GLADSTONE COMMERCIAL CORP
Form S-3
October 03, 2005

As filed with the Securities and Exchange Commission on October 3, 2005
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GLADSTONE COMMERCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**02-0681276**
(State of Organization)	*(I.R.S. Employer Identification No.)*

1521 Westbranch Drive, Suite 200, McLean, Virginia 22102
(703) 287-5800
(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

David Gladstone, Chairman and Chief Executive Officer
Gladstone Commercial Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
(703) 287-5800
(Name, address, including zip code, and telephone number,
including area code, of agent for service):
Copies to:
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Approximate Date of Commencement of Proposed Sale to the Public: From time to time after the Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Shares of Common Stock, par value $0.001 per share	(3)	
Shares of Preferred Stock, par value $0.001 per share	(3)	
Total	$75,000,000	$8,827.50

(1) Pursuant to General Instruction III.D. of Form S-3 under the Securities Act, the fee table does not specify by each class of securities to be registered information as to the amount to be registered and proposed maximum offering price per unit.

(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act.

(3) There are being registered hereunder such indeterminate number of shares of common stock and preferred stock as shall have an aggregate offering price not to exceed $75,000,000. Any securities offered hereunder may be sold separately or as units with the other securities registered hereunder.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 3, 2005

PROSPECTUS

GLADSTONE COMMERCIAL CORPORATION

$75,000,000
Shares of Common Stock
Shares of Preferred Stock

We may offer and sell from time to time securities in one or more offerings up to an aggregate dollar amount of $75,000,000 of securities. This prospectus provides you with a general description of the securities we may offer.

We may offer and sell the following securities:

- shares of common stock; and
- shares of preferred stock, which may be convertible into our shares of common stock.

Each time securities are sold using this prospectus, we will provide a supplement to this prospectus containing specific information about the offering. The supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any supplement before you invest.

The securities will be offered directly to investors or through underwriters, dealers or agents. The supplements to this prospectus will provide the specific terms of the plan of distribution.

To ensure that we maintain our qualification as a real estate investment trust under the applicable provisions of the Internal Revenue Code of 1986, as amended, ownership of our equity securities by any person is subject to certain limitations. See Certain Provisions of Maryland Law and of our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer.

Our common stock is traded on the Nasdaq National Market under the symbol GOOD. On September 30, 2005, the last reported sale price of our common stock on the Nasdaq National Market was $16.79. The applicable prospectus supplement will contain information, where applicable, as to any other listing on the Nasdaq National Market or any other securities exchange of the securities covered by such prospectus.

We maintain our executive offices at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102. Our telephone number is (703) 287-5800.

Please see page 3 for risk factors relating to an investment in Gladstone Commercial Corporation which you should consider.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2005.

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference in this prospectus. We are offering to sell, and seeking offers to buy, the securities described in this prospectus only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares. You should not assume that the information appearing in this prospectus or any applicable prospectus supplement or the documents incorporated by reference herein or therein is accurate as of any date other than their respective dates. Our business, financial condition, results of operation and prospects may have changed since those dates.

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PROSPECTUS SUMMARY

As used in this prospectus, references to we, our, us, the Company and the REIT are to Gladstone Commercial Corporation and, except as the context otherwise requires, its wholly owned subsidiaries Gladstone Commercial Limited Partnership, Gladstone Commercial Partners, LLC, Gladstone Lending LLC and Gladstone Commercial Advisers, Inc. References to the Operating Partnership are to Gladstone Commercial Limited Partnership, a Delaware limited partnership, which we control through Gladstone Commercial Partners, LLC, the general partner of the Operating Partnership. When we use the term Adviser we are referring to our Adviser, Gladstone Management Corporation. The Operating Partnership is also the sole member of Gladstone Lending, LLC, which we refer to herein as Gladstone Lending. Gladstone Lending is a Delaware limited liability company created to hold all real estate mortgage loans issued by the Operating Partnership.

We were incorporated under the General Corporation Law of the State of Maryland on February 14, 2003 primarily for the purpose of investing in and owning net leased industrial and commercial rental property and selectively making long-term mortgage loans collateralized by industrial and commercial property. We expect that a large portion of our tenants and borrowers will be small and medium-sized businesses. We seek to enter into purchase agreements for real estate that have triple net leases with terms of 10 to 15 years, with rent increases built into the leases. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. At June 30, 2005, we owned eighteen properties and had two mortgage loans. We have also acquired five properties subsequent to June 30, 2005. We are actively communicating with buyout funds, real estate brokers and other third parties to locate properties for potential acquisition or mortgage financing in an effort to build our portfolio.

We conduct substantially all of our activities through, and all of our properties are held directly or indirectly by, the Operating Partnership. We control the Operating Partnership through our wholly owned subsidiary Gladstone Commercial Partners, LLC, which serves as the Operating Partnership s sole general partner, and we also own all limited partnership units of the Operating Partnership. We expect the Operating Partnership to issue limited partnership units from time to time in exchange for industrial and commercial real property. By structuring our acquisitions in this manner, the sellers of the real estate will generally be able to defer the realization of gains until they redeem the limited partnership units. Limited partners who hold limited partnership units in the Operating Partnership will be entitled to redeem these units for cash or, at our election, shares of our common stock on a one-for-one basis at any time. Whenever we issue common stock for cash, we will be obligated to contribute any net proceeds we receive from the sale of the stock to the Operating Partnership and the Operating Partnership will, in turn, be obligated to issue an equivalent number of limited partnership units to us. The Operating Partnership will distribute the income it generates from its operations to Gladstone Commercial Partners, LLC and its limited partners, including us, on a pro rata basis. We will, in turn, distribute the amounts we receive from the Operating Partnership to our stockholders in the form of monthly cash distributions. We have historically operated, and intend to continue to operate, so as to qualify as a REIT for federal tax purposes, thereby generally avoiding federal and state income taxes on the distributions we make to our stockholders.

The Operating Partnership is also the sole member of Gladstone Lending. Gladstone Lending is a Delaware limited liability company formed on January 27, 2004 and was created to hold all real estate mortgage loans issued by the Operating Partnership.

Gladstone Management Corporation, a registered investment adviser and an affiliate of ours, serves as our external adviser (our Adviser). Our Adviser is responsible for managing our business on a day-to-day basis and for identifying and making acquisitions and dispositions that it believes meet our investment criteria.

RECENT DEVELOPMENTS

On August 5, 2005, the Company acquired a 51,155 square foot office and warehouse building in Hazelwood, Missouri for $3.2 million, including transaction costs, and the purchase was funded using borrowings from the Company s line of credit. Upon acquisition of the property, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately seven years at the time of assignment. The lease provides for annual rents of approximately $277,000 in 2006, with prescribed escalations thereafter.

On September 2, 2005, the Company acquired three separate properties from a single seller: a 52,080 square foot industrial building in Angola, Indiana; a 50,000 square foot industrial building located in Angola, Indiana; and a 52,000 square foot industrial building located in Rock Falls, Illinois. These three properties were acquired for an aggregate cost to the Company of $3.2 million, including transaction costs, and the purchase was funded using borrowings from the Company s line of credit. Upon acquisition of the properties, the Company extended a fifteen year triple net lease with the tenant of each building. The lease provides for annual rents of approximately $281,000 in 2006, with prescribed escalations thereafter.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC using a shelf registration process or continuous offering process. Under this shelf registration process, we may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities that may be offered by us. We may also file, from time to time, a prospectus supplement or an amendment to the registration statement of which this prospectus forms a part containing specific information about us and the terms of the securities being offered. That prospectus supplement or amendment may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement or amendment may also add, update, or change information in this prospectus. If there is any supplement or amendment, you should rely on the information in that prospectus supplement or amendment.

This prospectus and any accompanying prospectus supplement do not contain all of the information included in the registration statement. For further information, we refer you to the registration statement and any amendments to such registration statement, including its exhibits. Statements contained in this prospectus and any accompanying prospectus supplement about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC s rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters.

