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M B A HOLDINGS INC  
Form 10-Q  
June 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 30, 2002.

M.B.A. HOLDINGS, INC.  
(Exact name of business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0522680  
(I.R.S. Employer  
Identification No.)

9419 E. San Salvador, Suite 105  
Scottsdale, AZ 85258-5510  
(480)-860-2288  
(Address of principal executive offices, including telephone number)

Number of Common Stock shares (.001 par value)  
outstanding at June 1, 2002: 1,980,187

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

MBA Holdings, Inc  
Index

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements

|   |    |
|---|----|
| Condensed Consolidated Balance Sheets as of April 30, 2002<br>(Unaudited) and October 31, 2001 .....  | 3  |
| Condensed Consolidated Statements of Loss and Comprehensive Loss<br>for the three and six months ended April 30, 2002 and 2001<br>(Unaudited) ..... | 5  |
| Condensed Consolidated Statements of Cash Flows for the six months<br>ended April 30, 2002 and 2001 (Unaudited) .....                               | 6  |
| Notes to Condensed Consolidated Financial Statements (Unaudited) .....  | 7  |
| Item 2 Management's Discussion and Analysis of Financial Condition<br>and Results of Operations .....   | 8  |
| Item 3 Quantitative and Qualitative Disclosures about Market Risk .....   | 11 |

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PART II - OTHER INFORMATION

Item 1 Legal Proceedings ..... 11

SIGNATURES ..... 12

2

M.B.A. HOLDINGS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS  
 APRIL 30, 2002 (UNAUDITED) AND OCTOBER 31, 2001

| ASSETS  | APRIL 30,<br>2002 | OCTOBER 31,<br>2001 |
|---|-------------------|---------------------|
|   | -----             | -----               |
|   | (Unaudited)       |                     |
| CURRENT ASSETS:   |                   |                     |
| Cash and cash equivalents   | \$ 1,234,199      | \$ 1,083,024        |
| Restricted cash   | 62,236            | 160,402             |
| Investments (Note 4)  | 159,869           | 160,853             |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$0 (2002 and 2001) | 521,932           | 146,310             |
| Prepaid expenses and other assets   | 53,412            | 80,350              |
| Deferred direct costs   | 4,069,825         | 3,441,998           |
| Income tax receivable   | 133,997           | 395,487             |
| Deferred income tax asset   | 274,439           | 257,839             |
|   | -----             | -----               |
| Total current assets  | 6,509,909         | 5,726,263           |
|   | -----             | -----               |
| PROPERTY AND EQUIPMENT:   |                   |                     |
| Computer equipment  | 283,322           | 268,517             |
| Office equipment and furniture  | 140,042           | 140,043             |
| Vehicle   | 16,400            | 16,400              |
| Leasehold improvements  | 80,182            | 80,182              |
|   | -----             | -----               |
| Total property and equipment  | 519,946           | 505,142             |
| Accumulated depreciation and amortization   | (329,359)         | (288,199)           |
|   | -----             | -----               |
| Property and equipment - net  | 190,587           | 216,943             |
|   | -----             | -----               |
| Deferred direct costs   | 3,981,089         | 3,196,954           |
| Deferred income tax asset   | 286,375           | 282,870             |
|   | -----             | -----               |
| TOTAL   | \$ 10,967,960     | \$ 9,423,030        |
|   | =====             | =====               |

See notes to condensed consolidated financial statements.

(Continued)

