our business or otherwise respond to competitive pressures would be significantly limited.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition.

Access to funds is essential to our anticipated business of financial services. In the future we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to make acquisitions and other investments. Our access to funding sources could be hindered by many factors. Those factors that are specific to our anticipated line of business include the possibility that lenders could develop a negative perception of our long-term or short-term financial prospects if we incur large trading losses or legal liabilities or if the level of our business activity decreases due to a market downturn. Similarly, our access may be impaired if regulatory authorities take significant action against us, or if our employees engage in material unauthorized or illegal activity.

The U.S. credit markets have been dealing with the effects of numerous defaults by homeowners on “subprime” mortgage loans, which may materially impact our real estate and mortgage subsidiary.

“Subprime” mortgage loan defaults could adversely impact the operations of our real estate and mortgage division. In addition, subprime mortgage loan defaults began to increase with respect to mortgages considered to be less credit risk than “subprime” mortgages. It is expected that mortgage default rates will continue to increase through fiscal 2008. These defaults have not only had a materially adverse impact on the spending power of the borrowers of such defaulted mortgage loans, but have also reduced the ability of buyers of residential properties to acquire single family residences, in addition to reductions in the value of investment portfolios containing securities affected by such mortgages. Because the real estate and mortgage division

is highly dependent upon fees and commissions based upon sales and financings related to residential and investment properties, the downward trend in “subprime” mortgages may materially impact our results of operations on a consolidated basis.

We have limited operating history in the financial services industry and there can be no assurance that we will be successful in this industry.

Our proposed operations are subject to all of the risks inherent in the establishment of a new business, including licensing risks, insufficient capital, unforeseen problems, and expenses and complications encountered with the early phases of operations in a business. Moreover, our lack of an operating history in the financial services industry makes it impossible to predict whether or not we will operate profitably in the industry. While we have brought on management that is familiar with this industry, there can be no assurances that we will be able to locate, hire and retain the necessary personnel to initiate, manage and operate this new line of business, develop and implement necessary systems, obtain contracts and obtain financing as contemplated in our business strategy.

We may not complete all of our proposed acquisitions, and even if we do, these acquired companies have not operated as a combined entity and are not fully integrated, and we may not be able to integrate them successfully.

During the first six months of 2007, we completed two mergers with RFIS and RREM. At the end of the second quarter we completed the merger with GBI. Additionally, we have acquired a minority interests in a FINRA broker/dealer. We have also entered into additional non-binding letters of intent to acquire more businesses involved in the financial services industry. Each acquisition is subject to customary closing conditions; including the completion of due diligence reasonably satisfactory to us, the negotiation and execution of a definitive agreement, required regulatory approvals, and the acquired company providing audited financial statements as required by SEC rules and regulations. We may not be able to complete all of these acquisitions if we are not satisfied with our due diligence investigation, if we are unable to negotiate definitive agreements, if we cannot obtain the required regulatory approvals, or if the companies to be acquired cannot provide the required audited financial statements.

Further, even if we are able to successfully complete all of these proposed acquisitions, the companies to be acquired have been operated as separate independent entities to date, and we may not be able to integrate the operations of these businesses successfully or institute the necessary systems and procedures, including accounting and financial reporting systems, to manage the combined enterprise on a profitable basis. Our management group has only recently been assembled and may not be able to manage the combined entity effectively or to successfully implement our operating strategies. Any inability to integrate acquired companies successfully would have a material adverse effect on our business, financial condition and results of operations.

We may not be able to retain our key personnel or hire the personnel we need to sustain and grow our business.

We face intense competition for qualified employees from businesses in the financial services industry. Our performance is highly dependent upon our ability to attract, retain, and motivate highly skilled, talented employees. These professionals are regularly recruited by other firms and may choose to change firms, in which case their clients may choose to move their assets. Given our relatively small size compared to some of our anticipated competitors, the performance of our business may be more adversely affected than our competitors would be if we lose well-performing employees and are unable to attract new ones.