You should read both this prospectus and any prospectus supplement together with additional information described below under the heading Where You Can Find More Information. Information incorporated by reference with the SEC after the date of this prospectus, or information included in any prospectus supplement or an amendment to the registration statement of which this prospectus forms a part, may add, update, or change information in this prospectus or any prospectus supplement. If information in these subsequent filings, prospectus supplements or amendments is inconsistent with this prospectus or any prospectus supplement, the information incorporated by reference or included in the subsequent prospectus supplement or amendment will supersede the information in this prospectus or any earlier prospectus supplement. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information included or incorporated by reference in this prospectus. An investment in the securities offered by this prospectus involves a significant degree of risk, including but not limited to the risks described below. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially adversely affect our business, financial condition or results of operations. In such case, you could lose a portion of your original investment.

We are a relatively new company with little operating history and may not be able to operate successfully.

We were incorporated in February 2003 and at June 30, 2005 we owned eighteen properties, all of which are fully leased, and had extended two mortgage loans. As a result, we are subject to all of the business risks and uncertainties associated with any new business enterprise. Our failure to operate successfully or profitably or accomplish our investment objectives could have a material adverse effect on our ability to generate cash flow to make distributions to our stockholders, and the value of an investment in our common stock may decline substantially or be reduced to zero.

We are not currently able to set a consistent distribution rate, and the distribution rate we fix in the future may have an adverse effect on the market price for our common stock.

Because we are relatively newly organized and as of June 30, 2005 we held only eighteen properties and two mortgage loans, we currently do not have the ability to predict with any certainty the amount of our future cash flows or our distribution rate. For the year ended December 31, 2004, we declared quarterly distributions of $0.12 per share of common stock, or a total of $0.48 for the entire year. Beginning in January 2005, our board began to declare monthly distributions, setting our monthly distributions for each of the first three months of 2005 at $0.06 per share. Our board of directors subsequently increased our monthly distributions to $0.08 per share for each of the following six months. Our future distribution rate will depend entirely on the timing and amount of rent and mortgage payments from investments we make. Our failure to make investments at acceptable rates of return could result in our fixing a distribution rate that is not competitive with alternative investments, which could adversely affect the market price of our common stock.

Highly leveraged tenants or borrowers may be unable to pay rent or make mortgage payments, which could adversely affect our cash available to make distributions to our stockholders.

Some of our tenants or borrowers may have been recently restructured using leverage or been acquired in a leveraged transaction. Tenants or borrowers that are subject to significant debt obligations may be unable to make their rent or mortgage payments if there are adverse changes to their businesses or economic conditions. Tenants that have experienced leveraged restructurings or acquisitions will generally have substantially greater debt and substantially lower net worth than they had prior to the leveraged transaction. In addition, the payment of rent and debt service may reduce the working capital available to leveraged entities and prevent them from devoting the resources necessary to remain competitive in their industries. In situations where management of the tenant or borrower will change after a transaction, it may be difficult for our Adviser to determine with certainty the likelihood of the tenant s or borrower s business success and of it being able to pay rent or make mortgage payments throughout the lease or loan term. These companies are more vulnerable to adverse conditions in their businesses or industries, economic conditions generally and increases in interest rates.

Leveraged tenants and borrowers are more susceptible to bankruptcy than unleveraged tenants. Bankruptcy of a tenant or borrower could cause:

- the loss of lease or mortgage payments to us;

- an increase in the costs we incur to carry the property occupied by such tenant;

a reduction in the value of our common stock; and

a decrease in distributions to our stockholders.

Under bankruptcy law, a tenant who is the subject of bankruptcy proceedings has the option of continuing or terminating any unexpired lease. If a bankrupt tenant terminates a lease with us, any claim we might have for breach of the lease (excluding a claim against collateral securing the claim) will be treated as a general unsecured claim. Our claim would likely be capped at the amount the tenant owed us for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year s lease payments or 15% of the remaining lease payments payable under the lease (but no more than three years lease payments). In addition, due to the long-term nature of our leases and terms providing for the repurchase of a property by the tenant, a bankruptcy court could recharacterize a net lease transaction as a secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but might have additional rights as a secured creditor.

Our real estate investments may include special use and single tenant properties that may be difficult to sell or re-lease upon tenant defaults or early lease terminations.

We focus our investments on commercial and industrial properties, a number of which include manufacturing facilities, special use storage or warehouse facilities and special use single tenant properties. These types of properties are relatively illiquid compared to other types of real estate and financial assets. This illiquidity will limit our ability to quickly change our portfolio in response to changes in economic or other conditions. With these properties, if the current lease is terminated or not renewed or, in the case of a mortgage loan, if we take such property in foreclosure, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant or sell the property. In addition, in the event we are forced to sell the property, we may have difficulty selling it to a party other than the tenant or borrower due to the special purpose for which the property may have been designed. These and other limitations may affect our ability to sell or re-lease properties without adversely affecting returns to our stockholders.

The inability of a tenant in a single tenant property to pay rent will reduce our revenues.

Most of our properties are occupied by a single tenant and, therefore, the success of our investments will be materially dependent on the financial stability of these tenants. Lease payment defaults by these tenants could adversely affect our cash flows and cause us to reduce the amount of distributions to stockholders. In the event of a default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property. If a lease is terminated, we may not be able to lease the property for the rent previously received or sell the property without incurring a loss.

Our business strategy relies heavily on external financing, which may expose us to risks associated with leverage such as restrictions on additional borrowing and payment of distributions, risks associated with balloon payments, and risk of loss of our equity upon foreclosure.

Our strategy contemplates the use of leverage so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. If the income generated by our properties and other assets fails to cover our debt service, we could be forced to reduce or eliminate distributions to our stockholders and may experience losses. We may borrow on a secured or unsecured basis. Neither our articles of incorporation nor our bylaws impose any limitation on borrowing on us. However, our board of directors has adopted a policy that our aggregate borrowing will not result in a total debt to total equity ratio greater than two-to-one. This coverage ratio means that, for each dollar of equity we have, we can incur up to two dollars of debt. Our board of directors may change this policy at any time. We expect that our board of directors will expand this ratio to three-to-one in the near future, which would permit us to leverage up to 75% loan to value.

Our ability to achieve our investment objectives will be affected by our ability to borrow money in sufficient amounts and on favorable terms. We expect that we will borrow money that will be secured by our properties and that these financing arrangements will contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. In addition, our short-term line of credit contains, and any other credit facility we might enter into is likely to contain certain customary restrictions, requirements and other limitations on our ability to incur indebtedness, and will specify debt ratios that we will be required to maintain. Accordingly, we may be unable to obtain the degree of leverage we believe to be optimal, which may cause us to have less cash for distribution to stockholders than we would have with an optimal amount of leverage. Our use of leverage could also make us more vulnerable to a downturn in our business or the economy generally. There is also a risk that a significant increase in the ratio of our indebtedness to the measures of asset value used by financial analysts may have an adverse effect on the market price of our common stock.

Some of our debt financing arrangements may require us to make lump-sum or balloon payments at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or to sell the financed property. At the time the balloon payment is due, we may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment, which could adversely affect the amount of our distributions to stockholders.

Since the net proceeds of our initial public offering have been invested, we are now acquiring additional properties by using our $60 million short-term line of credit established in February of 2005. We have also recently received long-term financing, where we have borrowed funds and secured these borrowings with three of our properties. We expect to continue to use this strategy to obtain additional long term financing, borrowing all or a portion of the purchase price of a potential acquisition and securing the loan with a mortgage on some or all of our existing real property. If we are unable to make our debt payments as required, a lender could foreclose on the property securing its loan. This could cause us to lose part or all of our investment in such property which in turn could cause the value of our common stock or the amount of distributions to our stockholders to be reduced. In general, the long-term mortgages we obtain are secured only by the property being financed, without recourse to our other properties or to us. In the event that a non-recourse mortgage is in default, the lender would only be able to foreclose against the property securing the mortgage or look to that property for repayment of the loan.