3

M.B.A. HOLDINGS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS  
 APRIL 30, 2002 (UNAUDITED) AND OCTOBER 31, 2001

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| LIABILITIES AND STOCKHOLDERS' EQUITY  | APRIL 30,<br>2002    | OCTOBER 31,<br>2001 |
|---|----------------------|---------------------|
|   | -----<br>(Unaudited) | -----               |
| CURRENT LIABILITIES:  |                      |                     |
| Net premiums payable to insurance companies   | \$ 846,676           | \$ 385,113          |
| Accounts payable and accrued expenses   | 499,934              | 489,208             |
| Note payable - officer (Note 6)   | 73,398               | --                  |
| Capital lease obligation - current portion  | 11,693               | 10,888              |
| Deferred revenues   | 4,643,082            | 3,979,793           |
|   | -----                | -----               |
| Total current liabilities   | 6,074,783            | 4,865,002           |
|   | -----                | -----               |
| Capital lease obligation - net of current portion   | 2,092                | 8,077               |
| Other liabilities   | 156,317              | 225,410             |
| Deferred rent   | 36,660               | 42,256              |
| Deferred revenues   | 4,739,193            | 3,963,543           |
|   | -----                | -----               |
| Total liabilities   | 11,009,045           | 9,104,288           |
|   | -----                | -----               |
| COMMITMENTS AND CONTINGENCIES (Note 6)  |                      |                     |
| (ACCUMULATED DEFICIT) SHAREHOLDERS EQUITY:  |                      |                     |
| Preferred stock, \$.001 par value; 20,000,000 shares authorized; none issued and outstanding  |                      |                     |
| Common stock, \$.001 par value; 80,000,000 shares authorized; 2,011,787 (2002 and 2001) shares issued; 1,980,187 (2002 and 2001) shares outstanding | 2,012                | 2,012               |
| Additional paid-in-capital  | 200,851              | 200,851             |
| Accumulated other comprehensive loss  | (2,578)              | (3,149)             |
| (Accumulated deficit) retained earnings   | (185,870)            | 174,528             |
| Less: 31,600 shares of common stock in treasury, at cost  | (55,500)             | (55,500)            |
|   | -----                | -----               |
| Total (accumulated deficit) stockholders' equity  | (41,085)             | 318,742             |
|   | -----                | -----               |
| TOTAL   | \$ 10,967,960        | \$ 9,423,030        |
|   | =====                | =====               |

See notes to condensed consolidated financial statements.

4

M.B.A. HOLDINGS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)  
THREE AND SIX MONTHS ENDED APRIL 30, 2002 AND 2001

|   | THREE MONTHS ENDED APRIL 30, |               |
|---|------------------------------|---------------|
|   | -----<br>2002                | -----<br>2001 |
|   | -----                        | -----         |
| NET REVENUES:                             |                              |               |
| Vehicle service contract gross income     | \$ 1,336,027                 | \$ 2,054,745  |
| Net mechanical breakdown insurance income | (10,228)                     | 134,772       |

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|   |              |              |
|---|--------------|--------------|
| MBI administrative service revenue                          | 87,001       | 159,981      |
|   | -----        | -----        |
| Total Net Revenues  | 1,412,800    | 2,349,498    |
|   | -----        | -----        |
| OPERATING EXPENSES:   |              |              |
| Direct acquisition costs of vehicle service contracts       | 1,300,266    | 1,947,326    |
| Salaries and employee benefits                              | 282,719      | 333,813      |
| Mailings and postage  | 14,737       | 39,226       |
| Rent and lease expense                                      | 66,312       | 77,447       |
| Professional fees   | 21,427       | 20,334       |
| Telephone   | 19,561       | 25,801       |
| Depreciation and amortization                               | 20,726       | 18,033       |
| Merchant and bank charges                                   | 2,375        | 4,023        |
| Insurance   | 9,714        | 5,428        |
| Supplies  | 2,386        | 5,975        |
| License and fees  | 6,951        | 9,067        |
| Other operating expenses                                    | 8,956        | 55,371       |
|   | -----        | -----        |
| Total operating expenses                                    | 1,756,130    | 2,541,844    |
|   | -----        | -----        |
| OPERATING LOSS  | (343,330)    | (192,346)    |
|   |              |              |
| Finance fee income  | 6,315        | 5,206        |
| Interest income   | 3,411        | 12,774       |
| Interest expense  | (1,858)      | (5,762)      |
| Other income  | 20,916       |              |
| Realized gains on investments                               |              | 20,938       |
|   | -----        | -----        |
| Total other income  | 28,784       | 33,156       |
|   | -----        | -----        |
| LOSS BEFORE INCOME TAXES                                    | (314,546)    | (159,190)    |
| INCOME TAXES  | (111,755)    | (59,829)     |
|   | -----        | -----        |
| NET LOSS  | \$ (202,791) | \$ (99,361)  |
|   | =====        | =====        |
|   |              |              |
| BASIC NET LOSS PER SHARE                                    | \$ (0.10)    | \$ (0.05)    |
|   | =====        | =====        |
| DILUTED NET LOSS PER SHARE                                  | \$ (0.10)    | \$ (0.05)    |
|   | =====        | =====        |
|   |              |              |
| AVERAGE NUMBER OF COMMON SHARES<br>OUTSTANDING - BASIC      | 1,980,187    | 1,980,187    |
|   | =====        | =====        |
| AVERAGE NUMBER OF COMMON AND<br>DILUTIVE SHARES OUTSTANDING | 1,980,187    | 1,980,187    |
|   | =====        | =====        |
|   |              |              |
| Net loss  | \$ (202,791) | \$ (99,361)  |
|   |              |              |
| Other comprehensive loss net of tax:                        |              |              |
| Net unrealized gain (loss) on available-for-sale securities | 735          | (33,302)     |
|   | -----        | -----        |
| Comprehensive loss  | \$ (202,056) | \$ (132,663) |
|   | =====        | =====        |