Regulatory capital requirements and our holding company structure may adversely affect our ability to expand or maintain present levels of our business or impair our ability to meet our financial obligations.

GBI is subject to the SEC's uniform net capital rule, Rule 15c3-1, which sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. As we are a holding company, we will depend on dividends and other payments from our subsidiaries to fund all payments on our obligations, including any debt obligations, and potential working capital requirements. These regulatory restrictions may impede our access to funds. In addition, underwriting commitments require a charge against net capital and, accordingly, GBI's ability to make underwriting commitments may be limited by the requirement that it must at all times be in compliance with the applicable net capital regulations. GBI is also subject to certain notification requirements related to withdrawals of excess net capital.

We are subject to strict government regulations and the failure to comply could result in disciplinary actions.

The securities industry in the United States is subject to extensive regulations under both Federal and State laws. Broker-dealers, such as GBI, and investment advisors are subject to regulations covering all aspects of their business. Recently, the securities industry has experienced a great deal of negative exposure due to alleged underwriting negligence, conflicts of interest, research improprieties and mutual fund trading improprieties. As a result, regulatory agencies and the U.S. government have intervened in an attempt to resolve these various issues. In addition, the SEC, FINRA, other self-regulatory organizations, and state securities commissions can censure, fine, issue cease-and-desist orders, or suspend or expel a broker-dealer or any of its officers or employees.

Our ability to comply with all applicable laws and rules is largely dependent on our establishment and maintenance of a system to ensure compliance with these laws and rules, as well as our ability to attract and retain qualified compliance personnel. The demands placed upon our personnel and financial resources may be too significant for us to quickly adapt to a changing regulatory environment and may impact our ability to provide or expand our services. Any disciplinary or other action imposed upon us due to claimed noncompliance in the future could have a material adverse effect on our business, financial condition and operating results.

In addition, our operations and profitability may be affected by additional legislation, changes in rules promulgated by the SEC, FINRA, other self-regulatory organizations, and state securities commissions, or changes in the interpretation or enforcement of existing laws and rules including, but not limited to, existing regulations which restrict communications between our research analysts and our other departments. We cannot assure you that such future regulations will not require us to implement additional compliance policies and that such policies will not materially increase our compliance expenses or otherwise adversely affect our business, financial condition and operating results.

We engage in the securities business that subjects us to the specific risks of that business.

The securities business is by its nature subject to various risks, particularly in volatile or illiquid markets, including the risk of losses resulting from the underwriting or ownership of securities, customer fraud, employee errors and misconduct, failures in connection with the execution of securities transactions, and litigation. Our business and profitability are affected by many other factors, including:

- Volume, size and timing of securities transactions;
 - Demand for investment banking services;
 - Level and volatility of interest rates;
 - Availability of credit;
 - Volatility of equity and debt securities held in inventory;
- Legislation affecting the business and financial communities; and
 - The economy in general.

Conditions in the financial markets and the economy generally have a direct and material impact on our results of operations and financial condition. For example, our investment banking revenue, in the form of underwriting discounts, placement agent fees, and financial advisory fees, is directly related to the volume and value of the transactions in which we are involved. When uncertain or unfavorable market or economic conditions exist, the volume and size of capital-raising transactions and acquisitions and dispositions typically decrease, thereby reducing the demand for our investment banking services and increasing price competition.

A downturn in the financial markets may also result in a decline in the volume and value of trading transactions. This could lead to a decline in the revenue we receive from commissions on the execution of trading transactions and a reduction in the value of our trading positions, commissions and spreads. Sudden sharp declines in market values of securities can result in illiquid markets, making it more difficult to resell securities we own and decreasing our trading activities generally, and the failure of counterparties to perform their obligations, as well as increases in claims and litigation, including arbitration claims from clients.

We may not be able to compete successfully with other companies in the securities industry.