We are subject to certain risks associated with real estate ownership and lending which could reduce the value of our investments.

Our investments include net leased industrial and commercial property and mortgage loans secured by industrial and commercial real estate. Our performance, and the value of our investments, is subject to risks incident to the ownership and operation of these types of properties, including:

- changes in the general economic climate;
- changes in local conditions such as an oversupply of space or reduction in demand for real estate;
- changes in interest rates and the availability of financing;
- competition from other available space; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Competition for the acquisition of real estate may impede our ability to make acquisitions or increase the cost of these acquisitions, which could adversely affect our operating results and financial condition.

We compete for the acquisition of properties with many other entities engaged in real estate investment activities, including financial institutions, institutional pension funds, other REITs, other public and private real estate companies and private real estate investors. These competitors may prevent us from acquiring desirable properties or may cause an increase in the price we must pay for real estate. Our competitors may have greater resources than we do, and may be willing to pay more for certain assets or may have a more compatible operating philosophy with our acquisition targets. In particular, larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital

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and enhanced operating efficiencies. Our competitors may also adopt transaction structures similar to ours, which would decrease our competitive advantage in offering flexible transaction terms. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase, resulting in increased demand and increased prices paid for these properties. If we pay higher prices for properties, our profitability may decrease, and you may experience a lower return on your investment. Increased competition for properties may also preclude us from acquiring those properties that would generate attractive returns to us.

Most of our tenants are small and medium-sized businesses, which exposes us to additional risks unique to these entities.

Leasing real property or making mortgage loans to small and medium-sized businesses exposes us to a number of unique risks related to these entities, including the following:

Small and medium-sized businesses may have limited financial resources and may not be able to make their lease or mortgage payments. A small or medium-sized tenant or borrower is more likely to have difficulty making its lease or mortgage payments when it experiences adverse events, such as the failure to meet its business plan, a downturn in its industry or negative economic conditions.

Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses. Because our target tenants and borrowers are smaller businesses, they will tend to be more vulnerable to competitors actions and market conditions, as well as general economic downturns. In addition, our target tenants and borrowers may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

There is generally little or no publicly available information about our target tenants and borrowers. Many of our tenants and borrowers are likely to be privately owned businesses, about which there is generally little or no publicly available operating and financial information. As a result, we will rely on our Adviser to perform due diligence investigations of these tenants and borrowers, their operations and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.

Small and medium-sized businesses generally have less predictable operating results. We expect that many of our tenants and borrowers may experience significant fluctuations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive positions, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our tenants and borrowers may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. The failure of a tenant or borrower to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on credit facilities, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the ability of the tenant or borrower to make required payments to us would be jeopardized.

Small and medium-sized businesses are more likely to be dependent on one or two persons. Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our tenant or borrower and, in turn, on us.

Small and medium-sized businesses may have limited operating histories. While we intend to target as tenants and borrowers stable companies with proven track records, we may lease properties or lend money to new companies that meet our other investment criteria. Tenants or borrowers with limited operating histories will be exposed to all of the operating risks that new businesses face and

may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Because we must distribute a substantial portion of our net income to qualify as a REIT, we will be largely dependent on third-party sources of capital to fund our future capital needs.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs, including property acquisitions, from retained earnings. Therefore, we will likely rely on public and private debt and equity capital to fund our business. This capital may not be available on favorable terms or at all. Our access to additional capital depends on a number of things, including the market s perception of our growth potential and our current and potential future earnings. Moreover, additional debt financings may substantially increase our leverage.

Our real estate portfolio will be concentrated in a limited number of properties, which subjects us to an increased risk of significant loss if any property declines in value or if we are unable to lease a property.

At June 30, 2005, we owned eighteen properties and held two mortgage loans. To the extent we are able to leverage such investments, we will acquire additional properties with the proceeds of borrowings, subject to our debt policy. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of leases or mortgage loans or a significant decline in the value of any property. In addition, while we do not intend to invest 20% or more of our total assets in a particular property at the time of investment, it is possible that, as the values of our properties change, one property may comprise in excess of 20% of the value of our total assets. Lack of diversification will increase the potential that a single under-performing investment could have a material adverse effect on our cash flow and the price we could realize from the sale of our properties.

Liability for uninsured losses could adversely affect our financial condition.

Losses from disaster-type occurrences (such as wars or earthquakes) may be either uninsurable or not insurable on economically viable terms. Should an uninsured loss occur, we could lose our capital investment or anticipated profits and cash flow from one or more properties.

Potential liability for environmental matters could adversely affect our financial condition.

Our purchase of industrial and commercial properties subjects us to the risk of liabilities under federal, state and local environmental laws. Some of these laws could subject us to:

- responsibility and liability for the cost of removal or remediation of hazardous substances released on our properties, generally without regard top our knowledge of or responsibility for the presence of the contaminants;

- liability for the costs of removal or remediation of hazardous substances at disposal facilities for persons who arrange for the disposal or treatment of these substances; and

- potential liability for common law claims by third parties for damages resulting from environmental contaminants.

We generally include provisions in our leases making tenants responsible for all environmental liabilities and for compliance with environmental regulations, and requiring tenants to reimburse us for damages or costs for which we have been found liable. However, these provisions will not eliminate our statutory liability or preclude third party claims against us. Even if we were to have a legal claim against a tenant to enable us to recover any amounts we are required to pay, we may not be able to collect any money from the tenant. Our costs of investigation, remediation or removal of hazardous substances may be substantial. In addition, the presence of hazardous substances on one of our properties, or the failure to properly remediate a contaminated property, could adversely affect our ability to sell or lease the property or to borrow using the property as collateral.

We generally obtain Phase I environmental site assessments (ESAs) on our properties at the time of acquisition. The ESAs are intended to identify potential environmental contamination. The ESAs include a historical review of the property, a review of certain public records, a preliminary investigation of the site and surrounding properties, screening for the presence of hazardous substances and underground storage tanks, and the preparation and issuance of a written report. The ESAs that we have obtained have not included invasive procedures, such as soil sampling or ground water analysis.

The ESAs that we have obtained have not revealed any environmental liability or compliance concerns that we believe would have a material adverse effect on our business, assets, results of operations or liquidity, nor are we aware of any such liability. Nevertheless, it is possible that these ESAs do not reveal all environmental liabilities or that there are material environmental liabilities or compliance concerns that we are not aware of. Moreover, future laws, ordinances or regulations could impose material environmental liability, and the current environmental condition of a property could be affected by the condition of properties in the vicinity of the property (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Our potential participation in joint ventures creates additional risk.

We may participate in joint ventures or purchase properties jointly with other unaffiliated entities. There are additional risks involved in these types of transactions. These risks include the potential of our joint venture partner becoming bankrupt or our economic or business interests diverging. These diverging interests could, among other things, expose us to liabilities of the joint venture in excess of our proportionate share of these liabilities. The partition rights of each owner in a jointly owned property could reduce the value of each portion of the divided property.

Net leases may not result in fair market lease rates over time.

A large portion of our rental income has come, and we expect a large portion of our rental income to continue to come, from net leases and, net leases frequently provide the tenant greater discretion in using the leased property than ordinary property leases, such as the right to freely sublease the property, to make alterations in the leased premises and to terminate the lease prior to its expiration under specified circumstances. Further, net leases are typically for longer lease terms and, thus, there is an increased risk that contractual rental increases in future years will fail to result in fair market rental rates during those years. As a result, our income and distributions to our stockholders could be lower than if we did not engage in net leases.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

We may experience interest rate volatility in connection with mortgage loans on our properties and borrowings under our revolving credit facility or other variable-rate debt that we may obtain from time to time. We may seek to mitigate our exposure to changing interest rates by using interest rate hedging arrangements such as interest rate swaps and caps. These derivative instruments involve risk and may not be effective in reducing our exposure to interest rate changes. Risks inherent in derivative instruments include the risk that counter-parties to derivative contracts may be unable to perform their obligations, the risk that interest rates move in a direction contrary to, or move slower than the period contemplated by, the direction or time period that the derivative instrument is designed to cover, and the risk that the terms of such instrument will not be legally enforceable. While we intend to design our hedging strategies to protect against movements in interest rates, derivative instruments that we are likely to use may also involve immediate costs, which could reduce our cash available for distribution to our stockholders. Likewise, ineffective hedges, as well as the occurrence of any of the risks inherent in derivatives, could adversely affect our reported operating results or reduce your overall investment returns. Our Adviser and our board of directors will review each of our derivative contracts and periodically evaluate their effectiveness against their stated purposes.

