

RUBICON FINANCIAL INC
Form 10-K/A
April 22, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K /A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

Commission file number 000-29315

RUBICON FINANCIAL INCORPORATED

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

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

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

92612
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, \$0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark 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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$6,188,957.70 based on a share value of \$0.30.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 23,089,026 shares of common stock, \$0.001 par value, outstanding on April 9, 2013, which does not include 750,000 shares authorized but unissued.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

Rubicon Financial Incorporated is filing this Amendment No. 1 to Form 10-K (the “Amendment”) to amend its annual report on Form 10-K for the fiscal year ended December 31, 2013 (the “Original Filing”), as filed with the Securities and Exchange Commission on April 14, 2014. The purpose of this Amendment is to revise the disclosure in Item 9A regarding the Registrant’s disclosure controls and procedures. This Amendment does not materially amend any other information previously filed in the Original Filing. The Original Filing is hereby superseded and amended with respect to Item 9A as set forth in this Amendment. Except for the cover page and this explanatory note, this Amendment continues to speak as of the original filing date and does not update the disclosures contained therein to reflect any events or results which occurred subsequent to the filing date of the Original Filing.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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AVAILABLE INFORMATION

We file annual, quarterly and special reports and other information with the SEC. You can read these SEC filings and reports over the Internet at the SEC's website at www.sec.gov or on our website at www.rubiconfinancial.com. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Please call the SEC at (800) SEC-0330 for further information on the operations of the public reference facilities. We will provide a copy of our annual report to security holders, including audited financial statements, at no charge upon receipt to of a written request to us at Rubicon Financial Incorporated, 18872 MacArthur Blvd., First Floor, Irvine, California 92612.

PART I

Item 1. Business.

Rubicon Financial Incorporated is a financial services holding company. Our goal is to become a "Single Source Provider" (SSP) of distinct and diverse financial services, bundled together for client convenience. We believe that the economy of efficiencies that is anticipated to exist between the companies now combined in our wholly-owned subsidiary Newport Coast Securities, Inc. will increase our bottom line by lowering our costs. We are based in Orange County, California and operate primarily through Newport Coast Securities, Inc., a fully-disclosed broker-dealer, headquartered in Manhattan, New York, which also does business as Newport Coast Asset Management as a registered investment advisor and dual registrant with the Securities and Exchange Commission.

Our executive office is located at 18872 MacArthur Blvd., First Floor, Irvine, California 92612. Our telephone number is (888) 668-9567 and our website address is www.rubiconfinancial.com. The information on our website is for information purposes only and is not incorporated by reference into this report.

OUR BUSINESS

Overview

All of our revenue generating operations are currently conducted through Newport Coast Securities, Inc., a FINRA/SEC registered broker dealer and Investment Advisor ("NCS" or "Newport"). The types of financial services we offer through NCS are as follows: investment banking services for small to mid-sized companies; investment management and financial planning; and retail and institutional brokerage services.

Newport Coast Securities, Inc.

NCS has been registered as a securities broker-dealer with the SEC for over a quarter of a century and has been located in the Orange County, California area since 1985. In March of 2013, NCS relocated its corporate headquarters to New York City.

Since mid-2008, we have expended tremendous time and resources into transforming NCS into a full service broker-dealer that provides retail and institutional securities services as well as investment banking, trading, market-making, brokerage, investment advisory and financial planning, and insurance services. NCS is a \$100,000 broker/dealer with approximately 120 registered representatives in 30 branch offices producing approximately \$18.1 million in revenues for the year ended December 31, 2013.

Operating as a securities broker-dealer and investment banking firm for more than twenty-five years, NCS has dual clearing agreements and is a correspondent firm with COR Clearing and Wedbush Morgan Securities.

NCS is registered with the Securities and Exchange Commission and is a member of FINRA and the Securities Investor Protection Corporation (SIPC). NCS is also a Registered Investment Advisor registered with the SEC and is also licensed as an insurance general agency. NCS is licensed to conduct its brokerage activities in all states except Maine and the District of Columbia and is currently approved to expand to 184 registered representatives and 95 offices.

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Products and Services

NCS offers both its institutional and retail clients access to an extensive list of investment products and services designed to meet their own unique needs. These investments are selected to help clients grow their asset base, protect their assets, maximize their tax efficiencies and provide clients with wealth distribution strategies for their heirs and beneficiaries. These products and services include, but are not limited to:

·	Equities	·	Estate Planning
·	Fixed Income	·	Retirement Plans
·	Options	·	401k Plans
·	Mutual Funds	·	403b Plans
·	Closed End Funds	·	Single K Plans
·	Exchange Traded Funds (ETFs)	·	Defined Benefit Plans
·	Unit Investment Trust	·	Retirement Plan Advisory Services
·	Certificates of Deposit	·	College Savings Plans
·	Fee Based Accounts	·	529 Plans
·	Financial Planning	·	Alternative Investments
·	Life Insurance	·	REITs
·	Fixed Annuities	·	Specialized Debt Offerings
·	Variable Annuities	·	Non-Traded REITs
·	Long-Term Care Insurance	·	Energy Programs
·	Disability Insurance	·	Managed Futures

Investment Banking

NCS focuses on Small and Micro Cap companies. The preferred relationship with corporate clients of the firm is to provide complete investment banking services, including advisory services, corporate finance for public and private enterprises, securities transactions, trading, syndication, mergers and acquisitions, reorganizations, reverse mergers, PIPE's, and merchant banking. The firm also has experience in private equity placement, for both public and private companies. Clients can contract for comprehensive service or select any combination of investment banking services to meet their needs and the growth stage of their enterprise.

Alternative Investment Products

NCS believes that there are many benefits to being able to offer Alternative Investments to its high net worth clients. Many of these investments are uncorrelated to the market, may provide tax benefits, and/or cash flow, while still providing potential appreciation.

These investments come in many forms such as private and public Limited Partnerships and LLCs, REIT's, DSTs, Direct Investments in real estate, Managed Futures, and more. Many high net worth clients may look for access to investment vehicles that may offer higher upside potential and are willing and able to bear the additional risk. The management team utilizes outside independent due diligence in addition to its own due diligence in this area with its management team possessing well over 30 years of experience in this asset class, in both up and down cycles, in alternative investments, with a focus on protecting the client in the selection of these products.

Insurance

Newport Coast Insurance has selling agreements most insurance products including fixed and variable annuity products, variable universal life, long-term care, disability and life insurance products for estate planning. NCS

partners with only highly rated, reputable companies and field marketing organizations providing the latest innovative products to meet each client's needs.

Trading and Brokerage

NCS through its clearing partners utilizes highly regarded marker makers and order entry destinations, which allows NCS's customers effective and efficient execution of orders. NCS provides brokerage services to individuals, institutions and its investment banking corporate clients. NCS's account executives can handle large, complex portfolios. Institutional brokerage services are provided to corporate clients and fund managers of income, equity and hedge funds.

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Investment Advisory

NCS, doing business as Newport Coast Asset Management, is registered with the SEC as a Registered Investment Advisor. NCS currently offers investment advisor services providing fee-based account management services to clients. In addition to customized fee-based account management, NCS offers a broad professional investment advisory platform allowing account executives and their clients to select from a premier group of professional money managers to manage client assets. Financial Planning services and products are provided to support the needs of NCS's high net worth/income clients, including their need for insurance, annuity, tax planning, and estate planning. Full service financial planning and investment advisory services are offered to serve the growing needs of corporate executives introduced to the firm through its investment banking activity.