The securities industry is extremely competitive and our overall business will be adversely affected if we are unable to compete successfully. In recent years, significant price competition in many areas of our business, including pressure on trading spreads and

commissions have reduced financial service firms' profit margins. We believe that price competition in these and other areas will continue as some of our competitors seek to obtain market share by reducing fees, commissions, or spreads. Many of these companies are larger than we are, have greater financial resources and may be more willing to lend money to businesses in connection with providing them with financial advisory services. In our proposed capital markets and investment banking businesses, we would compete against larger national and international firms with much larger capital bases that allow them to underwrite larger offerings and hold much larger trading positions.

Further, consolidation in the securities industry fostered in part by changes in the regulatory framework in the U.S. has also increased competition, bolstering the capital base, product diversification, and geographic reach of some of our competitors. Finally, the emergence of alternative securities and futures trading systems via the internet and other media has offered a potentially less expensive alternative to our services. If this trend toward using alternative trading systems continues to grow, it may adversely affect our commission and trading revenue, reduce our participation in the trading markets and our ability to access market information, and result in the creation of new and stronger competitors.

Risks Relating To Our Common Stock

Because our common stock is deemed a low-priced "Penny" stock, an investment in our common stock should be considered high risk and subject to marketability restrictions.

Since our common stock is a penny stock, as defined in Rule 3a51-1 under the Securities Exchange Act, it will be more difficult for investors to liquidate their investment even if and when a market develops for the common stock. Until the trading price of the common stock rises above \$5.00 per share, if ever, trading in the common stock is subject to the penny stock rules of the Securities Exchange Act specified in rules 15g-1 through 15g-10. Those rules require broker-dealers, before effecting transactions in any penny stock, to:

- Deliver to the customer, and obtain a written receipt for, a disclosure document;
- Disclose certain price information about the stock;
- Disclose the amount of compensation received by the broker-dealer or any associated person of the broker-dealer;
 - Send monthly statements to customers with market and price information about the penny stock; and
- In some circumstances, approve the purchaser's account under certain standards and deliver written statements to the customer with information specified in the rules.

Consequently, the penny stock rules may restrict the ability or willingness of broker-dealers to sell the common stock and may affect the ability of holders to sell their common stock in the secondary market and the price at which such holders can sell any such securities. These additional procedures could also limit our ability to raise additional capital in the future.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. More specifically, FINRA has enacted Rule 6530, which determines eligibility of issuers quoted on the OTC Bulletin Board by requiring an issuer to be current in its filings with the Commission. Pursuant to Rule 6530(e), if we file our reports late with the Commission three times in a two-year period or our securities are removed from the OTC Bulletin Board for failure to timely file twice in a two-year period then we will be ineligible for quotation on the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market. We have not been late in any of our SEC reports, subject to Rule 6530, through June 30, 2008.

We have the ability to issue additional shares of our common stock and shares of preferred stock without asking for stockholder approval, which could cause your investment to be diluted.

Our Certificate of Incorporation authorizes the Board of Directors to issue up to 50,000,000 shares of common stock and on July 31, 2007 we received shareholder approval of an amendment to our Certificate of Incorporation to allow for 10,000,000 shares of preferred stock. The power of the Board of Directors to issue shares of common stock, preferred stock or warrants or options to purchase shares of common stock or preferred stock is generally not subject to shareholder approval. Accordingly, any additional issuance of our common stock, or preferred stock that may be convertible into common stock, may have the effect of diluting one's investment.

By issuing preferred stock, we may be able to delay, defer or prevent a change of control.

Our board of directors and shareholders have approved an amendment to our Certificate of Incorporation to provide for "blank check preferred", which will permit us to issue, without approval from our shareholders, a total of 10,000,000 shares of preferred stock. Our Board of Directors recently set the rights and preferences for 1,000,000 shares of Series A Convertible Preferred Stock and can determine the rights, preferences, privileges and restrictions granted to, or imposed upon, the additional authorized shares of preferred stock and to fix the number of shares constituting any series and the designation of such series. It is possible that our Board of Directors, in determining the rights, preferences and privileges to be granted when the preferred stock is issued, may include provisions that have the effect of delaying, deferring or preventing a change in control, discouraging bids for our common stock at a premium over the market price, or that adversely affect the market price of and the voting and other rights of the holders of our common stock.