Our success depends on the performance of our Adviser and if our Adviser makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

Our ability to achieve our investment objectives and to pay distributions to our stockholders is dependent upon the performance of our Adviser in evaluating potential investments, selecting and negotiating property purchases and dispositions and mortgage loans, selecting tenants and borrowers, setting lease or mortgage loan terms and determining financing arrangements. Our stockholders have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments and must rely entirely on the analytical and management abilities of our Adviser and the oversight of our board of directors. If our Adviser or our board of directors makes inadvisable investment or management decisions, our operations could be materially adversely impacted.

We may have conflicts of interest with our Adviser and other affiliates.

Our Adviser manages our business and locates, evaluates, recommends and negotiates the acquisition of our real estate investments. At the same time, our advisory agreement permits our Adviser to conduct other commercial activities and provide management and advisory services to other entities, including Gladstone Capital Corporation, Gladstone Investment Corporation and Gladstone Land Corporation, an entity affiliated with our chairman David Gladstone. Moreover, all of our officers and directors are also officers and directors of Gladstone Capital Corporation, which actively makes loans to and invests in small and medium-sized companies and Gladstone Investment Corporation, an entity that finances buyout and other change of control transactions involving small and medium-sized businesses. As a result, we may from time to time have conflicts of interest with our Adviser in its management of our business and with Gladstone Capital, Gladstone Investment or Gladstone Land, which may arise primarily from the involvement of our Adviser, Gladstone Capital, Gladstone Investment or Gladstone Land and their affiliates in other activities that may conflict with our business. Examples of these potential conflicts include:

- Our Adviser may realize substantial compensation on account of its activities on our behalf;

- We may experience competition with our affiliates for financing transactions;

- Our Adviser may earn fee income from our borrowers or tenants; and

- Our Adviser and other affiliates such as Gladstone Capital, Gladstone Investment and Gladstone Land could compete for the time and services of our officers and directors.

These and other conflicts of interest between us and our Adviser and other affiliates could have a material adverse effect on the operation of our business and the selection or management of our real estate investments.

Our financial condition and results of operations depend on our Adviser s ability to effectively manage our future growth.

Our ability to achieve our investment objectives depends on our ability to sustain continued growth, which, in turn, depends on our Adviser s ability to find, select and negotiate property purchases, net leases and mortgage loans that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Adviser s marketing capabilities, management of the investment process, ability to provide competent, attentive and efficient services and our access to financing sources on acceptable terms. As we grow, our Adviser may be required to hire, train, supervise and manage new employees. Our Adviser s failure to effectively manage our future growth could have a material adverse effect on our business, financial condition and results of operations.

We are dependent upon our key management personnel for our future success, particularly David Gladstone, Terry Lee Brubaker and George Stelljes III.

We are dependent on our senior management and other key management members to carry out our business and investment strategies. Our future success depends to a significant extent on the continued service and coordination of our senior management team, particularly David Gladstone, our chairman and chief executive officer, Terry Lee Brubaker, our vice chairman and George Stelljes III, our president and chief investment officer. The departure of any of our executive officers or key employees could have a material adverse effect on our ability to implement our business strategy and to achieve our investment objectives.

The limit on the number of shares of common stock a person may own may discourage a takeover.

Primarily to facilitate maintenance of our qualification as a REIT, our articles of incorporation prohibit ownership of more than 9.8% of the outstanding shares of our common stock by one person. This restriction may discourage a change of control and may deter individuals or entities from making tender offers for our common stock, which offers might otherwise be financially attractive to our stockholders or which might cause a change in our management.

Certain provisions of Maryland law could restrict a change in control.

Certain provisions of Maryland law applicable to us prohibit business combinations with:

- any person who beneficially owns 10% or more of the voting power of our common stock, referred to as an interested stockholder;

- an affiliate of ours who, at any time within the two-year period prior to the date in question, was an interested stockholder; or

- an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that someone becomes an interested stockholder.

Our staggered director terms could deter takeover attempts and adversely impact the price of our common stock.

Our board of directors is divided into three classes, with the term of the directors in each class expiring every third year. At each annual meeting of stockholders, the successors to the class of directors whose term expires at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. After election, a director may only be removed by our stockholders for cause. Election of directors for staggered terms with limited rights to remove directors makes it more difficult for a hostile bidder to acquire control of us. The existence of this provision may negatively impact the price of our common stock and may discourage third-party bids to acquire our common stock. This provision may reduce any premiums paid to stockholders in a change in control transaction.

We may not qualify as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for paying distributions to stockholders.

We have historically operated and intend to continue to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. Our qualification as a REIT depends on our ability to meet various requirements set forth in the Internal Revenue Code concerning, among other things, the ownership of our outstanding common stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to qualify as a REIT. At any time new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election, which it may do without stockholder approval.

If we lose or revoke our REIT status, we will face serious tax consequences that will substantially reduce the funds available for distribution to you because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income, we would be subject to federal income tax at regular corporate rates and we might need to borrow money or sell assets in order to pay any such tax;

- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

- unless we are entitled to relief under statutory provisions, we would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

In addition, if we fail to qualify as a REIT, all distributions to stockholders would be subject to tax to the extent of our current and accumulated earnings and profits, provided that the rate of tax on the taxable portion of such distributions would likely be limited to 15% through 2008. If we were taxed as a regular corporation, we would not be required to make distributions to stockholders and corporate distributees might be eligible for the dividends received deduction.

On October 22, 2004, the President signed into law the American Jobs Creation Act, which amended certain rules relating to REITs. The American Jobs Creation Act revised the following REIT rules:

- If we fail to satisfy the 95% gross income test after our 2004 taxable year, as described under Failure to make required distributions would subject us to tax, but nonetheless continue to qualify as a REIT because we meet other requirements, we will be subject to a 100% tax on the excess of 95% (rather than 90%) of our gross income over our qualifying income.

- For purposes of the 10% value test (i.e., the requirement that we not own more than 10% of the value of the securities of any issuer other than a Taxable REIT Subsidiary (TRS) or another REIT), the exception for certain straight debt securities includes debt subject to the following contingencies:
  - a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer s debt obligations held by us exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and

  - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.

  In addition to straight debt securities, loans to individuals and estates, securities issued by REITs, and accrued obligations to pay rent will not be considered securities for purposes of the 10% value test.

- For purposes of the 10% value test, holding a de minimis amount of an issuer s securities that do not qualify for the straight debt safe harbor (either directly or through a TRS) will not prevent straight debt of a partnership or corporation from qualifying for the safe harbor. Specifically, we or a controlled TRS in which we own more than 50% of the voting power or value of the stock could hold such non-straight debt securities with a value of up to 1% of a partnership s or corporation s outstanding securities. There is no limitation on the amount of an issuer s securities that a non-controlled TRS can own.

- In the event that, at the end of a calendar quarter after our 2004 taxable year, more than 5% of our assets are represented by the securities of one issuer, or we own more than 10% of the voting power or value of the securities of any issuer, we will not lose our REIT status if (i) the failure is de minimis (up to the lesser of 1% of our assets or $10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure.