See notes to condensed consolidated financial statements.

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M.B.A. HOLDINGS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
SIX MONTHS ENDED APRIL 30, 2002 AND 2001

|   | APRIL 30,    |              |
|---|--------------|--------------|
|   | 2002         | 2001         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                    |              |              |
| Net loss  | \$ (360,397) | \$ (134,871) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |              |              |
| Depreciation and amortization   | 41,159       | 38,826       |
| Unrealized gain (loss) on available-for-sale securities                         | 571          | (22,577)     |
| Gain on sale of fixed assets  | (12,000)     | --           |
| Deferred income taxes   | (20,104)     | 9,885        |
| Changes in assets and liabilities:  |              |              |
| Restricted cash   | 98,166       | 226,863      |
| Accounts receivable   | (375,622)    | 93,676       |
| Prepaid expenses and other assets   | 26,938       | 20,967       |
| Deferred direct costs   | (1,411,962)  | (225,663)    |
| Net premiums payable to insurance companies                                     | 461,563      | (104,554)    |
| Accounts payable and accrued expenses   | (58,367)     | 26,529       |
| Income tax receivable   | 261,490      | (32,689)     |
| Deferred rent   | (5,596)      | 358          |
| Deferred revenues   | 1,438,939    | 116,332      |
|   | 84,778       | 13,082       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                    |              |              |
| Proceeds from sale of equipment   | 12,000       | --           |
| Purchase of property and equipment  | (14,805)     | (16,602)     |
| Sale of short-term investments, net   | 984          | 72,188       |
|   | (1,821)      | 55,586       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                    |              |              |
| Proceeds of note payable - officer  | 73,398       | --           |
| Payments on capital lease obligation  | (5,180)      | (4,376)      |
|   | 68,218       | (4,376)      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                | 151,175      | 64,292       |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                             | 1,083,024    | 1,128,281    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                 | \$ 1,234,199 | \$ 1,192,573 |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                       |              |              |
| Cash paid for interest  | \$ 2,063     | \$ 8,414     |

See notes to condensed consolidated financial statements.

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M.B.A. HOLDINGS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SIX MONTHS ENDED APRIL 30, 2002 AND 2001

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### 1. BASIS OF PRESENTATION

In accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, not all of the information and notes required by generally accepted accounting principles for complete financial statements are included. The unaudited interim financial statements furnished herein reflect all adjustments (which include only normal, recurring adjustments), in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Operating results for the three months and six months ended April 30, 2002 may not be indicative of the results that may be expected for the year ending October 31, 2002. For further information, please refer to the consolidated financial statements and notes thereto included in the Company's Form 10K for the year ended October 31, 2001.

### 2. NET LOSS PER SHARE

Net loss per share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, EARNINGS PER SHARE which requires dual presentation of BASIC and DILUTED EPS on the face of the statements of loss and requires a reconciliation of the numerator and denominator of basic and diluted EPS calculations. Basic loss per common share is computed on the weighted average number of shares of common stock outstanding during each period. Loss per common share assuming dilution is computed on the weighted average number of shares of common stock outstanding plus additional shares representing the exercise of outstanding common stock options using the treasury stock method. As the company has a net loss for the three and six months ended April 30, 2002 and 2001, the average number of outstanding shares for basic and dilutive net loss per share is 1,980,187.