FINRA sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

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

On April 2, 2008, we issued 5,000 shares of our common stock to an employee for services. We believe that the issuance of shares described above was exempt from registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The shares were issued directly by us and did not involve a public offering or general solicitation. The recipient of the shares was afforded an opportunity for effective access to files and records of our company that contained the relevant information needed to make his investment decision, including our financial statements and 34 Act reports. We reasonably believed that the recipient, immediately prior to receiving the shares, had such knowledge and experience in our financial and business matters that he was capable of evaluating the merits and risks of his investment. The recipient had the opportunity to speak with our management on several occasions prior to his investment decision.

On April 3, 2008, Michael Sederoff, our former chief financial officer, executed a two year lock-up agreement with us wherein Mr. Sederoff agreed not to sell his 25,000 shares of common stock, received as part of his prior employment agreement with us, for a period of two years and Mr. Sederoff waived all rights to receive the additional 13,401 shares of our common stock that had accrued under the employment agreement and were authorized for issuance as of December 31, 2007. Therefore, the 13,401 shares will not be issued and the authorization for issuance was revoked.

On June 2, 2008, we issued 1,200,000 shares of restricted common stock to Grant Bettingen Trustee of the Bettingen 1999 Trust U/D/T October 8, 1999 for the remaining 79% (90 shares) of the outstanding securities of GBI. In addition, we granted stock options to purchase up to 500,000 common shares pursuant to the employment agreement between GBI and Grant Bettingen. The options have an exercise price of \$1.00 and are exercisable for five years from the grant date. The options vested immediately.

We believe that the issuance of the shares and grant of options described above were exempt from registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The shares and options were issued directly by us and did not involve a

public offering or general solicitation. The recipient of the shares and options was afforded an opportunity for effective access to files and records of the Registrant that contained the relevant information needed to make his investment decision, including our financial statements and 34 Act reports. We reasonably believed that the recipient, immediately prior to issuing the shares and granting the options, had such knowledge and experience in our financial and business matters that he was capable of evaluating the merits and risks of his investment. The recipient had the opportunity to speak with our management on several occasions prior to his investment decision.

On June 3, 2008, we entered into an agreement for the cancellation of 100,000 shares previously issued as partial consideration for the purchase of 24.9% of the total outstanding shares of AIS pursuant to the Share Repurchase and Settlement Agreement with AIS and Marc Riviello. As of the date of this report the 100,000 shares have not been cancelled; however, it is anticipated that the shares will be cancelled on or before August 31, 2008.

On June 24, 2008, we issued 2,500 shares (17,500 in total) of restricted common stock to each member of our Board of Director's for their services. We believe that the issuance of shares was exempt from registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The shares were issued directly by us and did not involve a public offering or general solicitation. The recipients of the shares were afforded an opportunity for effective access to files and records of our company that contained the relevant information needed to make their investment decision, including our financial statements and 34 Act reports. We reasonably believed that the recipients, who are directors, immediately prior to receiving the shares, had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of their investment. The recipients had the opportunity to speak with our management on several occasions prior to their investment decision.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the quarter ended June 30, 2008.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

We did not submit any matters to a vote of our security holders during the first quarter of 2008.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit	Exhibit Description	Filed herewith	Incorporated by reference			
			Form	Period ending	Exhibit	Filing date
2.1	Agreement and Plan of Merger Between ISSG, Inc. and Rub Investments, Inc.		8-K		2.1	05/17/05
2.2	Delaware Certificate of Merger		8-K		2.2	06/13/05
2.3	Nevada Articles of Merger		8-K		2.3	06/13/05
2.4	Merger Agreement between Rubicon Financial Incorporated, ISSG Sub, Inc. and Rubicon Financial Insurance Services		8-K		2.4	02/23/07
2.7	Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc.		8-K		2.7	07/05/07
2.7(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
2.7(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
2.7(d)	Amendment No. 3 to the Merger Agreement among Rubicon Financial Incorporated, RFI Sub, Inc. and Grant Bettingen, Inc., dated March 18, 2008				2.7(d)	03/21/08
2,7(e)	Agreement of Merger between RFI Sub, Inc. and Grant Bettingen, Inc. dated June 2, 2008		8-K		2.7(e)	06/06/08
2.8	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)(a)	ISSG, Inc. Articles of Incorporation		10-KSB	12/31/05	3.1(i)(a)	04/05/06
3.1(i)(b)	ISSG, Inc. Certificate of Correction of Articles of Incorporation		10-KSB	12/31/05	3.1(i)(b)	04/05/06

