

Edgar Filing: M B A HOLDINGS INC - Form 10-Q

M B A HOLDINGS INC  
Form 10-Q  
March 15, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2004.

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-28221

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 (Address of principal executive offices) 85258-5510 (Zip Code)  
Scottsdale, AZ

(480) 860-2288  
(Registrant's telephone number, including area code)

None (Former name, former address and former fiscal year,  
if changed since last report)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of Common Stock shares (\$0.001 par value) outstanding at February 29, 2004: 2,030,187 shares.

MBA Holdings, Inc

PART I - FINANCIAL INFORMATION

## Edgar Filing: M B A HOLDINGS INC - Form 10-Q

Item 1 Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets as of January 31, 2004 and October 31, 2003

Condensed Consolidated Statements of Loss and Comprehensive Loss for the three months ended January 31, 2004 and 2003

Condensed Consolidated Statements of Cash Flows for the three months ended January 31, 2004 and 2003

Notes to Condensed Consolidated Financial Statements

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Item 1 Legal Proceedings

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Certifications

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

CONDENSED CONSOLIDATED BALANCE SHEETS  
JANUARY 31, 2004 AND OCTOBER 31, 2003

| ASSETS                                      | January 31,<br>2004<br>(Unaudited) | Oct |
|---|------------------------------------|-----|
| <hr style="border-top: 1px dashed black;"/> |                                    |     |
| CURRENT ASSETS:                             |                                    |     |
| Cash and cash equivalents                   | \$ 494,603                         | \$  |
| Restricted cash                             | 116,915                            |     |
| Investments                                 | 139,318                            |     |
| Accounts receivable                         | 364,529                            |     |
| Prepaid expenses and other current assets   | 1,893                              |     |
| Deferred direct costs                       | 3,448,629                          | 3,  |
| Total current assets                        | 4,565,887                          | 4,  |
| PROPERTY AND EQUIPMENT:                     |                                    |     |
| Computer equipment                          | 318,799                            |     |
| Office equipment and furniture              | 140,259                            |     |
| Vehicle                                     | 15,000                             |     |
| Leasehold improvements                      | 80,182                             |     |
| Total property and equipment                | 554,240                            |     |
| Accumulated depreciation and amortization   | (435,800)                          | (   |
| Property and equipment - net                | 118,440                            |     |

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|                       |              |       |
|-----------------------|--------------|-------|
| Deferred direct costs | 5,043,073    | 4,    |
| TOTAL ASSETS          | \$ 9,727,400 | \$ 9, |
|                       | =====        | ===== |

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS  
JANUARY 31, 2004 AND OCTOBER 31, 2003

| LIABILITIES AND STOCKHOLDERS' DEFICIT   | January 31,<br>2004<br>(Unaudited) | Oct   |
|---|------------------------------------|-------|
| CURRENT LIABILITIES:  |                                    |       |
| Net premiums payable to insurance companies   | \$ 754,932                         | \$    |
| Accounts payable and accrued expenses   | 632,008                            |       |
| Line of credit borrowings   | 199,009                            |       |
| Accounts payable to affiliated entity   | 665,758                            |       |
| Capital lease obligations - current portion   | 12,639                             |       |
| Deferred revenues   | 4,146,166                          | 4     |
| Total current liabilities   | 6,410,512                          | 6     |
| Capital lease obligations - net of current portion  | 2,133                              |       |
| Other liabilities   | --                                 |       |
| Deferred rent   | --                                 |       |
| Deferred income tax liability   | 16,511                             |       |
| Deferred revenues   | 5,708,605                          | 5     |
| Total liabilities   | 12,137,761                         | 11    |
| COMMITMENTS AND CONTINGENCIES (Note 6)  |                                    |       |
| STOCKHOLDERS' DEFICIT:  |                                    |       |
| Preferred stock, \$.001 par value; 20,000,000 shares authorized; none issued and outstanding  | --                                 |       |
| Common stock, \$.001 par value; 80,000,000 shares authorized; 2,061,787 (2004 and 2003) shares issued; 2,030,187 (2004 and 2003) shares outstanding | 2,062                              |       |
| Additional paid-in-capital  | 280,801                            |       |
| Accumulated other comprehensive income  | 191                                |       |
| Accumulated deficit   | (2,637,915)                        | (2    |
| Less: 31,600 shares of common stock in treasury, at cost  | (55,500)                           |       |
| Total stockholders' deficit   | (2,410,361)                        | (2    |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   | \$ 9,727,400                       | \$ 9  |
|   | =====                              | ===== |