In the event of a more than de minimis failure of any of the asset tests after our 2004 taxable year, as long as the failure is due to reasonable cause and not to willful neglect, we will not lose our REIT status if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure and (ii) pay a tax equal to the greater of $50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.

In the event that we fail to satisfy a REIT requirement after our 2004 taxable year, other than a gross income or asset test, we will not lose our REIT status but will incur a penalty of $50,000 for each reasonable cause failure to satisfy such a requirement.

After our 2004 taxable year, hedging transaction will mean any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets. We will be required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated or entered into. Income and gain from hedging transactions will be excluded from gross income for purposes of the 95% gross income test (but not the 75% gross income test). Income and gain from hedging transactions will continue to be nonqualifying income for purposes of the 75% gross income test.

For non-United States shareholders of our publicly traded shares, capital gain distributions occurring after our 2004 taxable year that are attributable to our sale of real property will be treated as ordinary dividends rather than as gain from the sale of a United States real property interest, as long as the non-United States shareholder does not own more than 5% of that class of our shares during the taxable year.

The provisions described above relating to the expansion of the straight debt safe harbor, the addition of securities that would be exempt from the 10% value test and the treatment of rent paid by a TRS apply to taxable years beginning after December 31, 2000. All other provisions apply for taxable years beginning after our 2004 taxable year.

We have not sought a ruling from the Internal Revenue Service that we qualify as a REIT, nor do we intend to do so in the future.

An IRS determination that we do not qualify as a REIT would deprive our stockholders of the tax benefits of our REIT status only if the IRS determination is upheld in court or otherwise becomes final. To the extent that we challenge an IRS determination that we do not qualify as a REIT, we may incur legal expenses that would reduce our funds available for distribution to stockholders.

As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our taxable income, other than any net capital gains. To the extent that we satisfy the distribution requirement but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

85% of our ordinary income for that year;

95% of our capital gain net income for that year; and

100% of our undistributed taxable income from prior years.

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We intend to pay out our income to our stockholders in a manner intended to satisfy the distribution requirement applicable to REITs and to avoid corporate income tax and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. In the future, we may borrow funds to pay distributions to our stockholders and the limited partners of our Operating Partnership. Any funds that we borrow would subject us to interest rate and other market risks.

The IRS may treat sale-leaseback transactions as loans, which could jeopardize our REIT status.

The IRS may take the position that specific sale-leaseback transactions we may treat as true leases are not true leases for federal income tax purposes but are, instead, financing arrangements or loans. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the asset or income tests required for REIT qualification and consequently lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which could cause us to fail the distribution test for REIT qualification.

There are special considerations for pension or profit-sharing trusts, Keogh Plans or individual retirement accounts whose assets are being invested in our common stock.

If you are investing the assets of a pension, profit sharing, 401(k), Keogh or other retirement plan, IRA or benefit plan in our common stock, you should consider:

- whether your investment is consistent with the applicable provisions of the Employee Retirement Income Security Act (ERISA) or the Internal Revenue Code;

- whether your investment will produce unrelated business taxable income, referred to as UBTI, to the benefit plan; and

- your need to value the assets of the benefit plan annually.

We do not believe that under current ERISA law and regulations that our assets would be treated as plan assets for purposes of ERISA. However, if our assets were considered to be plan assets, our assets would be subject to ERISA and/or Section 4975 of the Internal Revenue Code, and some of the transactions we have entered into with our Adviser and its affiliates could be considered prohibited transactions which could cause us, our Adviser and its affiliates to be subject to liabilities and excise taxes. In addition, our officers and directors, our Adviser and its affiliates could be deemed to be fiduciaries under ERISA and subject to other conditions, restrictions and prohibitions under Part 4 of Title I of ERISA. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary (within the meaning of ERISA) with respect to a purchase by a benefit plan and, therefore, unless an administrative or statutory exemption applies in the event such persons are fiduciaries (within the meaning of ERISA) with respect to your purchase, shares should not be purchased.

If our Operating Partnership fails to maintain its status as a partnership for federal income tax purposes, its income may be subject to taxation.

Revenue	$2,321,765	$95,220
Expenses:		
Direct costs	1,792,180	13,950
Consulting	-	49,710
Professional fees	87,331	115,934
Executive compensation	252,402	442,929

General and administrative expenses	328,155	325,985
Depreciation	12,821	6,830
Total operating expenses	2,472,889	955,338
Net operating (loss)	(151,124)	(860,118)
Other income (expense):		
Interest expense	(4,122)	(1,530)
Interest expense – related party	-	(3,900)
Interest income	7,093	13,195
Other income	14,779	-
Minority interest (loss)	-	(59,923)
Total other income (expense)	17,750	(52,158)
Net (loss)	(133,374)	(912,276)
Other comprehensive (loss)	-	(315,000)
Total comprehensive (loss)	$(133,374)	$(1,227,276)
Weighted average number of common shares		
Outstanding – basic and fully diluted	12,056,324	11,323,253
Net (loss) per share – basic and fully diluted	$(0.01)	$(0.11)

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

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

	For the Three Months Ended March 31, 2009	2008
Cash flows from operating activities	$ (133,374)	$ (912,276)
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation	12,821	6,830
Minority interest losses	-	59,923
Amortization of prepaid share-based compensation	108,277	348,100
Shares and options issued for services	20,000	10,000
Changes in operating assets and liabilities		
Accounts receivable	(26,992)	(208,770)
Prepaid expenses	15,839	8,024
Interest receivable	(1,863)	(976)
Deposits and other assets	41,813	-
Accounts payable and accrued liabilities	66,201	22,293
Investment obligation	-	(16,500)
Deferred revenue	(9,196)	16,984
Interest payable – related party	-	3,901
Net cash (used) by operating activities	93,526	(662,467)
Cash flows from investing activities		
Purchase of fixed assets	(5,632)	(52,515)
Purchase of investments and securities	(88,873)	(400,000)
Net cash (used) in investing activities	(94,505)	(452,515)
Cash flows from financing activities		
Proceeds from line of credit	48,000	-
Payments on capital leases	(2,889)	-
Sale of common stock	-	170,000
Net cash provided by financing activities	45,111	170,000
Net (decrease) in cash	44,132	(944,981)
Cash – beginning	414,228	1,892,541
Cash – ending	$ 458,360	$ 947,560
Supplemental disclosure		
Interest paid	$ 4,122	$ 1,530
Income taxes paid	$ -	$ -
Shares and options issued for services	$ 20,000	$ 10,000

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

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RUBICON FINANCIAL INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation. All such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative of the results to be expected for a full year. Certain amounts in the prior year statements have been reclassified to conform to the current year presentations. The statements should be read in conjunction with the financial statements and footnotes thereto included in our audit for the year ended December 31, 2008.

NOTE 2 – Going concern
The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred a net loss of $133,374 for the period ended March 31, 2009.

These conditions give rise to doubt about the Company’s ability to continue as a going concern. These financial statements do not include adjustments relating to the recoverability and classification of reported asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent upon its ability to obtain additional financing or sale of its common stock as may be required and ultimately to attain profitability.

NOTE 3 – Restricted Cash
The Company’s wholly owned subsidiary, GBI, has entered into securities clearing agreements with Penson Financial Services, Inc. and Wedbush, Morgan Securities, Inc. Pursuant to these agreements, the Company is required to maintain a deposit account with each respective clearing firm in amounts determined based on the Company’s transaction volume. As of March 31, 2009, the Company maintained deposits of $150,405 and $61,286, respectively.