### 3. OTHER COMPREHENSIVE LOSS

Other comprehensive loss for the three and six months ended April 30, 2002 declined as a result of unrealized gains of \$735 and \$571, respectively, on available-for-sale investments. During the three and six months ended April 30, 2001, there were \$33,302 and \$22,577 of unrealized losses, respectively, on available-for-sale investments.

### 4. INVESTMENTS

All of the Company's investments (U.S. treasury bonds, certificates of deposits and mutual funds) are classified as available-for-sale and are stated at estimated fair value determined by the quoted market price.

### 5. INCOME TAXES

Provision for income taxes and related income tax receivable in the period ended April 30, 2002 reflect the Company's intent to carry back the current year losses to recover federal income taxes paid in previous years. Similar provisions for recoverable state income taxes were not provided, as Arizona law does not allow for loss carry back.

Deferred income taxes are recorded based on differences between the financial statement and tax basis of assets and liabilities based on income tax rates

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currently in effect.

### 6. RELATED PARTY TRANSACTIONS

The Company leases its office space from Cactus Partnership. The managing partner of Cactus Partnership is Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was \$66,312 and \$77,447 for the three months ended April 30, 2002 and 2001, respectively, and was \$133,068 and \$167,710 for the six months ended April 30, 2002 and 2001, respectively. The current lease expires on December 31, 2003.

On February 13, 2002, Gaylen Brotherson, the Chief Executive Officer, loaned the Company \$73,398. The loan matures February 12, 2003 and the bears interest at a rate of 6%.

7

### 7. TREASURY STOCK

As of April 30, 2002 and 2001, the Company has purchased 31,600 shares of the Company's common stock. These shares were purchased for the purpose of retirement and bonuses to employees. Additional uses of the stock are being explored by management.

### 8. COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance. On the basis of information presently available, management does not believe the settlement of any such claims or lawsuits will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

The Company has available a \$300,000 working capital line of credit which was renewed on February 28, 2002 and expires on February 28, 2003. Borrowings under the line of credit bear interest at a variable rate per annum equal to the sum of 3.15% plus the thirty day dealer commercial paper rate, as published in The Wall Street Journal and are collateralized by the Company's investments. There were no borrowings on the line of credit outstanding at April 30, 2002.

### 9. NEW ACCOUNTING PRONOUNCEMENT

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which supercedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF and amends Accounting Principles Board Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS -- REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS. The new rules apply to the classification and impairment analysis conducted on long-lived assets other than certain intangible assets, resolve existing conflicting treatment on the impairment of long-lived assets and provide implementation guidance regarding impairment calculations. SFAS No. 144 also expands the scope to include all distinguishable components of an entity that will be eliminated from ongoing operations in a disposal transaction. The Company will adopt the standard beginning November 1, 2002 and has not yet determined the financial statement impact that may result from the adoption of this Statement.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial

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statements and footnotes that appear elsewhere in this report.

### FORWARD-LOOKING STATEMENTS:

This report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by us from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "anticipate," and "project," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in section 27A of the Securities and Exchange Act of 1934, as amended. Such statements may include, but not be limited to, projections of revenues, income or loss, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation, and plans relating to our products or services, as well as assumptions relating to the foregoing. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Report, including the Notes to Condensed Consolidated Financial Statements (Unaudited) and "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences.