Rubicon's Professional Corporate Team

Rubicon's corporate executives are located in our Orange County, California office and NCS's corporate executives and employees are located in the New York and Orange County offices.

The securities industry in the United States is subject to extensive regulation under both Federal and State law, as well as self-regulatory organizations. Through the issuance of policies and procedures, such as those related to related party transactions and insider trading, we aim to assure that our employees are aware of, and abide by, the various rules and regulations promulgated by these entities. While we attempt to maintain up-to-date policies and procedures, regulators are constantly defining and re-defining their interpretation of such rules and regulations in response to incidents and events, through various pronouncements and through enforcement actions aimed at behavior believed to violate such rules and regulations. As such, while we believe our current policies and procedures are reasonably designed to enforce the rules and regulations as currently interpreted, future interpretations of current rules or regulations, or further modifications to such rules and regulations could lead us to modify our policies, procedures and practices accordingly.

Risk Management

We utilize a multi-faceted, proactive risk management process in which we create situational awareness. We provide and promote an open dialogue to identify risk associated with all aspects of our business. Our management holds our compliance personnel and our professionals accountable for the detection, investigation, monitoring, and remediation of any inherent risks that would compromise our reputation, integrity, ethical standards, financial stability, or client relationships.

We conduct an internal risk analysis to identify strengths, weaknesses, opportunities, and threats and implement policies and procedures relevant to protecting our investment while promoting our growth. The policies and procedures are also intended to mitigate any weaknesses identified and monitor any threats on an on-going basis. We will ensure checks and balances are in place to analyze external conditions that could affect operations such as event risk, interest rate changes, credit and liquidity concerns, execution risk, new product implementation, and vendor quality. The risk management process will be effectively enhanced by asking questions, soliciting additional advice, observing, analyzing and talking with the competition and learning from their mistakes and assessing industry-wide business practices. We intend to have our management personnel meet on a regular basis to assess the findings of such analysis and make modifications to our processes as necessary.

In addition to the ordinary risks inherent in our business, we will attempt to prepare for those extraordinary risks that can unexpectedly arise. We intend to review and evaluate our critical operations and infrastructure and seek to promptly identify and address deficiencies. We will also assess additional areas of extraordinary risk, such as potential conflicts of interest and exposure to fraud, through comprehensive polling of our employees. We will

attempt to identify and remedy any areas of potential conflicts of interest between our clients and us.

Net Capital Requirements

NCS is subject to the SEC's net capital rule (SEC Rule 15c3-1), which is designed to measure the general financial integrity and liquidity of a broker-dealer. Net capital is defined as the net worth of a broker-dealer subject to certain adjustments. In computing net capital, various adjustments are made to net worth which exclude assets not readily convertible into cash. Also, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner to avoid over-inflation of the broker-dealer's net capital.

At December 31, 2013, NCS had net capital of \$277,468 which was \$177,468 in excess of its required net capital of \$100,000.

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Also, funds invested as equity capital may not be withdrawn, nor may any unsecured advances or loans be made to any stockholder of a registered broker-dealer, if, after giving effect to the withdrawal, advance or loan and to any other withdrawal, advance or loan as well as to any scheduled payments of subordinated debt which are scheduled to occur within six months, the net capital of the broker-dealer would fall below 120% of the minimum dollar amount of net capital required or the ratio of aggregate indebtedness to net capital would exceed 10 to 1. Further, any funds invested in the form of subordinated debt generally must be invested for a minimum term of one year and repayment of such debt may be suspended if the broker-dealer fails to maintain certain minimum net capital levels. For example, scheduled payments of subordinated debt are suspended in the event that the ratio of aggregate indebtedness to net capital of the broker-dealer would exceed 12 to 1 or its net capital would be less than 120% of the minimum dollar amount of net capital required. The net capital rule also prohibits payments of dividends, redemption of stock and the prepayment, or payment in respect of principal or subordinated indebtedness if net capital, after giving effect to the payment, redemption or repayment, would be less than the specified percentage (120%) of the minimum net capital requirement.

Failure to maintain the required net capital may subject a firm to fines, suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require its liquidation. Compliance with the net capital rule could limit NCS's operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our subsidiaries, which could limit our ability to access working capital and repay debt. In the past, we have entered into, and from time to time in the future may enter into, temporary subordinated loan arrangements to borrow funds on a short-term basis from our stockholders, unaffiliated third parties or banks to supplement our working capital needs.

Competition

Our primary competitors will be local and regional investment banks that provide similar comprehensive financial services and full service independent contractor broker-dealers.

We will be subject to intense competition in all of the markets for our principal financial products and services in the United States. Several large Wall Street and foreign firms dominate the securities industry. Over the past several years there have been numerous acquisitions of securities firms by large financial institutions and insurance companies. These financial institutions have greater financial resources than we do, which allow them to engage in additional lending activities to businesses in connection with providing financial advisory services as well as to underwrite larger offerings and hold much larger trading positions than we are able.

The large financial institutions and insurance companies have a broader product base and geographic reach, which may mitigate the effects on their businesses of a downturn in certain market conditions or a downturn in the economy in specific regions of the country or sectors of the economy. We also compete with regional broker-dealers and small boutique firms. In addition, we compete with alternative trading systems via the internet and other media through which securities and futures transactions are affected. Competition is principally based on price, quality of service, reputation and financial resources. There has been increased competition in recent years from other market participants, including insurance companies, commercial banks, electronic communications networks, online brokerage firms, mutual fund sponsors and other companies offering financial services.

There is competition within our industry in obtaining and retaining the services of qualified employees. Our ability to compete effectively is dependent upon attracting, retaining and motivating qualified individuals. The ability to attract, retain, and motivate such persons depends, among other things, on geographical location, work environment, culture and compensation. We believe the fact we are publicly traded, which enables us to offer stock-based compensation and incentives, will allow us to compete more effectively for qualified employees.

Regulation

Securities

NCS is subject to complex and extensive regulation of most aspects of its business by Federal and State regulatory agencies, self-regulatory agencies, securities exchanges and by foreign governmental agencies, regulatory bodies and securities exchanges. The regulatory framework of the securities industry is designed primarily to safeguard the integrity of the capital markets and protect customers, not creditors or stockholders. The laws, rules, and regulations comprising such regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules, and regulations. The effect of any such changes cannot be predicted and may direct the manner of operation and profitability of our company.

NCS is subject to regulations governing every aspect of the securities business, including the effecting of securities transactions, capital requirements, record-keeping, reporting procedures, relationships with customers, the handling of cash and margin accounts, training requirements for certain employees and business procedures with firms that are not members of these regulatory bodies.

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NCS is registered as a securities broker-dealer with the SEC. The securities exchanges mentioned above and the FINRA are voluntary, self-regulatory bodies composed of members, such as NCS, which have agreed to abide by the respective bodies' rules and regulations. These organizations may expel, fine, and otherwise discipline member firms and their employees. NCS is licensed as a broker-dealer in all states except Maine. This will require us to comply with the laws, rules, and regulations of each state. Each state may revoke the license to conduct a securities business, fine, and otherwise discipline broker-dealers and their employees.

NCS is also subject to the SEC's uniform net capital rule, Rule 15c3-1. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. In addition, NCS is subject to certain notification requirements related to withdrawals of excess net capital.