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See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
 COMPREHENSIVE LOSS (UNAUDITED)  
 THREE MONTHS ENDED JANUARY 31, 2004 AND 2003

|   | Three Months Ended January<br>2004 | 2003         |
|---|------------------------------------|--------------|
| REVENUES:   |                                    |              |
| Vehicle service contract gross income                 | \$ 1,227,881                       | \$ 1,342,881 |
| Net mechanical breakdown insurance income             | 39,495                             | 2,881        |
| MBI administrative service revenue                    | 66,744                             | 6,744        |
|   | -----                              | -----        |
| Total net revenues                                    | 1,334,120                          | 1,449,106    |
|   | -----                              | -----        |
| OPERATING EXPENSES:                                   |                                    |              |
| Direct acquisition costs of vehicle service contracts | 1,151,858                          | 1,262,858    |
| Salaries and employee benefits                        | 183,352                            | 251,352      |
| Mailings and postage                                  | 2,732                              | 7,732        |
| Rent and lease expense                                | 75,674                             | 30,674       |
| Professional fees                                     | 30,070                             | 30,070       |
| Telephone   | 25,558                             | 25,558       |
| Depreciation and amortization                         | 9,139                              | 9,139        |
| Merchant and bank charges                             | 3,010                              | 3,010        |
| Insurance   | 4,026                              | 4,026        |
| Supplies  | 1,119                              | 1,119        |
| License and fees                                      | 3,876                              | 3,876        |
| Other operating expenses                              | 19,093                             | 19,093       |
|   | -----                              | -----        |
| Total operating expenses                              | 1,509,507                          | 1,703,320    |
|   | -----                              | -----        |
| OPERATING LOSS  | (175,387)                          | (254,214)    |
|   | -----                              | -----        |
| OTHER INCOME (EXPENSE):                               |                                    |              |
| Finance and other fee income                          | 4,120                              | 4,120        |
| Interest income                                       | 3,923                              | 3,923        |
| Interest expense                                      | (14,109)                           | (14,109)     |
| Other income  | 14,084                             | 14,084       |
|   | -----                              | -----        |
| Other income - net                                    | 8,018                              | 8,018        |
|   | -----                              | -----        |
| LOSS BEFORE INCOME TAXES                              | (167,369)                          | (246,196)    |
| INCOME TAXES  | 11,817                             | (3,000)      |
|   | -----                              | -----        |
| NET LOSS  | \$ (179,186)                       | \$ (249,196) |
|   | =====                              | =====        |
| BASIC AND DILUTED NET LOSS PER SHARE                  |                                    |              |
|   | \$ (0.09)                          | \$ (0.17)    |
|   | =====                              | =====        |
| AVERAGE NUMBER OF COMMON SHARES                       |                                    |              |

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|  |              |        |
|--|--------------|--------|
| OUTSTANDING - BASIC AND DILUTED                      | 2,030,187    | 1,98   |
|  | =====        | =====  |
| Net loss   | \$ (179,186) | \$ (21 |
| Other comprehensive income net of tax:               |              |        |
| Net unrealized gain on available-for-sale securities | 72           |        |
|  | -----        | -----  |
| Comprehensive loss                                   | \$ (179,114) | \$ (21 |
|  | =====        | =====  |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
THREE MONTHS ENDED JANUARY 31, 2004 AND 2003

|   | JANUARY 31   |
|---|--------------|
|   | 2004         |
| -----   |              |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                       |              |
| Net loss  | \$ (179,186) |
| Adjustments to reconcile net loss to net cash used in operating activities: |              |
| Depreciation and amortization   | 9,139        |
| Deferred income taxes   | 16,510       |
| Changes in assets and liabilities:  |              |
| Restricted cash   | 174,522      |
| Accounts receivable   | (132,345)    |
| Prepaid expenses and other current assets                                   | 3,355        |
| Deferred direct costs   | 43,240       |
| Net premiums payable to insurance companies                                 | 18,490       |
| Accounts payable and accrued expenses                                       | 9,252        |
| Income taxes receivable   | --           |
| Deferred rent   | (4,809)      |
| Deferred income tax   | (4,666)      |
| Deferred revenues   | (25,575)     |
|   | -----        |
| Net cash provided by (used in) operating activities                         | (72,073)     |
|   | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                       |              |
| Purchase of property and equipment  | (9,671)      |
| Purchase of investments   | (22,043)     |
| Sale of investments   | --           |
|   | -----        |
| Net cash provided by (used in) investing activities                         | (31,714)     |
|   | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                       |              |
| Drawings on line of credit  | 2,112        |
| Repayments of line of credit drawings                                       | --           |
| Proceeds of borrowing from affiliated entity                                | 149,449      |
| Payments on capital lease obligation  | (1,411)      |
|   | -----        |
| Net cash provided by (used in) financing activities                         | 150,150      |
|   | -----        |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                   | 46,363       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                              | 448,240      |
|   | -----        |