8

### RESULTS OF OPERATIONS

#### COMPARISON OF THE THREE MONTHS ENDED APRIL 30, 2002 AND 2001

#### NET REVENUES

Net revenues for the quarter ended April 30, 2002 totaled approximately \$1,413,000; a decrease of \$936,000 from net revenues of \$2,349,000 for the quarter ended April 30, 2001. The decrease in revenues is due to both a decrease in Vehicle Service Contracts ("VSC") revenues and a decrease in net Mechanical Breakdown Insurance ("MBI") income. VSC's are contracts where the Company is the original contract obligor and reinsures its risk under the contracts with associated insurance companies. MBI's are a policies sold by the Company acting as agent for the insurance company that accepts the risk of loss directly for its own account or shares the risk with third parties. The decrease in VSC revenues is largely due to an increase in the length of the contracts being sold, which has resulted in a decline in these revenues. In this very competitive marketplace, the dealerships have found that they have had difficulty matching the zero or low interest rate programs that were offered as sales incentives by vehicle manufacturers. The decrease in MBI income is due to a loss of market share by the Company's associated credit unions because of increased competition for vehicle loans and due to the elimination of the very successful direct mail program. This latter program was terminated in response to changes in federal privacy legislation. The Company is working to offset these volume losses through the launching of its Virtual Private Network system. This system will enable financial institutions, dealerships and others to obtain contract or policy quotations directly using their computer systems and the Internet thus enhancing their ability to service their customers. Its' initial experience with the system leads the Company to believe that this sales tool will be very successful in the future and may even replace the direct mail program results.

#### OPERATING LOSS



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Operating loss increased by \$151,000 to a loss of \$343,000 in the quarter ended April 30, 2002, from a loss of \$192,000 experienced in the quarter ended April 30, 2001. The increased loss is largely the result of the revenue declines discussed above offset, in part, by reductions in administrative expenses that the Company has been able to initiate. The areas operating expenses impacted by cost reduction programs have included salaries and employee benefits, mailings and postage and other operating expenses. The Company has eliminated all non-essential purchasing as a part of its ongoing effort to control expenses.

### OTHER INCOME

Total other income decreased by \$4,000 from \$33,000 for the quarter ended April 30, 2001 to \$29,000 for the quarter ended April 30, 2002. The decrease in interest income was due to a decrease in market interest rates for short-term investments. Interest expense declined marginally due to decreases in both obligation balances and market interest rates. Additionally, the Company recorded a gain on the sale of fully depreciated equipment of \$12,000 in the period ended April 30, 2002 as well as receiving minor amounts of royalty and other miscellaneous income. In the comparable period, the Company had no such other income but did realize gains of \$21,000 on the sale of available-for-sale investments.

### INCOME TAXES

An income tax benefit of \$111,755 was recorded in the three month period ended April 30, 2002 recognizing the Company's intent to carry back the current year losses to recover federal income taxes paid in prior years to the extent that carry back losses were available, partially offset by changes in the temporary differences created by the fluctuation in the deferred revenue and cost balances. Similar provisions for recoverable state income taxes were not recorded, as Arizona law does not allow for loss carry back. The deferred tax assets generated by the state net operating losses have been fully offset by a valuation allowance at April 30, 2002 and October 31, 2001.

### COMPARISON OF THE SIX MONTHS ENDED APRIL 30, 2002 AND 2001

#### NET REVENUES

Net revenues for the six months ended April 30, 2002 totaled approximately \$3,281,000; a decrease of \$1,200,000 from net revenues of \$4,481,000 for the six months ended April 30, 2001. The decrease in revenues is due to the decreased VSC and MBI revenues resulting from increased competition and from the gradual replacement of the direct mail program with the Virtual Private Network system.

9

#### OPERATING LOSS

Operating loss increased by \$291,000 to an operating loss of \$562,000 for the six months ended April 30, 2002, from an operating loss of \$271,000 for the six months ended April 30, 2001. The increased loss is the result of a decrease in VSC and MBI revenues during the six months ended April 30, 2002 compared to the six months ended April 30, 2001. The Company has continued its cost reduction efforts in order to partially offset the effects of these revenue declines.

#### OTHER INCOME

Total other income decreased by \$13,000 from \$52,000 for the six months ended April 30, 2001 to \$39,000 for the six months ended April 30, 2002. The decrease is primarily due to a decrease in interest income due to lower market interest rates. The equipment sale, the royalties and the realized losses discussed above

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also effected the six month periods ended April 30, 2002 and 2001. This is offset, in part, by a \$3,000 increase in finance fee income.

### INCOME TAXES

An income tax benefit of \$161,740 was recorded in the six month period ended April 30, 2002 recognizing the Company's intent to carry back the current year losses to recover federal income taxes paid in prior years to the extent that carry back losses were available, partially offset by changes in the temporary differences created by the fluctuation in the deferred revenue and cost balances. Similar provisions for recoverable state income taxes were not recorded, as Arizona law does not allow for loss carry back. The deferred tax assets generated by the state net operating losses have been fully offset by a valuation allowance at April 30, 2002 and October 31, 2001.