The research areas of investment banks have been, and remain, the subject of increased regulatory scrutiny. In 2002 and 2003, acting in part pursuant to a mandate contained in the Sarbanes-Oxley Act, the SEC and the FINRA adopted rules imposing heightened restrictions on the interaction between equity research analysts and investment banking personnel. The SEC and the FINRA may adopt additional and more stringent rules with respect to research analysis in the future. NCS does not currently provide research analysis on securities, but may do so in the future.

NCS is also subject to the USA Patriot Act anti-money-laundering provisions which, mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including standards for verifying client identification at account opening and obligations to monitor client transactions and report suspicious activities. Through these and other provisions, the USA Patriot Act seeks to promote the identification of parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside the United States contain some similar provisions. The obligation of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures, and controls which have increased, and may continue to increase, our costs, and any failure with respect to our programs in this area could subject us to substantial liability and regulatory sanctions.

The Dodd-Frank Act includes various provisions that affect the regulation of broker-dealer sales practices and customer relationships. For example, the SEC is authorized to adopt a fiduciary duty applicable to broker-dealers when providing personalized investment advice about securities to retail customers. The U.S. Department of Labor is considering revisions to regulations under the Employee Retirement Income Security Act of 1974 that could subject broker-dealers to a fiduciary duty and prohibit specified transactions for a wider range of customer interactions. These developments may impact the manner in which affected businesses are conducted, decrease profitability and increase potential liabilities.

Insurance

The California Department of Insurance regulates such matters as the licensing of sales personnel and the marketing and contents of insurance policies and annuity contracts. The primary purpose of such regulation and supervision is to protect the interests of contract holders and policyholders. Financial regulation is extensive, and any financial and intercompany transactions between an insurance subsidiary and any of our other companies (such as intercompany dividends, capital contributions and investment activity) may be subject to pre-notification and continuing evaluation by the California Department of Insurance.

At the Federal level, there is periodic interest in enacting new regulations relating to various aspects of the insurance industry, including taxation of annuities and life insurance policies, accounting procedures, and the treatment of persons differently because of gender, with respect to terms, conditions, rates or benefits of an insurance policy. Adoption of any new federal regulation in any of these areas could potentially have an adverse effect upon us and any

insurance subsidiary. Also, recent federal legislative proposals aimed at the promotion of tax-advantaged savings through Lifetime Savings Accounts and Retirement Savings Accounts may adversely impact our sales of annuity and life insurance products if enacted.

Financial Reform Act

The Dodd-Frank Act was enacted on July 21, 2010. While certain portions of the Dodd-Frank Act became effective immediately, most other portions are effective following transition periods or through numerous rulemakings by multiple governmental agencies, and although a large number of rules have been proposed, many are still subject to final rulemaking or transition periods. U.S. regulators also plan to propose additional regulations to implement the Dodd-Frank Act. Accordingly, it remains difficult to assess fully the impact that the Dodd-Frank Act will have on the Company and on the financial services industry generally.

It is likely that 2014 and subsequent years will see further material changes in the way major financial institutions are regulated in both the U.S. and other markets in which the Company operates, although it remains difficult to predict the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period.

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As a result of the passage of the Dodd-Frank Act, the Company's asset management activities will be subject to certain additional laws and regulations, including, but not limited to, additional reporting and recordkeeping requirements (including with respect to clients that are private funds), restrictions on sponsoring or investing in, or maintaining certain other relationships with, "covered funds," as defined in the Volcker Rule, subject to certain limited exemptions, and certain rules and regulations regarding trading activities, including trading in derivatives markets. Many of these new requirements may increase the expenses associated with the Company's asset management activities and/or reduce the investment returns the Company is able to generate for its asset management clients. Several important elements of the Dodd-Frank Act will not be known until rulemaking is finalized and certain final regulations are adopted.

DIAL-A-CUP SPINOUT

On July 31, 2007, we entered into a Separation and Distribution Agreement with Dial-A-Cup, Inc., a Nevada corporation and our wholly owned subsidiary ("DAC"), whereby we agreed to spinout at least 50% of the shares of DAC common stock owned by us to our stockholders on a ten for one basis (each of our stockholders will receive one DAC share for every ten shares they hold in us). The Separation and Distribution Agreement further provides, among other things, for the principal corporate transactions required to affect the spinout and certain other agreements governing our relationship with DAC after the spinout. Generally, DAC will take all of the business, assets and liabilities transferred to or assumed by it pursuant to the Separation and Distribution Agreement or other ancillary agreements on an "as is, where is" basis without representations or warranties by us.

DAC is required to file a registration statement on Form S-1 to register shares of DAC common stock to be distributed to our stockholders. The record date for the distribution of DAC shares shall be set as the tenth day following effectiveness of the S-1 registration statement. Fractional shares of DAC will be rounded up to the nearest whole DAC share. Following the completion of the distribution, DAC plans to seek a market maker to quote its common stock on the Over-the-Counter Bulletin Board.

All stockholders that hold shares of our common stock prior to the effective date of the registration statement will receive shares of DAC in conjunction with the spin-out.

Due to a lack of sufficient capital resources and dormant nature of DAC, the registration process has not commenced and is not anticipated to commence until such time as DAC is able to raise sufficient capital, which is not anticipated to be in the next twelve months.

DAC Business

Dial-A-Cup is a rotating cylinder appliance of six individual compartments that allows one fresh cup of coffee, tea, hot chocolate, soup, etc. to be brewed with each compartment having its own permanent filter. DAC developed the appliance through Advance Plastics (San Diego, CA) and its manufacturing facilities in China. The first prototype was completed in late 2004, and the initial pre-production appliances were manufactured for submission for UL approval. However, at this point in time DAC has conducted no business and is dormant pending the receipt of capital.

There is a wide and varied customer base for beverage systems. Initial marketing, once capital is raised, is anticipated to be to small businesses nationwide through the use of established national distributors, followed by introduction to the consumer via television through the consumer home shopping networks followed by sales to national retailers.

The on-demand coffee systems currently being marketed have met with sales difficulties because they require the use of the manufacturers "coffee pods" which are expensive and limited in selection. The Dial-A-Cup appliance is designed to allow the customer to continue to use the brand of coffee, or other beverage, they currently use in their drip coffee pots. DAC plans to market its own private label custom blended coffee for its appliance.

Although we have not commenced any significant operations with our on-demand coffee systems, we believe we offer a unique product that does not have any direct competitors. However, we indirectly compete with dispensed coffee manufacturers, coffee shops, coffee or drinks sales, and more generally the beverage industry as a whole.

Dial-A-Cup is a trademarked name, and has been issued two (2) U.S. Patents to date, and has one (1) patent pending.

In May 2007, DAC changed its corporate domicile from New York to Nevada through a merger with a newly formed Nevada corporation and wholly owned subsidiary.

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Item 1A. Risk Factors.

In the course of conducting our business operations, we are exposed to a variety of risks that are inherent to the financial services industry. The following discusses some of the key inherent risk factors that could affect our business and operations, as well as other risk factors which are particularly relevant to us. Other factors besides those discussed below or elsewhere in this report also could adversely affect our business and operations, and these risk factors should not be considered a complete list of potential risks that may affect us.

Risks Relating To Our Business and Marketplace

We have incurred, and may continue to incur, significant operating losses.

We incurred losses from operations for the years ended December 31, 2013 and 2012. We cannot assure you that we will be able to achieve revenue growth, profitability or positive cash flow on either a quarterly or annual basis. Although we believe that we have adequate cash and regulatory capital to fund our current level of operating activities through fiscal 2014, if we are unable to operate profitably, we may not be financially viable in the future and may have to curtail, suspend or cease operations.