NOTE 4 - Marketable securities
Investments in marketable securities primarily include shares of common stock in various companies and as available-for-sale and carried at fair market value, with the unrealized gains and losses, included in the determination of comprehensive income and reported in shareholders’ equity. On November 27, 2007, Rubicon entered into a Share Purchase Agreement with American International Industries, Inc. (“AMIN”), whereby Rubicon agreed to issue 1,000,000 shares of its common stock in exchange for 200,000 shares of AMIN and $1,000,000 in cash. Rubicon recorded marketable securities of $1,000,000, representing the fair market value of AMIN’s common stock ($5 per share) on the date of agreement. On August 8, 2008 AMIN issued a stock dividend equal to 40,000 shares of their common stock. The fair value of the dividend was $121,200. On April 4, 2009, Rubicon transferred its AMIN holdings to its subsidiary, GBI as an intercompany transaction. In addition to the AMIN securities, GBI holds various other securities as available-for-sale. On March 31, 2009, management evaluated the fair value of all securities held as available-for-sale and recorded consolidated other comprehensive losses totaling $202,431.

NOTE 5 – Notes receivable

On April 18, 2008, Rubicon amended its $20,000 note receivable with its RREM subsidiary, whereby Joel Newman, the former President of RREM accepted full liability for the principal balance of $20,000. The amended terms require interest to accrue at a rate of 6% per annum and mature on April 18, 2009. The outstanding principal balance as of March 31, 2009 was $19,202. In addition, Mr. Newman owes $5,000 in the form of a demand note, which accrues interest at a rate of 6% per annum. As of March 31, 2009, Mr. Newman's principal balances totaled $24,202 with accrued interest receivable of $ owed was $5,000 and accrued interest receivable was $1,769.

On June 3, 2008, Rubicon issued a note receivable in the amount of $100,000 to Marc Riviello pursuant to the "Stock Repurchase and Settlement Agreement". The note accrues interest at a rate of 6% per annum and is due June 1, 2009. As of March 31, 2009 the principal balance was $100,000 and accrued interest receivable totaled $5,000.

NOTE 6 – Related Party Transactions

On February 5, 2009, the Company entered into a short-term consulting agreement with Bootstrap Real Estate Investments, LLC, a company controlled by Mr. Todd Vande Hei, a director, executive officer and current shareholder. Pursuant to the agreement, the Company authorized the issuance of 120,000 shares of restricted common stock for services valued at $30,000, or $0.25 per share. As of the date of this filing, the shares are unissued.

NOTE 7 – Notes payable

A summary of short-term debt consists of the following:

		March 31, 2009		December 31, 2008
Demand note payable to an officer and shareholder for $4,500, unsecured, non-interest bearing and due on demand	$	4,500	$	4,500
Capital lease obligation, maturing October 2009		9,334		12,223
Line of credit, secured by cash deposit, interest rate of 2.25%		48,000		-0-
	$	61,834	$	16,723

Interest expense for the three months ended March 31, 2009 and 2008 was $4,122 and $1,530 respectively.

NOTE 8 – Stockholders' equity

The Company is authorized to issue 50,000,000 shares of Common Stock, $0.001 par value per share. Holders of shares of Common Stock are entitled to one vote for each share on all matters to be voted on by the stockholders, are without cumulative voting rights, and are entitled to share ratably in dividends. In the event of a liquidation, dissolution, or winding up of the Company, the holders of shares of Common Stock are entitled to share pro rata all assets remaining after payment in full of all liabilities. Holders of Common Stock have no preemptive rights to purchase the Company's Common Stock. There are no conversion rights or redemption or sinking fund provisions with respect to the common stock.

The Company is authorized to issued 10,000,000 shares of Preferred Stock of which, 1,000,000 shares have been designated as Series "A". Holders' of the Series "A" preferred stock shall not have any voting rights, except in the case of voting on a change in the preferences of shares. In the event of any liquidation, dissolution, or winding up of the Company, the holders of shares shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Company an amount per share equal to the sum of $2.00 for each outstanding share and an amount equal to 12% of the original series A issue price for each 12 months that has passed since the date of issuance of any shares. In addition, each share shall be convertible into shares of the Company's common stock at a price per share of $0.50 at the option of the holder at any time following the date of issuance.

2009

On February 5, 2009, the Company entered into a short-term consulting agreement with Bootstrap Real Estate Investments, LLC, a company controlled by Mr. Todd Vande Hei, a director and current shareholder. Pursuant to the agreement, the Company authorized the issuance of 120,000 shares of restricted common stock for services valued at $30,000, or $0.25 per share. The Company recorded an expense to executive compensation of $20,000 and $10,000 as unamortized shares issued for services. As of the date of this filing, the shares are unissued.

NOTE 9 – Warrants and options

A summary of stock options and warrants as of March 31, 2009 is as follows:

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding as of 01/01/08:	1,500,000	$ 1.79	100,000	$ 3.00
Granted	500,000	1.00		
Cancelled	(200,000)	1.00		
Exercised	-			
Outstanding as of 01/01/09:	1,800,000	$ 1.66	100,000	$ 3.00
Granted	-	-	-	-
Cancelled	(500,000)	2.50	-	-
Exercised	-	-	-	-
Outstanding as of 03/31/09:	1,300,000	$ 1.33	100,000	$ 3.00
Vested as of 03/31/09:	1,000,000	$ 1.00	100,000	$ 3.00

NOTE 10 – Operating Segments
Rubicon's operating segments are evidence of its internal organization. The major segments are defined by the type of financial services offered. Each segment operates in a distinct industry: brokerage services (GBI), mortgage and real estate services (RREM) and personal and commercial insurance services (RREM). DAC is currently inactive and not considered an operating segment of Rubicon. Where applicable, "Corporate" represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity and eliminations.

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

	The Three Months Ended March 31,	
	2009	2008
Net Revenue		
Insurance services	$ 149,747	$ 70,052
Mortgage services	-	25,168
Brokerage services(1)	2,172,018	-
	2,321,765	95,220
Operating expenses		
Insurance services	141,732	104,850
Mortgage services	1,020	107,551
Brokerage services(1)	2,014,351	-
Corporate	315,786	742,936
	2,472,889	955,337
Net operating (loss)	$ (151,124)	$ (860,117)

(1) The GBI acquisition was not consummated until June 2, 2008.

NOTE 11 – Net capital requirement

The Company's wholly owned subsidiary, GBI, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital, as defined, equal to the greater of $100,000 or 6 2/3% of aggregate debt balances, as defined in the SEC's Reserve Requirement Rule (Rule 15c3-3). At March 31, 2009, GBI had net capital of $287,364 and was $187,364 in excess of its required net capital of $100,000.

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

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

- deterioration in general or regional (especially Southern California) economic, market and political conditions;
- our ability to successfully compete in the financial services industry;
- actions and initiatives taken by both current and potential competitors;
- inability to raise additional financing for working capital;
- inability to locate potential mergers and acquisitions within the financial services industry and integrate acquired companies into our organization;
- deterioration in the financial services markets, lending markets and the real estate markets in general as a result of the delinquencies in the "subprime" mortgage markets;
- the level of volatility of interest rates as well as the shape of the yield curve;
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;
- inability to efficiently manage our operations;
- inability to achieve future operating results;

- the unavailability of funds for capital expenditures;
- our ability to recruit and hire key employees;
- the inability of management to effectively implement our strategies and business plans; and
- the other risks and uncertainties detailed in this report.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in this document and in our Annual Report on Form 10-K for the year ended December 31, 2008.

In this form 10-Q references to “Rubicon”, “the Company”, “we,” “us,” and “our” refer to Rubicon Financial Incorporated and wholly owned operating subsidiaries, Grant Bettingen, Inc. Rubicon Financial Insurance Services, Inc., Rubicon Real Estate and Mortgages, Inc. and Dial-A-Cup, Inc.

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

Overview of Current Operations

The Company

Rubicon Financial Incorporated, together with its wholly owned subsidiaries, provides a wide variety of products and services to a diversified group of clients and customers, which include both corporations and individuals. Our business includes security underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project financing; sales, trading, financing and market making activities in equity securities, related products and fixed income securities. We provide brokerage and investment advisory services covering various investment alternatives; financial and wealth planning; annuity and insurance products; and real estate investments and services. Rubicon, as the Parent, is continually focusing its efforts towards the integration of our existing platforms while simultaneously seeking future acquisitions in an effort to further augment a tailored financial service experience for our clientele as well as expanding the diversity of financial products available to meet their individual needs.