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|  |                     |
|--|---------------------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD           | \$ 494,603<br>===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: |                     |
| Cash paid for interest                             | \$ 2,752<br>=====   |
| Cash received from income tax refunds              | --<br>=====         |
| Non cash conversion of debt to equity              | \$ 80,000<br>=====  |

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)  
THREE MONTHS ENDED JANUARY 31, 2004 AND 2003

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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. Accounting principles assume the continuation of the Company as a going concern. The Company's auditors, in their opinion on the financial statements for the year ended October 31, 2003, expressed concern about this uncertainty. The accompanying financial statements do not include any adjustment that might arise from the outcome of this assumption. 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 ended January 31, 2004 may not be indicative of the results that may be expected for the year ending October 31, 2004. For further information, please refer to the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended October 31, 2003.

2. NET LOSS PER SHARE

Net loss per share is calculated in accordance with SFAS No. 128, Earnings Per Share that 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 during each period. As the company has a net loss for the three months ended January 31, 2004 and 2003, the average number of outstanding shares for basic and dilutive net loss per share at January 31, 2004 is 2,030,187 and at January 31, 2003 is 1,980,187.

3. OTHER COMPREHENSIVE GAIN (LOSS)

Other comprehensive gain (loss) resulted from unrealized gains on available-for-sale investments of \$72 and \$851 in the three months ended January

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31, 2004 and 2003, respectively

### 4. INVESTMENTS

All of the Company's investments are classified as available-for-sale and are stated at estimated fair value determined by the quoted market price.

### 5. INCOME TAXES

Provisions for income taxes in the periods ended January 31, 2004 and 2003 reflect the fact that the Company is no longer able to carry back current year losses to recover federal income taxes paid in previous years. The Company has received tax refunds totaling \$431,186 during fiscal 2003 from the carry back of these losses. No such recoveries are available in fiscal 2004.

Deferred income taxes are recorded based on differences between the financial statement and tax basis of assets and liabilities using income tax rates currently in effect. The Company has provided a Valuation Allowance of approximately \$586,000 to recognize the fact that all of the deferred tax assets that may not be realized.

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### 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 \$74,016 and \$66,991 for the three months ended January 31, 2004 and 2003, respectively. The current lease expired on December 31, 2003. The parties are negotiating a new lease and have agreed to renew the old lease on a month-to-month basis until the negotiations are complete. Rent is currently being accrued at the final monthly rate contained in the expiring lease.

Gaylen Brotherson, the Chief Executive Officer, through a controlled corporation, has loaned the Company various amounts and has deferred the receipt of other amounts. As of January 31, 2004 and 2003, the Company owed an affiliated company controlled by Mr. Brotherson \$665,758 and \$516,309, respectively. The loans mature on the anniversary date of the separate notes and the bear interest at a rate of 6%. As security for the loan, the Company has granted the affiliated company, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets.

### 7. 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 and personnel matters and of disputes over outstanding accounts. The Company is currently involved in a dispute with one of its associated insurance companies over alleged wrongdoing, an alleged breach of its Administrative Agreement and over reimbursement for claims and cancellation expenditures. The Company maintains a \$40,000 reserve for claims arising in the ordinary course of business and believes that this reserve is sufficient to cover the costs of such claims. 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 had available a \$200,000 working capital line of credit that expired on January 31, 2004. 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

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commercial paper rate, as published in The Wall Street Journal and are secured by the Company's investments. There were borrowings of \$199,009 outstanding at January 31, 2004. These borrowings were repaid in February 2004 from the proceeds of the sale of investments and no new credit line has been established.

### 9. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities ("FIN 46") that is an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. FIN 46 requires a variable interest entity ("VIE") to be consolidated by a company that is considered to be the primary beneficiary of that VIE. In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities ("FIN 46-R") to address certain FIN 46 implementation issues. The Company is currently evaluating the application of FIN 46 as it relates to Cactus Family Investments, LLC, an entity owned by the majority shareholders of the Company.