We may 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 stockholders. 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 will be sufficient enough to fund our operations in the ordinary course of business through fiscal 2014. However, if we experience extraordinary expenses or other events beyond our control, we may 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.

As a financial services holding company, we are dependent on financing from the sale of our securities and funds from our operating subsidiary.

We are a holding company that is a separate and distinct legal entity from our broker-dealer subsidiary. We therefore depend on dividends, distributions and other payments from our operating subsidiary and borrowings and will depend in large part on financing from the sale of our securities to fund payments on our obligations, including debt obligations. Our broker-dealer subsidiary is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from this subsidiary to us. Regulatory action of that kind could impede access to funds we need to make payments on our obligations. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

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.

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The financial services industry faces substantial litigation and is subject to extensive regulatory investigations, and we may face damage to our reputation and legal liability.

As a financial services firm, we face the risk of investigations and proceedings by governmental and self-regulatory organizations. Interventions by authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition to the monetary consequences, these measures could, for example, impact our ability to engage in, or impose limitations on, certain of our businesses. The number of these investigations and proceedings, as well as the amount of penalties and fines sought, has increased substantially in recent years with regard to many firms in the financial services industry, including us. Significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. The Dodd-Frank Act also provides compensation to whistleblowers who present the SEC with information related to securities laws violations that leads to a successful enforcement action. As a result of this compensation, it is possible we could face an increased number of investigations by the SEC.

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, as well as investigations or proceedings brought by regulatory agencies, arising in connection with our activities as a financial services company, most recently the Wells notice from FINRA. Certain of the actual or threatened legal or regulatory actions include claims for substantial compensatory and/or punitive damages, claims for indeterminate amounts of damages, or may result in penalties, fines, or other results adverse to us. In some cases, the issuers or brokers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress or no longer registered with us. Like any corporation, we are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information.

Substantial legal liability could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. For example, over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies has increased materially in the financial services industry. As a result, we have been, and expect that we may continue to become, the subject of increased claims for damages and other relief in the future and there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material. For more information regarding legal proceedings in which we are involved see “Legal Proceedings” in Part I, Item 3 herein.

Errors and omissions claims may negatively affect our business and results of operations.

Our broker dealer subsidiary is subject to claims and litigation in the ordinary course of business resulting from alleged and actual errors and omissions in placing insurance, effecting securities transactions and rendering investment advice. These activities involve substantial amounts of money. Since errors and omissions claims against our operating subsidiary or its financial advisors may allege liability for all or part of the amounts in question, claimants may seek large damage awards. These claims can involve significant defense costs. Errors and omissions could include, for example, failure, whether negligently or intentionally, to effect securities transactions on behalf of clients, to choose suitable investments for any particular client, to supervise a financial advisor or to provide insurance carriers with complete and accurate information. It is not always possible to prevent or detect errors and omissions, and the precautions our subsidiary takes may not be effective in all cases. Our liability for significant and successful errors and omissions claims may materially and negatively affect our results of operations.

As a financial service company, our success depends, in part, on our ability to adapt our products and services to evolving industry standards.

Our business model is based on a diversified mix of businesses that provides a wide range of financial products and services, delivered through multiple distribution channels. Which means our success depends, in part, on our ability to adapt our products and services to evolving industry standards. There is increasing pressure by competition to provide products and services at lower prices. This can reduce our revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including Internet services, could require us to incur substantial expenditures to modify or adapt our existing products and services. We might not be successful in developing and introducing new products and services, responding or adapting to changes in consumer spending and saving habits, achieving market acceptance of our products and services, or developing and maintaining loyal customers.

Misconduct by our employees and independent financial advisors is difficult to detect and deter and could harm our business, results of operations or financial condition.

Misconduct by our employees and independent financial advisors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm.

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Misconduct could include:

- binding us to transactions that exceed authorized limits;
- hiding unauthorized or unsuccessful activities resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- recommending transactions that are not suitable or in the client's best interests;
- engaging in fraudulent or otherwise improper activity;
- engaging in unauthorized or excessive trading to the detriment of customers; or
- otherwise not complying with laws or our control procedures.

We cannot always deter misconduct by our employees and independent financial advisors, and the precautions we take to prevent and detect this activity may not be effective in all cases. Prevention and detection among our independent financial advisors, who are not employees of our company and tend to be located in small, decentralized offices, present additional challenges. Misconduct by our employees and independent financial advisors may have a material adverse effect on our business 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 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.

We have a broker-dealer subsidiary, NCS, which 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, NCS'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. NCS is also be 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 NCS, 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, including the passage of the Dodd-Frank Act. 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.

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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.

We may experience further writedowns of our financial instruments and other losses related to volatile and illiquid market conditions.

Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of our securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take further writedowns in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. Severe market events have historically been difficult to predict, however, and we could realize significant losses if unprecedented extreme market events were to occur, such as conditions in the global financial markets and global economy that prevailed from 2008 through 2011.

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Our business could be adversely affected by a breakdown in the financial markets.

As a securities broker-dealer, the business of NCS is materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. Many factors or events could lead to a breakdown in the financial markets including war, terrorism, natural catastrophes and other types of disasters. These types of events could cause people to begin to lose confidence in the financial markets and their ability to function effectively. If the financial markets are unable to effectively prepare for these types of events and ease public concern over their ability to function, our revenues are likely to decline and our operations are likely to be adversely affected.

Our revenues may decline in adverse market or economic conditions.

Unfavorable financial or economic conditions may reduce the number and size of the transactions in which we provide services. Our investment banking revenues, in the form of financial advisory, placement agent and other fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. Additionally, a downturn in market conditions could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenues we receive from commissions and spreads. We must review customer relationships for impairment whenever events or circumstances indicate that impairment may be present, which may result in a material, non-cash write down of customer relationships. A significant decrease in revenues or cash flows derived from acquired customer relationships could result in a material, non-cash write-down of customer relationships. Such impairment would have a material adverse impact on our results of operations and stockholders' equity.

Market fluctuations and volatility may reduce our revenues and profitability.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity, such as the asset price deterioration in the subprime residential mortgage market.

Our revenue and profitability may be adversely affected by declines in the volume of securities transactions and in market liquidity. Additionally, our profitability may be adversely affected by losses from the trading or underwriting of securities or failure of third parties to meet commitments. We act as a market maker in publicly traded common stocks. In market making transactions, we undertake the risk of price changes or being unable to resell the common stock it holds or being unable to purchase the common stock it has sold. These risks are heightened by the illiquidity of many of the common stocks we trade and/or make a market. Any losses from our trading activities, including as a result of unauthorized trading by our employees, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Lower securities price levels may also result in a reduced volume of transactions, as well as losses from declines in the market value of common stocks held for trading purposes. During periods of declining volume and revenue, our profitability would be adversely affected. Declines in market values of common stocks and the failure of issuers and third parties to perform their obligations can result in illiquid markets.

We generally maintain trading and investment positions in the equity markets. To the extent that we own assets, i.e., have long positions, a downturn in those markets could result in losses from a decline in the value of such long positions. Conversely, to the extent that we have sold assets that we do not own, i.e., have short positions in any of those markets, an upturn could expose it to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market.

We may, from time to time, have a trading strategy consisting of holding a long position in one asset and a short position in another from which we expect to earn revenues based on changes in the relative value of the two assets. If, however, the relative value of the two assets changes in a direction or manner that we did not anticipate or against which we have not hedged, we might realize a loss in those paired positions. In addition, we maintain trading positions that can be adversely affected by the level of volatility in the financial markets, i.e., the degree to which trading prices fluctuate over a particular period, in a particular market, regardless of market levels.