Overview of Financial Services

Economic Conditions

Our revenues are derived primarily from managed investment portfolios with the majority of our assets under management being located within the United States. Our revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets affect our revenues and results of operations. The significant downturn in the financial and real estate markets during 2008, and the first quarter of 2009, has had a material effect on investor returns and real property values. Though we have not experienced significant declines in our brokerage or insurance services, the impact to our real estate services has been considerable. In response, we have implemented measures to reduce overall operating costs through the reduction of staff and administrative expenses. Although we have not made any fundamental changes to our business model like many other financial service companies, as part of our long term growth strategy, we continually evaluate our existing portfolio of businesses as well as new business opportunities to ensure we are investing in those businesses with the largest growth potential. In response to the current market conditions, we have redirected a portion of the resources previously allocated to the development of our real estate and mortgage division until such time there is sufficient recognition of recovery.

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Recent Developments

In March of 2009, we executed a non-binding letter of intent to acquire 100% of 1000 BARS, Inc., a private Nevada corporation focused on the preservation of the long-term value of assets through buying and selling strategies of physical precious metals, specializing in 1000 oz bars of silver. 1000 BARS has also developed commodity market strategies for the owners of physical bars of silver.

Results of Operations

The following tables summarize selected items from the statement of operations for the three months ended March 31, 2009 and 2008.

Revenue:

	Three Months Ended March 31,		Increase/(Decrease)	
	2009	2008	$	%
Consolidated				
Revenue	$ 2,321,765	$ 95,220	$ 2,226,545	234%
Operating expenses	2,472,889	955,338	1,517,551	159%
Net operating (loss)	$ (151,124)	$ (860,118)	$ 708,994	83%

Our consolidated revenues increased by $2.2 million over the same period in the previous year. The increase is directly attributable to the consummation of our acquisition of GBI in June of 2008. GBI produced 94% of total revenue for the period ended March 31, 2009.

Revenue by Segment

	Three Months Ended March 31,		Increase/(Decrease)	
	2009	2008	$	%
Revenue				
Insurance services	$ 149,747	$ 70,052	$ 79,695	114%
Mortgage services	-	25,168	(25,168)	-
Brokerage services	2,172,018	-	2,172,018	-
Total revenue	$ 2,321,765	$ 95,220	$ 2,226,545	234%

Insurance Services: RFIS has experience stable growth year over year since its acquisition in 2007. As management continues to develop its reputation and expertise in the market place, we anticipate experiencing continued future growth. With the integration of our financial service platforms, our cross marketing efforts have created new business opportunities for life and annuity products within the insurance division while also introducing a new base of clientele to our brokerage and real estate divisions.

Real Estate and Mortgage Services: During the first quarter of 2009, we continued to experience the economic decline felt throughout 2008 and were unable to generated revenues through our real estate and mortgage service platform. Despite the current market conditions, we do not radically modify our existing business model but rather, we have prudently allocated our available resources towards more economically rewarding activities. It is our intension to continue to seek opportunities within this market and anticipate recognition of these efforts during mid-third quarter.

Brokerage Services: The acquisition of GBI was completed on June 2, 2008 and accordingly we have not completed a full year of consolidated operations for comparison. GBI represents our cornerstone of services and has contributed approximately 94% of our total revenue for the three months ended March 31, 2009. As our premier financial platform, it is our intention to strategically develop the existing business through increases in registered representatives, locations and product and service diversity.

Selling and Administrative Expenses:

	Three Months Ended March 31, 2009	2008	Increase/(Decrease) $	%
Direct costs	$ 1,792,180	$ 13,950	$ 1,778,230	1275%
Consulting	-	49,710	(49,710)	-
Professional fees	87,331	115,934	(28,603)	(25)%
Executive compensation	252,402	442,929	(190,527)	(43)%
General expenses	328,155	325,985	2,170	1%
Depreciation	12,821	6,830	5,991	88%
Operating expenses	$ 2,472,889	$ 955,338	$ 1,517,551	159%

Operating expenses increase 159% overall compared to the same period of the previous year. The most notable change is that of our direct operating expenses which increase 1275% as a result of the direct expenses attributable to the brokerage firm primarily consisting of commissions and fees paid on trading activities. These costs have a direct relationship to our revenue and will increase or decrease with changes in revenue.

Expenses by Segment

RFIS:

	Three Months Ended March 31, 2009	2008	Increase/(Decrease) $	%
Insurance services				
Direct costs	$ 60,133	$ 13,675	$ 46,458	340%
Consulting	-	3,000	(3,000)	-
Professional fees	1,856	9,000	(7,144)	(80)%
Executive compensation	15,000	15,000	-	-
General expenses	64,578	64,010	568	1%
Depreciation	165	165	-	-
Operating expenses	$ 141,732	$ 104,850	$ 36,882	36%

RFIS remained consistent quarter over quarter in overall operating expenses while their direct expenses increased 340%. Our direct expenses include commissions on policies written and therefore maintain a dependent relationship to revenue and will fluctuate accordingly. Our increase of $46,458 was an anticipated result from the corresponding revenue growth of $79,695.

RREM:

	Three Months Ended March 31, 2009	2008	Increase/(Decrease) $	%
Mortgage services				
Direct costs	$ -	$ 275	$ (275)	-
Consulting	-	1,710	(1,710)	-
Professional fees	-	3,000	(3,000)	-
Executive compensation	-	35,318	(35,318)	-
General expenses	808	67,036	(66,228)	(99)%
Depreciation	212	212	-	-
Operating expenses	$ 1,020	$ 107,551	$ (106,531)	(99)%

In our efforts to mitigate potential losses arising from the expending of resources in an economically challenged environment, we have temporally redirected resources towards endeavors with a greater potential of economic success. As a result there are significant changes in the operational expenses of RREM over its previous period in 2008. It is our intention to continue to monitor the real estate market, as improvements in stability become identifiable, we will move forward with the continued implementation of our original business model.

GBI:
On June 2, 2008, we consummated our staged acquisition of GBI. We have included the revenue and expenses of GBI from the date of acquisition through December 31, 2008 and for the three months ended March 31, 2009 in our unaudited condensed consolidated financial statements. We expect the amounts recognized in the periods ended December 31, 2008 and March 31, 2009 to be indicative of future operating expenses.

The amounts consolidated from the activities of GBI are as follows:

	Three Months Ended March 31, 2009	Acquisition to December 31, 2008
Brokerage services		
Direct costs	$ 1,732,047	$ 3,536,277
Consulting	-	(101,803)
Professional fees	9,270	47,185
Executive compensation	59,625	203,639
General expenses	209,420	866,209
Depreciation	3,989	4,168
Operating expenses	$ 2,014,351	$ 4,555,676

Other income and (expense)

	Three Months Ended March 31, 2009	2008	Increase/(Decrease) $	%
Consolidated				
Interest income	$ 7,093	$ 13,195	$ (6,102)	(47)%
Interest (expense)	(4,122)	(5,430)	(1,308)	(24)%
Other income	14,779	-	14,779	-
Minority interest (loss)	-	(59,923)	(59,923)	-

Other income and expense consists of interest earned and expenses, rental income from sub-lease of facilities and our minority interest investments. We experienced a 47% decline in interest income as a direct result of our depletion of cash resources held in interest bearing money market accounts. Interest was incurred during ordinary course of business through the use of corporate credit cards. We expect this amount to remain unchanged throughout the remainder of the fiscal year.

We have recorded $14,779 in other income attributable to sub-leased office space.

Satisfaction of our cash obligations for the next 12 months.

Historically, our plan of operation has been stalled by a lack of adequate working capital. During 2008, we raised $256,500 net of financing costs of $38,500, through two private placements and as of March 31, 2009 we had available cash of $246,669. We believe these funds will help support existing operational costs, but will only be sufficient to satisfy our working capital requirements through June 30, 2009. Consequently, in addition to cash generated from operations, we will need to raise additional funds through either equity, including convertible securities such as preferred stock or debentures, or debt financing.