The Financial Accounting Standards Board (FASB) has issued FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefit ("FAS 132") that improves financial statement disclosures for defined benefit plans. The Company maintains a 401(k) Profit Sharing Plan (the "Plan") but has made no contributions nor has it incurred any pension expenses to the Plan in the fiscal years ended October 31, 2003 and 2002 or through January 31, 2004. The Company has adopted this statement and it does not have a materially affect the consolidated financial position or results of operations.

### 10. RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

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## 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 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

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"Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences.

### CRITICAL ACCOUNTING POLICIES

The Company has prepared the accompanying unaudited condensed financial statements in conformity with accounting principles generally accepted in the United States for interim financial information. The preparation of the financial statements requires the use of judgement and estimates that affect the reported amounts of revenues, expenses, assets and liabilities. The Company has adopted accounting policies and practices that are generally accepted in the industry in which it operates. The Company believes the following are its most critical accounting policies that affect significant areas and involve management's judgement and estimates. If these estimates differ significantly from actual results, the impact to the consolidated financial statements may be material.

#### Revenue Recognition

The Company receives a single commission for the sale of each mechanical breakdown insurance policy ("MBI") that compensates it both for the effort in selling the policy, and for providing administrative claims services as required. The Company has no direct liability for claims losses on MBI. It acts as the issuing insurance company's agent in these transactions. The Company defers the commissions received and recognizes them in income on a straight-line basis over the actual life of the policies.

A vehicle service contract ("VSC") is a contract for certain defined services between the Company and the purchaser. The Company reinsures its obligations by obtaining an insurance policy that guarantees its obligations under the contract. In accordance with Financial Accounting Standards Board Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts", revenues and costs associated with the sales of these contracts are deferred and recognized in income on a straight-line basis over the actual life of the contracts.

#### Income Taxes

Deferred income tax is recorded based upon differences between the financial statement and tax basis of assets and liabilities using income tax rates currently in effect less a Valuation Allowance of approximately \$586,000 to reflect potential realization.

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Provision for recoverable income taxes and related income tax receivables are not allowed in the year ended October 31, 2004 or 2003. Under the provisions of current law, the Company may not carry back the current or prior year losses to recover income taxes paid in previous years. The Company has received the refunds (\$431,186) relating to the carry back of losses incurred in the year ended October 31, 2002.

### RESULTS OF OPERATIONS

#### COMPARISON OF THREE MONTHS ENDED JANUARY 31, 2004 AND 2003

#### NET REVENUES

Net revenues for the fiscal quarter ended January 31, 2004 totaled \$1,334,000, a decrease of \$107,000 from the \$1,441,000 of net revenues recorded in the first

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quarter of 2003. The variation occurred because of a decrease in the number of MBI policies sold in 2004 compared with 2003. While total policy/contract sales increased by 72 policies in 2004, total MBI sales dropped by 36 policies. The effects of changes in mix of policies/contracts sold is significant in that the change in the product mix was a movement away from the more expensive MBI product.

### OPERATING EXPENSES

Operating costs decreased to \$1,510,000 in the quarter ended January 31, 2004, down \$194,000 from the \$1,704,000 expended in the quarter ended January 31, 2003. Thirty five percent of the decrease came in the area of personnel costs as the Company continued to adjust staffing to meet sales levels. The balance of the cost decreases came in professional services, supplies, advertising and postage. The Company did experience some minor cost increases as it continued its investment in web-based programming.

### OTHER INCOME (EXPENSE)

Total other income declined in the quarter ended January 31, 2004 and was approximately \$3,000 under the comparable 2003 quarter. The Company used its line of credit facility to its full capacity during the 1st quarter of 2004 thereby incurring interest expense that was not present in the 2003 quarter. The line of credit was repaid shortly after the end of the quarter and a decline in this expense will occur in the second quarter of 2004.

### INCOME TAXES

The provisions for income taxes in the quarter ended January 31, 2004 and 2003 do not reflect the benefit from the carry back of that year's losses to recover income taxes paid in prior years as no further prior period tax payments remain available for recovery. The Company has provided a Valuation Allowance of \$586,000 to recognize the fact that all of the deferred tax assets that may not be realized.

Deferred income taxes are recorded based on differences between the financial statement and tax basis of assets and liabilities using income tax rates currently in effect.