Poor performance of the investment products and services recommended or sold to asset management clients may have a material adverse effect on our business.

Our investment advisory clients generally may terminate their contracts at any time. These clients can terminate their relationship, reduce the aggregate amount of assets under management or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, financial market performance and personal client liquidity needs. Poor performance of the investment products and services recommended or sold to such clients relative to the performance of other products available in the market or the performance of other investment management firms tends to result in the loss of accounts. The decrease in revenue that could result from such an event could have a material adverse effect on our results of operations.

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The financial services industry is subject to extensive regulation, which is undergoing major changes that will impact our business.

Like other financial services firms, we are subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where we conduct our business. These laws and regulations significantly affect the way we do business, and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments.

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, or are currently considering enacting, financial market reforms that have resulted and could result in major changes to the way our global operations are regulated. In particular, as a result of the Dodd-Frank Act, we are, or will become, subject to (among other things) significantly revised and expanded regulation and supervision, to more intensive scrutiny of our businesses and any plans for expansion of those businesses, to new activities limitations, to a systemic risk regime that imposes heightened capital and liquidity requirements, and to comprehensive new derivatives regulation. While certain portions of the Dodd-Frank Act became effective immediately, most other portions are effective following transition periods or through numerous rulemakings by multiple governmental agencies, and although a large number of rules have been proposed, many are still subject to final rulemaking or transition periods. U.S. regulators also plan to propose additional regulations to implement the Dodd-Frank Act. Many of the changes required by the Dodd-Frank Act could materially impact the profitability of our businesses and the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, or require us to raise capital, including in ways that may adversely impact our stockholders or creditors. In addition, similar regulatory requirements are being proposed by foreign policymakers and regulators, which may be inconsistent or conflict with regulations that we are subject to in the U.S. and, if adopted may adversely affect us. While there continues to be uncertainty about the full impact of these changes, we do know that the Company will be subject to a more complex regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

Automated trading markets may adversely affect our business and may increase competition.

We have experienced intense price competition in some of our businesses in recent years. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions. The trend toward direct access to automated, electronic markets will likely continue. It is possible that we will experience competitive pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing prices.

Our risk management policies and procedures may leave us exposed to unidentified risks or an unanticipated level of risk.

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot assure you that our policies and procedures will effectively and accurately record and verify this information.

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. Nonetheless, the effectiveness of our ability to manage risk exposure can

never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in our credit risk to customers as well as to third parties and increases in general systemic risk.

Our clearing brokers extend credit to our clients and we are liable if the clients do not pay.

NCS permits its clients to purchase securities on a margin basis or sell securities short, which means that our clearing firms extend credit to the client secured by cash and securities in the client's account. During periods of volatile markets, the value of the collateral held by the clearing brokers could fall below the amount borrowed by the client. If margin requirements are not sufficient to cover losses, the clearing broker sells or buys securities at prevailing market prices, and may incur losses to satisfy client obligations. NCS has agreed to indemnify the clearing brokers for losses they may incur while extending credit to its clients.

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We rely on clearing brokers and unilateral termination of the agreements with these clearing brokers could disrupt our business.

NCS is an introducing brokerage firm, using third party clearing brokers to process its securities transactions and maintain customer accounts. The clearing brokers also provide billing services, extend credit and provide for control and receipt, custody and delivery of securities. We depend on the operational capacity and ability of the clearing brokers for the orderly processing of transactions. In addition, by engaging the processing services of a clearing firm, we are exempt from some capital reserve requirements and other regulatory requirements imposed by federal and state securities laws. If the clearing agreements are unilaterally terminated for any reason, we would be forced to find alternative clearing firms without adequate time to negotiate the terms of a new clearing agreement and without adequate time to plan for such change. There can be no assurance that if there were a unilateral termination of a clearing agreement that we would be able to find an alternative clearing firm on acceptable terms to it or at all.

Legislative, judicial or regulatory changes to the classification of independent contractors could increase our operating expenses.

From time to time, various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors' classification to employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 "common law" factors, rather than any definition found in the Internal Revenue Code or Internal Revenue Service ("IRS") regulations. NCS classifies its registered representatives as independent contractors for all purposes, including employment tax and employee benefit purposes. We cannot assure you that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of NCS' registered representatives. The costs associated with potential changes, if any, to these independent contractor classifications could have a material adverse effect on us, including our results of operations and financial condition.

Changes in accounting standards, especially those that relate to management estimates and assumptions, are unpredictable and may materially impact how we report and record our financial condition.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results and are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. From time to time the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our outside auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. For a further discussion of some of our significant accounting policies and standards and recent accounting changes, see Note 1 to the Consolidated Financial Statements.

Risks Relating To Our Common Stock

Our common stock has low trading volume and any sale of a significant number of shares is likely to depress the trading price.

Our common stock is quoted on the OTCQB. Traditionally, the trading volume of the common stock has been limited. For example, for the 30 trading days ending on December 31, 2013, the average daily trading volume was estimated to be approximately 2,753 shares per day and on a majority of days there was no trading activity. During such 30-day period the closing price of the common stock ranged from a high of \$0.23 to a low of \$0.18. Because of this limited trading volume, holders of our securities may not be able to sell quickly any significant number of such shares, and any attempted sale of a large number of our shares will likely have a material adverse impact on the price of our common stock. Because of the limited number of shares being traded, the price per share is subject to volatility and may continue to be subject to rapid price swings in the future.

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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.

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 Articles of Incorporation authorizes the Board of Directors to issue up to 100,000,000 shares of common stock and 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 stockholder 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.

During fiscal 2013 we were authorized to issue a total of 9,000,000 shares of “blank check” preferred stock and up to 1,000,000 shares of Series A Convertible Preferred Stock. In February of 2013, our board of directors authorized up to 1,000,000 shares of Series B Convertible Preferred Stock. Our Board of Directors can determine the rights, preferences, privileges and restrictions granted to, or imposed upon, the 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.

Additional Risks and Uncertainties

We are a diversified financial services company. Although we believe our diversity helps lessen the effect when downturns affect any one segment of our industry, it also means our earnings could be subject to different risks and uncertainties than the ones discussed herein. If any of the risks that we face actually occur, irrespective of whether those risks are described in this section or elsewhere in this report, our business, financial condition and operating results could be materially adversely affected.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

Our corporate headquarters are located at 18872 MacArthur Blvd., First Floor, Irvine, California 92612. Our wholly owned subsidiary, NCS, leases approximately 11,000 sq. ft. of general office space, which we occupy, with monthly rent of approximately \$17,650. The lease expires on June 30, 2015. In addition, in December of 2012, NCS signed a two year lease (expiring December 31, 2014) for office space in New York, New York for \$9,261 per month. Further, in May of 2013, NCS entered into a long-term lease agreement for office space in Chicago, Illinois commencing on June 1, 2013 and ending on November 30, 2018 for \$5176 per month. Lastly, in April of 2014, NCS made an offer to sublease a new office in New York, New York, which is pending approval by the master landlord.

We believe our current office space is adequate for our immediate needs; however, as our operations expand, we may need to locate and secure additional office space. Further, NCS continues to evaluate additional locations throughout the United States for opening offices and as stated above is currently looking to move its New York headquarters to larger space.