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

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

Expected purchase or sale of plant and significant equipment.

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

Significant changes in the number of employees.

We have experienced significant changes in our staffing and executive management team as a result of our 2007 and 2008 business acquisitions. Historically we have relied on outside consultants to fulfill the needs of the Company while also relying heavily on our CEO, Joseph Mangiapane, Jr. whom we have a full time employment agreement with. As we have achieved milestones in our growth projections, it has become financially prudent to increase our internal staff to satisfy the operational needs of our business. We have therefore entered into an employment agreement with Todd Vande Hei, a current director and shareholder to act as our interim COO while we seek candidates for a more permanent role with the Company. In addition to our current executives, we also employee two full-time support persons, to assist in the operational activities.

At our subsidiary levels, we have increased our number of employees to a level which satisfies our current requirements in an economically sensible manner. As the economic conditions improve, we anticipate an increase in our staffing levels as a measure to ensure continued growth. Currently, we employee two executives and six administrative staff within GBI. RFIS is staffed with one executive, four agents and two administrative support persons. Due to the dramatic downturn in the real estate markets, we are currently staffed with a single executive who also acts as our broker of record.

Liquidity and Capital Resources

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

The following table summarizes our current assets, liabilities and working capital at March 31, 2009 compared to December 31, 2008.

	March 31, 2009	December 31, 2008	Increase / (Decrease) $	%
Current Assets	$ 1,637,275	$ 1,596,550	$ 40,725	3%
Current Liabilities	1,578,978	1,476,862	102,116	7%
Working Capital	$ 58,297	$ 119,688	$ (61,391)	(52)%

Prior to our transition into the financial services industry, the inventor of Dial-A-Cup's product primarily funded our operations. As of December 31, 2008 total amounts owed in principal and interest to this individual was $221,512, which was forgiven effective December 31, 2008. The proceeds loaned were used to fund operations and for the development of a prototype of our beverage dispenser. As we expand our activities, we may continue to experience net negative cash flows from operations, pending receipt of additional revenues.

We believe the $246,669 in un-restricted cash on hand at March 31, 2009 will only be sufficient to sustain operations through the second quarter of fiscal 2009. As a result, we anticipate the need to seek additional funding for operations through equity offerings and may need to further do so in the future through additional financing, acquisitions, joint ventures or other means available to us. There can be no assurance that we will be able to complete a transaction or complete a transaction on terms favorable to our stockholders or us.

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

Off-Balance Sheet Arrangements

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

Going Concern

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

Critical Accounting Policies and Estimates

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

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

Recent Accounting Developments

In March 2008, the Financial Accounting Standards Board, or FASB, issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This standard requires companies to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Rubicon has not yet adopted the provisions of SFAS No. 161, but does not expect it to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 sets forth the level of authority to a given accounting pronouncement or document by category. Where there might be conflicting guidance between two categories, the more authoritative category will prevail. SFAS No. 162 will become effective 60 days after the SEC approves the PCAOB's amendments to AU Section 411 of the AICPA Professional Standards. SFAS No. 162 has no effect on Rubicon's financial position, statements of operations, or cash flows at this time.

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts-and interpretation of FASB Statement No. 60". SFAS No. 163 clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claims liabilities. This statement also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. SFAS No. 163 has no effect on Rubicon's financial position, statements of operations, or cash flows at this time.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4T. Controls and Procedures.

Our Chief Executive Officer and Principal Financial Officer, Joseph Mangiapane, Jr., evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on the evaluation, Mr. Mangiapane concluded that our disclosure controls and procedures are effective in timely altering him to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings.

We may, from time to time, be named as defendants in various judicial, regulatory, and arbitration proceedings in the future in the ordinary course of our business. The nature of such proceedings may involve large claims subjecting us to exposure. In addition, claims may be made against our broker-dealer subsidiary relating to investment banking underwritings, which may be brought as part of a class action, or may be routine retail customer complaints regarding losses in individual accounts, which are ordinarily subject to FINRA arbitration proceedings. Our broker-dealer subsidiary may also become subject to investigations or proceedings by governmental agencies and self-regulatory organizations, which can result in fines or other disciplinary action being imposed on the broker-dealer and/or individuals. Additionally, legal proceedings may be brought against us from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the plaintiffs seek substantial or indeterminate damages or where novel legal theories or a large number of parties are involved, we cannot state with confidence what the eventual outcome of currently pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual result in each pending matter will be.

In the Matter of Grant Bettingen, Inc. and M. Grant Bettingen

On March 6, 2009, the SEC issued an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions as to Grant Bettingen, Inc. (“GBI Order:), our broker-dealer subsidiary; and an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions as to M. Grant Bettingen (“Bettingen Order”), the former chairman and former Managing Director of Investment Banking for GBI.

The GBI Order found that GBI, failed reasonably to supervise a broker in connection with purported private placement offerings of the securities of two limited liability companies from January 2004 through December 2005.

The Bettingen Order found that M. Grant Bettingen failed reasonably to supervise the broker because he did not have a supervisory policy in place at GBI regarding the sale of securities in private placement offerings until November 2004.

The GBI Order censured GBI and required GBI to pay disgorgement of $88,675 and prejudgment interest of $8,460.51. GBI consented to the issuance of the GBI Order without admitting or denying any of the findings in the GBI Order. The Bettingen Order required Bettingen to pay a $35,000 civil penalty. The Order also barred Bettingen from associating in a supervisory capacity with any broker or dealer with a right to reapply after three years. Bettingen consented to the issuance of the Bettingen Order without admitting or denying any of the findings in the Bettingen Order.

Effective March 13, 2009, Mr. Bettingen was removed as chairman of GBI and terminated as the Managing Director of Investment Banking for GBI.

Item 1A. Risk Factors.

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 31, 2008 to which reference is made herein.

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

On February 5, 2009, we agreed to issue Bootstrap Real Estate Investments, LLC, a company controlled by Todd Vande Hei, a director, executive officer and current shareholder, 120,000 shares of restricted common stock for services valued at $30,000, or $0.25 per share. As of the date of this filing, the shares were unissued. We believe that the issuance of the shares will be exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). Bootstrap, through Mr. Vande Hei was afforded an opportunity for effective access to our files and records that contained the relevant information needed to make its investment decision, including our financial statements and 34 Act reports. We reasonably believed that Bootstrap, immediately prior to agreeing to issue the shares, had such knowledge and experience in financial and business matters that it was capable of evaluating the merits and risks of its investment. Mr. Vande Hei had the opportunity to speak with our CEO on several occasions prior to the investment decision.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the quarter ended March 31, 2009.

Item 3. Defaults Upon Senior Securities.

None.

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

We did not submit any matters to a vote of our security holders during the first quarter of 2009.

Item 5. Other Information.

On March 26, 2009, we issued a press release disclosing a corporate update and the execution of a non-binding letter of intent to acquire a commodity trading and services company. A copy of the press release was attached to our annual report on Form 10-K as Exhibit 99.2 filed on April 15, 2009.

Item 6. Exhibits.

			Incorporated by reference			
Exhibit	Exhibit Description	Filed herewith	Form	Period ending	Exhibit	Filing date
10.1	Interim COO agreement with Bootstrap Real Estate Investments, LLC dated February 5, 2009.		8-K		10.1	03/04/09
31.1	Certification of Joseph Mangiapane, Jr., Chief Executive Officer and Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act	X				
32.1	Certification of Joseph Mangiapane, Jr., Chief Executive Officer and Principal Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act	X				
99.1	Press Release dated March 26, 2009		10-K	12/31/08	99.2	04/15/09

SIGNATURES

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

RUBICON FINANCIAL
INCORPORATED
(Registrant)

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

Date: May 15, 2009

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