### LIQUIDITY AND CAPITAL RESOURCES

#### COMPARISON OF JANUARY 31, 2004 AND OCTOBER 31, 2003

The Company incurred significant losses during the past fiscal year and has experienced additional losses in prior years. A related party has advanced funds on demand notes and through the deferral of rent payments in order to overcome working capital deficiencies during the year. In January 2004, the Company granted the related party, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets. There is no assurance that additional advances will be made if additional working capital is required. The lack of continuing working capital infusions could affect future operations. Accordingly, the accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred a loss in the 1st quarter of 2004 and expects such losses to continue further into 2004. The Company continues to pursue cost cutting measures, to

relieve it of obligations to provide uncompensated services and to seek additional business to reduce working capital needs.

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On November 14, 2003, the Company issued 50,000 restricted shares of its common stock and used 48,000 of the new shares to convert \$76,800.00 of the indebtedness due to an affiliated company to equity by issuing those shares to Gaylen M. Brotherson, CEO and Director and Judy K. Brotherson, Secretary and Director. At the same time, the Company paid \$1,600.00 in compensation to Michael Brady, Director and to Edward E. Wilczewski, Director through the issuance of the remaining 2,000 new shares.

Working capital at January 31, 2004 consisted of current assets of \$4,566,000 and current liabilities of \$6,411,000, or a current ratio of 0.71: 1. At October 31, 2003 the working capital ratio was 0.75: 1 with current assets of \$4,825,000 and current liabilities of \$6,412,000. The working capital decline occurred primarily because the Company has accrued but not paid certain of its obligations to an affiliated company.

Deferred Revenues decreased \$26,000 and Deferred Direct Costs decreased \$43,000 from balances at October 31, 2003. Deferred revenues consist of unearned VSC gross sales and unamortized commissions related to MBI policies. Deferred direct costs are costs that are directly related to the sale of VSCs. The change results from the overall decline in policy sales, which the Company has experienced over the last several quarters and from an increase in the average policy term. The effect of the decline was partially mitigated by increased policy prices.

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

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

Under the terms of the VSC contracts, the Company is primarily responsible for liability under these contracts. The Company reinsures its liability with highly rated insurance companies such as Fireman's Fund Insurance Company and Heritage Warranty Mutual Insurance Risk Retention Group, Inc. 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 does not have any long-term receivables or liabilities and therefore is not subject to significant interest rate risk.

### ITEM 4. CONTROLS AND PROCEDURES

In the quarter ended January 31, 2004, we did not make any significant changes in, nor take any corrective actions regarding our internal controls or other factors that could significantly affect these controls. We periodically review our internal controls for effectiveness and we have performed an evaluation of disclosure controls and procedures during this quarter. We will conduct a similar evaluation each quarter.

## 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 and of disputes over outstanding accounts. The Company is currently involved in a dispute with one of its associated insurance companies over alleged wrongdoing, an alleged breach of its Administrative Agreement and over reimbursement for claims and cancellation

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expenditures. The matter has been referred to arbitration by the court but the complainant has not yet filed arbitration. The Company maintains a \$40,000 reserve for claims arising in the ordinary course of business and believes that this reserve is sufficient to cover the costs of such claims. 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.

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### Item 2 Changes in Securities and Use of Proceeds

- a.) Securities sold - On November 14, 2003 the Company issued an additional 50,000 restricted shares of its Common Stock
- b.) Underwriters and other purchasers - 48,000 of the new shares were exchanged with two of the Company's Officers and Directors for indebtedness due to an affiliated company. The remaining 2,000 of the new shares were issued to two Directors as compensation for past services to the Company
- c.) Consideration - The shares were issued at a price of \$1.60 per share, which was the market price on the date of issuance. There was no underwriting discount or commission paid.
- d.) Exemption from registration claimed - The Securities Act of 1933 Section 4 (2). e.) Terms of conversion or exercise - Not applicable.
- f.) Use of proceeds - The Company converted \$76,800.00 of the indebtedness due to an affiliated company by issuing 48,000 of the new shares to Gaylen M. Brotherson, CEO and Director and Judy K. Brotherson, Secretary and Director. The Company paid \$1,600.00 in compensation to Michael Brady, Director and Edward E. Wilczewski, Director through the issuance of 2,000 new shares.

### Item 3 Defaults upon Senior Securities

None

### Item 4 Submissions of Matters to a Vote of Security Holders

None

### Item 5 Other Information

None

### Item 6 Exhibits and Reports on form 8-K

#### (a) Exhibit Index

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

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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.

Dated: March 15, 2004  
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by: /s/ Gaylen M. Brotherson  
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Gaylen Brotherson  
Chairman of the Board and Chief  
Executive Officer

Dated: March 15, 2004  
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by: /s/ Dennis M. O'Connor  
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Dennis M. O'Connor  
Chief Financial Officer

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