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

Year Ending December 31,	Amount
2014	\$ 385,239
2015	172,073
2016	65,894
2017	67,873
2018	63,921
Total	\$ 755,000

Item 3. Legal Proceedings.

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

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

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

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important

factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Subject to the foregoing, we believe, based on current knowledge and after consultation with counsel, that the outcome of such proceedings could be material to our consolidated financial condition, operating results and cash flows depending on, among other things, the level of our revenues or income.

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

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Rubicon Financial Incorporated v. Grant Bettingen

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

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

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

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

Appeal Decisions

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

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

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

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

American International Industries v. Rubicon

On August 19, 2011, American International Industries, Inc. (“AMIN”) obtained a default judgment against us in Cause No. 2010-14604 in the 281st Judicial Court of Harris County, Texas.

On October 1, 2012, the Court signed an Interlocutory Judgment granting our bill of review in Cause No. 2011-75606, which set aside the default judgment, ordered a trial on the merits of the underlying suit to be held in Cause No. 2011-75606, and ordered a realignment of the parties with AMIN as Plaintiff and us as Defendant.

On April 26, 2013, the Court was made aware of a confidential settlement on all matters between us and AMIN, their agents, officers, directors, employees, representatives, and assigns as it relates to Cause Nos. 2011-75606 and 2010-14604.

In accordance with the settlement agreement, on June 4, 2013 the Court entered a final judgment ordering the following:

1. The default judgment signed on August 19, 2011 in Cause No. 2010-14606 is vacated;
2. AMIN is issued a take nothing judgment on the merits of the underlying lawsuit;
3. The judgment is final, disposes of all claims and parties, and is appealable; and
4. Any relief not expressly granted is denied.

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Scott Arbitration

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

The award was paid on or about February 26, 2013.

We utilized the \$426,000 in proceeds from the sale of Series B Preferred Stock to contribute capital into Newport Coast Securities, Inc. Accordingly, the regulatory capital of Newport Coast Securities, Inc. did not change as a result of the award.

NCS FINRA Wells Notice

On January 6, 2014, NCS received a Wells notice from the Financial Industry Regulatory Authority, Inc. ("FINRA") regarding a preliminary determination to recommend disciplinary action against NCS for possible Securities Exchange Act of 1934, NASD and FINRA rule violations; including, churning and excessively trading client accounts, recommending unsuitable transactions, failure to supervise certain registered representatives and other NASD rules of conduct. A Wells notice is neither a formal allegation nor a finding of wrongdoing. We are unable to estimate with confidence or certainty how long the FINRA process will last or its ultimate outcome, including whether NCS will reach a settlement with FINRA and, if so, the amount of any related monetary fine and other possible remedies.

General Litigation and Arbitration Claims

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

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

The outcome of litigation may not be assured, and despite management's views of the merits of any litigation, or the reasonableness of our estimates and reserves, our financial statements could nonetheless be materially affected by an adverse judgment. We believe we have adequately reserved for the contingencies arising from currently pending legal matters where an outcome was deemed to be probable, and the loss amount could be reasonably estimated. While it is not possible to predict with certainty what liability or damages we might incur in connection with any legal matter, based on the advice of counsel and a management review of the existing facts and circumstances related to pending legal matters, we have accrued \$199,000 and \$472,500 as of December 31, 2013 and 2012, respectively, for these matters, which is included on our Consolidated Balance Sheet. Management feels it is unlikely that any expense associated with current litigation or arbitrations would exceed the amount accrued.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

Our Common Stock traded sporadically on the over-the-counter bulletin board market (OTC:BB) through February of 2011 and currently trades on the OTCQB under the symbol RBCF. Our common stock has traded infrequently on the OTCQB, which limits our ability to locate accurate high and low bid prices for each quarter within the last two fiscal years. Therefore, the following table lists the available quotations for the high and low bid prices for the fiscal years 2013 and 2012. The quotations reflect inter-dealer prices without retail mark-up, markdown, or commissions and may not represent actual transactions.

	2013		2012	
	High	Low	High	Low
1st Quarter	\$ 0.30	\$ 0.12	\$ 0.28	\$ 0.14
2nd Quarter	\$ 0.36	\$ 0.25	\$ 0.40	\$ 0.20
3rd Quarter	\$ 0.38	\$ 0.20	\$ 0.42	\$ 0.15
4th Quarter	\$ 0.23	\$ 0.18	\$ 0.38	\$ 0.15

(b) Holders of Common Stock

As of April 9, 2014, there were approximately 463 holders of record of our Common Stock and 23,089,026 shares outstanding. As of April 9, 2014, the closing price of our shares of common stock on the OTCQB was \$0.30 per share.

(c) Dividends

In the future we intend to follow a policy of retaining earnings, if any, to finance the growth of the business and do not anticipate paying any cash dividends in the foreseeable future. The declaration and payment of future dividends on the Common Stock will be the sole discretion of board of directors and will depend on our profitability and financial condition, capital requirements, statutory and contractual restrictions, future prospects and other factors deemed relevant.

(d) Securities Authorized for Issuance under Equity Compensation Plans

2007 Stock Option Plan

The Board of Directors approved the 2007 stock option plan on February 1, 2007 and our stockholders ratified the plan at our 2007 annual stockholder meeting. The total number of options that can be granted under the plan is not to exceed 2,500,000 shares.

The purpose of the 2007 stock option plan is to enhance the long-term stockholder value by offering opportunities to our directors, employees, officers, consultants and independent contractors (collectively the "Participants") and our subsidiaries to acquire and maintain stock ownership in Rubicon Financial. The plan seeks to accomplish this purpose by enabling specified persons to purchase shares of our common stock, thereby increasing their proprietary interest in our success and encouraging them to remain in the employ or service of us.

Terms of Stock Option Awards

The Committee has the authority in its sole discretion to grant stock option awards as incentive stock options or non-qualified stock options, as appropriate. The following are a summary of terms that will apply to any stock option awards granted under the 2007 Plan, unless otherwise amended or decided upon by the Committee:

- (a) Exercise price per share for each share a Participant is entitled to purchase under a nonqualified option will be determined by the Committee. The exercise price per share for each share a Participant is entitled to purchase under an incentive stock option shall be determined by the Committee but will not be less than Fair Market Value Per Share on the grant date. However, Incentive Stock Options issues to 10% or more holders shall be issued at no less than 110% of Fair Market Value.
- (b) The consideration to be paid for the shares to be issued upon the exercise of an option shall be determined by the Committee and may consist of cash, shares of our common stock, such other cashless basis, or such other consideration and method permitted under the applicable state and federal laws.
- (c) Each option granted shall be exercisable at such times and under conditions determined by the Committee. However, in no event, shall an option be exercisable after 10 years from the grant date or 5 years from the grant date if the Participant owns more than 10% of the total combined voting power of all classes of stock of Rubicon Financial or its subsidiaries on the grant date.

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- (d) If a Participant ceases to be employed by us for any reason other than disability or cause, Participant's options will expire no later than 6 months thereafter. During those six months, Participant may exercise any option granted to him but only those that were exercisable on the date of termination.
- (e) If a Participant ceases to be employed by Rubicon Financial due to a disability, as defined by the Section 22(e)(3) of the Code, the Participant's options will expire no later than 1 year thereafter. During that year, Participant may exercise any option granted but only those that were exercisable on the date termination due to the disability.
- (f) If a Participant is terminated by us for cause (as defined in the 2007 Plan), the Participant's options shall expire immediately, unless the Committee in its sole discretion within 30 days of such termination waive the expiration through written notice to the Participant.