### LIQUIDITY AND CAPITAL RESOURCES

#### COMPARISON OF APRIL 30, 2002 AND OCTOBER 31, 2001

Working capital at April 30, 2002 consisted of current assets of \$6,510,000 and current liabilities of \$6,075,000, or a current ratio of 1.07:1. At October 31, 2001, the current ratio was 1.18:1 with current assets of \$5,726,000 and current liabilities of \$4,865,000.

As of April 30, 2002, the Company's cash position increased to \$1,296,000 from \$1,243,000 at October 31, 2001. Of the \$1,296,000, \$62,000 is classified as restricted cash; there was \$160,000 of restricted cash at October 31, 2001. The largest component of the restricted cash represented claims payment advances provided by insurance companies that enables the Company to make claims payments on behalf of the insurance companies. The increase in cash is due to the receipt from the federal government of the income tax receivable offset by a reduction in restricted cash.

Deferred Revenues and Deferred Direct Costs increased \$1,439,000 and \$1,412,000, respectively, from balances at October 31, 2001. Deferred revenues consist of VSC gross sales and estimated administrative service fees related to MBI policies. Deferred direct costs are costs that are directly related to the sale of VSCs. Both revenues and costs are deferred and amortized over the periods of the policy term. The increase is primarily due to the increase in the numbers of VSCs being sold compared to those sales in prior years. It is expected that these amounts will continue to increase as the Company's business continues to emphasize VSC sales.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of April 30, 2002, the amount owed to the insurance companies increased to \$847,000 from \$385,000 at October 31, 2001. The change is due to the timing of payments remitted to the insurance companies.

The Company borrowed approximately \$73,000 from its Chief Executive Officer in February 2002 in order to meet short-term cash requirements. The note for this borrowing is due in twelve months and bears interest at 6%. The Company also has a working capital line of credit from Merrill Lynch. The working capital line of credit is occasionally used to make claims payments if there is a timing difference between when the Company must pay for the claims and when the funds expended are reimbursed by the insurance companies. The Company's ability to fund its operations over the short-term is not hindered by lack of more extensive short-term financing. The Company uses premiums received to pay agent commissions and to fund operations and claims payment advances provided by

insurance companies to administer and pay claims. The Company believes its

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current working capital plus future anticipated cash flows from operations will be sufficient to meet cash requirements for the foreseeable future.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since the Company does not underwrite its own policies, a change in the current rates of inflation is not expected to have a material effect on the Company. However, the precise effect of inflation on operations cannot be determined.

Under the terms of the Company's VSC contracts that are reinsured with highly rated insurance companies such as American Bankers Insurance Group, Kemper Cost Management and Heritage RRG, the Company is primarily responsible for liability under these contracts. In the unlikely event that the third party reinsuring companies were unable to meet their contractual commitments to the Company, the Company itself would be required to perform under the contracts. Such an event could have a material adverse effect on the Company's operations.

The Company's note payable has a fixed interest rate and the Company does not have any other outstanding debt or long-term receivables. Therefore, it is not subject to significant interest rate risk.

Due to increased competition, the Company has seen a substantial loss in MBI market share and a decline in the revenues received from VSC sales. The Company has developed the Virtual Private Network system in an attempt to bolster its competitive position. This system will enable financial institutions, dealerships and others to obtain contract or policy quotations directly using their computer systems and the Internet thus enhancing their ability to service their customers. The initial experience with the system leads the Company to believe that this sales tool will be very successful in the future and may even replace the direct mail program results. The future effect of this increased competition may have an adverse effect on future earnings.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance and personnel matters. On the basis of information presently available, management does not believe the settlement of any such claims or lawsuits will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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11

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

MBA Holdings, Inc.

By: /s/ Gaylen Brotherson

Dated: June 14, 2002

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Gaylen Brotherson  
Chairman of the Board and  
Chief Executive Officer

By: /s/ Dennis M. O'Connor

Dated: June 14, 2002

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Dennis M. O'Connor,  
Chief Financial Officer

12