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3.1(i)(c)	ISSG, Inc. Amendment to Articles of Incorporation	10-KSB	12/31/05	3.1(i)(c)	04/05/06
3.1(i)(d)	Amendment to Certificate of Incorporation changing name from ISSG, Inc. to Rubicon Financial Incorporated	8-K		3.1(i)(d)	09/08/06
3.1(i)(g)	Amendment to Certificate of Incorporation authorizing "blank check" Preferred Stock	8-K		3.1(i)(g)	08/01/07
3.1(ii)	Bylaws as currently in effect	10-KSB	12/31/05	3.1(ii)	04/05/06
10.1	Agreement and Plan of Merger between ISSG, Inc. and Advantage Investment Strategies, Inc.	8-K		10.1	04/18/06
10.2	Termination Agreement between ISSG, Inc. and Advantage Investment Strategies	8-K		10.2	07/20/06
10.3	Employment Agreement with Joseph Mangiapane, Jr.	8-K		10.3	01/17/07
10.4	Employment Agreement with Todd Torneo	8-K		10.4	02/23/07
10.5	Employment Agreement with Michael Sederoff	8-K		10.5	02/23/07
10.6	Employment Agreement with Thomas Jandt	8-K		10.6	
10.7	Employment Agreement with Joel Newman	10-QSB	06/30/07	10.7	08/17/07
10.8	Stock Cancellation Agreement	8-K		10.8	08/06/07
10.9	Share Purchase Agreement between Rubicon Financial Incorporated and Grant Bettingen, Inc.	8-K		10.9	09/14/07
10.10	Consulting Agreement with Ms. Kathleen McPherson	8-K		10.10	09/14/07
10.11	Employment Agreement with Mr. Tom Collier	10-QSB	09/30/07	10.11	11/13/07
10.12	Amendment No. 1 to GBI Stock Purchase Agreement dated March 18, 2008	8-K		10.12	03/21/08
10.13	Employment Agreement with Terence Davis	10-K	12/31/07	10.13	03/31/08
10.14	Employment Agreement with Craig Triance	10-Q	03/31/08	10.14	05/14/08
10.15	Sederoff Lock-Up Agreement	10-Q	03/31/08	10.15	05/14/08
10.16	Newman Lock-Up Agreement	10-Q	03/31/08	10.16	05/14/08
10.17	Employment Agreement between GBI and Grant Bettingen	8-K		10.17	06/06/08
10.18	Stock Purchase and Settlement Agreement with AIS Financial	8-K		10.18	06/06/08

- Inc. and Marc Riviello dated
June 2, 2008
- | | | |
|------|---|---|
| 31.1 | Certification of Joseph
Mangiapane, Jr., Chief
Executive Officer, pursuant to
Section 302 of the
Sarbanes-Oxley Act | X |
| 31.2 | Certification of Terence Davis,
Principal Financial Officer,
pursuant to Section 302 of the
Sarbanes-Oxley Act | X |
| 32.1 | Certification of Joseph
Mangiapane, Jr., Chief
Executive Officer, pursuant to
Section 906 of the
Sarbanes-Oxley Act | X |
| 32.2 | Certification of Terence Davis,
Principal Financial Officer,
pursuant to Section 906 of the
Sarbanes-Oxley Act | X |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RUBICON FINANCIAL INCORPORATED
(Registrant)

By: /s/ Terence Davis
Terence Davis, President
(On behalf of the Registrant and as Principal Financial
Officer)

Date: August 13, 2008