To the extent that the right to purchase shares under a stock option award has vested, in order to exercise the stock option the Participant must execute and deliver to Rubicon Financial a written stock option exercise agreement or notice in a form and in accordance with procedures established by the Committee. In addition, the full exercise price of the option must be delivered to Rubicon Financial and must be paid in a form acceptable to the Committee.

In the event of a change of control (as defined in the stock option plan), the date on which all options outstanding under the stock option plan may first be exercised will be accelerated. Generally, all options terminate 90 days after a change of control.

As of December 31, 2013, we did not have any options outstanding under this plan.

2007 Acquisition Stock Plan

On April 16, 2007, our Board of Directors established the 2007 Stock Acquisition Plan, (the "Acquisition Plan") which expires on April 15, 2017 and our stockholders ratified the plan at our 2007 annual stockholder meeting. This plan provides that a maximum of 5,000,000 shares of common stock will be available for grant or issuance. Our Board of Directors determined that it would be in our best interest to adopt and approve a plan that provides incentives in conjunction with the acquisitions of additional businesses and lines of businesses.

The purpose of the Acquisition Plan is to provide officers and other employees of an acquired business with opportunities to purchase Rubicon Financial stock pursuant to options as well as to provide directors, officers, employees, and consultants of an acquired business opportunities to make direct purchases of restricted common stock of Rubicon Financial. It is intended that some of options granted under this plan will qualify as Incentive Stock Options under Section 422 of the Code and other options will be considered Non-Qualified Options.

Individual Participant Limitation

The number of shares of common stock for which an option may be granted in any single fiscal year will not exceed 750,000 shares. In the event an option is cancelled, the cancelled option will continue to be counted against the individual limit.

Incentive Stock Options

If an Incentive Stock Option is granted by the Committee, the price per share relating to such option will not be less than the fair market value of the common stock on the grant date. If the Incentive Stock Option is granted to an employee owning more than 10% of the total combined voting power of all classes of our stock, the price per share will not be less than 110% of the fair market value of common stock on the grant date. Furthermore, the aggregate fair market value of common stock of an Incentive Stock Option granted to an employee must not exceed \$100,000 during a calendar year.

Restricted Stock

Each grant of restricted stock under the Acquisition Plan will be executed by a “Restricted Stock Agreement” in such form as the Committee decides. The Committee will determine the number of shares to be issued to an eligible person and whether it will be issued in exchange for cash, other consideration, or both. Shares issued pursuant to the Restricted Stock Agreement must be held by the person granted to for a period of time determined by the Committee. Rubicon Financial will have the option to repurchase the common stock at a price determined in the agreement if (i) the individual’s employment terminated before the end of the restricted period, (ii) if the individual has not paid to us the amount required by federal, state, local or foreign income, or other taxes which we determine is required, or (iii) any other circumstances determined by the Committee.

As of December 31, 2013, we issued 1,868,750 shares of restricted stock under the 2007 stock acquisition plan.

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Recent Sales of Unregistered Securities

On April 2, 2014, we conducted the second closing under a private placement offering selling 3,666,668 units for \$550,000 to four accredited investors. Each unit consists of one share of common stock and one five year warrant to purchase one share of common stock for \$0.25 per share.

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

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the year ended December 31, 2013.

Item 6. Selected Financial Data.

On February 21, 2014, our Board of Directors concluded that the following financial statements could no longer be relied upon: (i) financial statements as of December 31, 2012, 2011, 2010, 2009 and 2008 and related auditors' reports thereon, as well as related financial statement data for all years contained in our Annual Reports on Form 10-K for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, and (ii) quarterly financial statements contained in our Quarterly Reports on Form 10-Q for the quarters commencing on June 30, 2008 through September 30, 2013.

This conclusion was reached after consideration of guidance received from the Securities and Exchange Commission and presentation to our Board of Directors by management of the results of their investigation and analysis as to whether the accounting for the acquisition of the \$2,403,671 customer list acquired as part of the June 2, 2008 acquisition of Grant Bettingen, Inc., now known as Newport Coast Securities, Inc. (the "Bettingen Acquisition"), should be accounted for and reported as an amortizable intangible asset with a five-year fixed life or non-amortized intangible asset with an indeterminable life, as originally reported, in the Registrant's consolidated financial statements. Management's analysis was also discussed with Samyn & Martin, LLC ("S&M"), our independent registered public accounting firm.

Our management has concluded that the above referenced customer list should have been accounted for and reported as an identifiable intangible asset – customer list and amortized over a five-year period for the periods from June 30, 2008 through June 30, 2013. Pursuant to this conclusion, the financial statements included in our Annual Reports on Form 10-K for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, and for the three quarters of 2013 have been restated to correct this error as part of this Report.

Upon acquisition in 2008, we had determined that this asset had an indeterminate life and we did not amortize the asset, but only tested it for impairment each year. No impairments were ever taken on the asset. We have concluded that this was an error and that the asset should have been amortized over the estimated useful life of five years. The correction of the error amortized the \$2,403,671 asset over the five year estimated useful life starting with the date of acquisition in June of 2008 and running through May of 2013.

For the year ended 2008, this created \$280,428 of amortization expense and lowered the intangible asset and retained earnings from what was originally shown on the December 31, 2008 balance sheet by \$280,428, in total, respectively. Net loss for the year ended December 31, 2008 was \$280,428 higher than what was originally reported.

For the year ended 2009, this created \$480,734 of amortization expense and lowered the intangible asset and retained earnings from what was originally shown on the December 31, 2009 balance sheet by \$761,162, in total, respectively. Net loss for the year ended December 31, 2009 was \$480,734 higher than what was originally reported.

For the year ended 2010, this created \$480,734 of amortization expense and lowered the intangible asset and retained earnings from what was originally shown on the December 31, 2010 balance sheet by \$1,241,897, in total, respectively. Net loss for the year ended December 31, 2010 was \$480,734 higher than what was originally reported.

For the year ended 2011, this created \$480,734 of amortization expense and lowered the intangible asset and retained earnings from what was originally shown on the December 31, 2011 balance sheet by \$1,722,631, in total, respectively. Net loss for the year ended December 31, 2011 was \$480,734 higher than what was originally reported.

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For the year ended 2012, this created \$480,734 of amortization expense and lowered the intangible asset and retained earnings from what was originally shown on the December 31, 2012 balance sheet by \$2,203,365, in total, respectively. Net income for the year ended December 31, 2012 was \$480,734 lower than what was originally reported. As of December 31, 2012, the asset had a balance of \$200,307, net of accumulated amortization. This remaining balance is amortized in the year ended December 31, 2013 so that the asset is fully amortized and has a \$0 balance, net of accumulated amortization, as of December 31, 2013.

The restated financial statements for 2008, 2009, 2010, 2011 and 2012 are shown below.

The restated 2012 financials are also shown in the financial statements presented in Item 8 on a comparative basis with the financial statements for the year ended December 31, 2013.

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Rubicon Financial Incorporated
Consolidated Balance Sheets – ALL YEARS RESTATED

	December 31,				
	2012	2011	2010	2009	2008
Assets					
Current assets:					
Cash	\$ 1,785,736	\$ 1,420,189	\$ 1,048,729	\$ 746,885	\$ 212,657
Cash - restricted	161,802	311,817	311,775	311,670	201,571
Marketable securities	60,493	55,864	193,633	508,428	530,380
Accounts receivable	402,708	527,019	839,601	683,412	481,523
Prepaid expenses	28,705	42,390	158,194	123,402	41,311
Notes receivable	66,235	69,941	134,276	124,202	124,202
Interest receivable	-	-	15,988	12,358	4,906
Contract advances, current portion	113,559	85,004	54,838	-	-
Total current assets	2,619,238	2,512,224	2,757,034	2,510,357	1,596,550
Fixed assets, net of accumulated depreciation	26,017	41,019	60,557	84,213	136,159
Other assets:					
Contract advances	104,164	100,218	-	154,445	277,197
Capitalized financing costs	21,000	-	-	-	-
Deposits	11,916	14,607	11,917	39,471	38,554
Intangible asset – customer list, net of accumulated depreciation	200,307	681,041	1,161,775	1,678,509	2,159,243
Total other assets	337,387	795,866	1,173,692	1,872,425	2,474,994
Total assets	\$ 2,982,642	\$ 3,349,109	\$ 3,991,283	\$ 4,466,995	\$ 4,207,703
Liabilities and Stockholders' Equity					
Current liabilities					
Accounts payable	\$ 840,681	\$ 725,380	\$ 479,577	\$ 525,896	\$ 242,335
Accrued expenses	557,139	805,778	998,130	1,076,983	583,437
Investment obligation	487,000	487,000	487,000	487,000	487,000
Deferred revenue	-	6,042	191,193	74,014	147,367
Capital lease obligation	-	-	-	-	12,223
Line of credit	200,000	200,000	-	100,000	-
Note payable, current portion	254,335	67,270	133,082	42,000	-
Note payable and accrued interest – related party	-	-	-	5,213	4,500
Accrued legal settlement	445,513	2,030,114	-	-	-
Contingent liabilities	472,500	421,350	681,359	-	-
Total current liabilities	3,257,168	4,742,934	2,970,341	2,311,106	1,476,862
Long term liabilities					
Note payable	509,409	51,428	42,320	-	-
Stockholders' equity**					
Preferred stock, \$0.001 par value, 10,000,000					

shares authorized, 62,500 shares issued and outstanding as of December 31, 2012,						
2011, 2010, 2009, and 2008	63	63	63	63	63	63
Common stock, \$0.001 par value, 100,000,000 shares authorized, 15,089,023, 14,714,023, 14,048,023, 14,098,023, 11,976,773 issued and outstanding as of December 31,						
2012, 2011, 2010, 2009 and 2008	15,089	14,714	14,047	14,097	11,977	
Common stock owed but not issued, 250,000, 525,000, 1,000,000, none, and 499,790 shares as of December 31, 2012, 2011, 2010, 2009 and 2008	250	525	1,000	-	498	
Additional paid-in capital	18,433,990	18,394,090	18,259,444	18,113,350	17,971,575	
Unamortized shares issued for services	-	-	-	-	(433,108)	
Other comprehensive income (loss)	29,599	29,599	70,838	(814,624)	(611,861)	
Accumulated (deficit)	(19,262,926)	(19,884,244)	(17,366,770)	(15,156,997)	(14,208,303)	
Total stockholders' equity (deficit)	(783,935)	(1,445,253)	978,622	2,155,889	2,730,841	
Total Liabilities and Stockholders' Equity	\$ 2,982,642	\$ 3,349,109	\$ 3,991,283	\$ 4,466,995	\$ 4,207,703	

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Rubicon Financial Incorporated
Consolidated Statements of Operations – ALL YEARS RESTATED

	2012	2011	December 31, 2010	2009	2008
Revenue	\$ 14,572,106	\$ 15,311,941	\$ 14,291,411	\$ 12,400,188	\$ 4,912,090
Expenses:					
Commissions and other direct costs	11,456,901	12,261,299	11,850,847	9,520,289	3,773,120
Consulting	110,487	371,944	363,853	293,115	14,317
Professional fees	701,619	308,070	861,044	877,422	273,378
Executive compensation	694,890	624,816	515,000	856,663	3,688,914
General and administrative expenses	2,284,135	2,171,503	1,885,971	1,738,754	2,149,095
Depreciation	17,980	27,038	41,550	51,468	37,578
Total expenses	15,266,012	15,764,670	15,518,265	13,337,711	9,936,402
Net operating income (loss)	(693,906)	(452,729)	(1,226,854)	(937,523)	(5,024,312)
Other income (expense):					
Interest expense	(30,810)	(18,775)	(24,488)	(28,671)	(15,040)
Interest income	9,783	26,033	18,126	17,500	48,198
Other income	-	29,742	64,201	-	121,200
Realized losses on investments	-	46,869	(1,151,915)	-	(73,403)
Other income	-	-	-	-	(136,390)
Loss on uncollectable note receivable	-	(118,500)	-	-	-
Gain on disposal of subsidiary	-	-	156,554	-	-
Legal settlement income (expense)	1,336,251	(2,030,114)	-	-	-
Total other income (expense)	1,315,224	(2,064,745)	(937,522)	(11,171)	(55,435)
Net income (loss) from continued operations	621,318	(2,517,474)	(2,164,376)	(948,694)	(5,079,747)
Net income (loss) from discontinued operations	-	-	(45,397)	-	-
Net income (loss)	\$ 621,318	\$ (2,517,474)	\$ (2,209,773)	\$ (948,694)	\$ (5,079,747)
Other comprehensive income (loss):					
Adjustment to record other than temporary losses	\$ -	\$ 46,869	\$ 1,151,915	\$ -	\$ -
Unrealized gains (losses) on securities	-	(88,108)	(266,453)	(202,763)	(252,861)
Total other comprehensive income (loss)	-	(41,239)	885,462	(202,763)	(252,861)

Net comprehensive income (loss)	\$	621,318	\$	(2,558,713)	\$	(1,324,311)	\$	(1,151,457)	\$	(5,332,608)
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Weighted average number of
Common shares outstanding –

basic		15,018,612		14,695,667		14,085,283		12,715,475		11,487,102
– diluted		15,268,612		N/A		N/A		N/A		N/A

Net income (loss) per share – basic	\$	0.04	\$	(0.17)	\$	(0.16)	\$	(0.07)	\$	(0.44)
– diluted	\$	0.04	\$	N/A	\$	N/A	\$	N/A	\$	N/A

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Rubicon Financial Incorporated
Consolidated Statements of Cash Flows – ALL YEARS RESTATED

	2012	2011	December 31, 2010	2009	2008
Cash flows from operating activities					
Net income (loss)	\$ 621,318	\$ (2,517,474)	\$ (2,164,376)	\$ (948,694)	\$ (5,079,747)
Net income (loss) from discontinued operations	-	-	(45,397)	-	-
Adjustments to reconcile net (loss) to net cash provided (used) in operating activities:					
Depreciation expense	17,980	27,038	42,044	51,468	37,578
Shares issued for services	40,000	151,250	150,000	111,493	737,764
Realized losses on investments	-	46,869	1,151,915	-	-
Loss on uncollectible notes receivable	-	118,500	-	-	-
Legal settlement (income) expense	(1,336,251)	2,030,114	-	-	-
Gain on disposal of subsidiary	-	-	(156,554)	-	-
Minority interest losses	-	-	-	-	73,403
Amortization of equity based comp	-	-	-	433,108	2,445,305
Amortization of intangible asset – customer list	480,734	480,734	480,734	480,734	280,428
Changes in operating assets and liabilities:					
Accounts receivable	124,311	312,582	(149,608)	(201,889)	