M B A HOLDINGS INC
Form 10-Q
September 16, 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 July 31, 2002.

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

Nevada	87-0522680
(State or other jurisdiction of Incorporation or organization)	(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 September 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.
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M.B.A. HOLDINGS, INC. AND SUBSIDIARY

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

	JULY 31, 2002 (UNAUDITED)	OCTOBER 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 927,226	$ 1,083,024
Restricted cash	175,227	160,402
Investments (Note 5)	155,986	160,853
Accounts receivable, net of allowance for doubtful accounts of $0 (2002 and 2001)	300,907	146,310
Prepaid expenses and other assets	52,122	80,350
Deferred direct costs	4,106,684	3,441,998
Income tax receivable	250,850	395,487
Deferred income tax asset	269,178	257,839
Total current assets	6,238,180	5,726,263
PROPERTY AND EQUIPMENT:		
Computer equipment	285,050	268,517
Office equipment and furniture	140,259	140,043
Vehicle	16,400	16,400
Leasehold improvements	80,182	80,182
Total property and equipment	521,891	505,142
Accumulated depreciation and amortization	(349,336)	(288,199)
Property and equipment - net	172,555	216,943
Deferred direct costs	4,257,117	3,196,954
Deferred income tax asset	282,185	282,870
TOTAL	$ 10,950,037	$ 9,423,030

See notes to condensed consolidated financial statements. (Continued)

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

CONDENSED CONSOLIDATED BALANCE SHEETS
JULY 31, 2002 (UNAUDITED) AND OCTOBER 31, 2001 (Continued)

	JULY 31, 2002	OCTOBER 31 2001

	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	$ 783,054	$ 385,11
Accounts payable and accrued expenses	568,230	489,20
Note payable - officer (Note 7)	73,398	-
Capital lease obligation - current portion	11,047	10,88
Deferred revenues	4,673,141	3,979,79
Total current liabilities	6,108,870	4,865,00
Capital lease obligation - net of current portion	--	8,07
Other liabilities	75,416	225,41
Deferred rent	33,862	42,25
Deferred revenues	4,998,373	3,963,54
Total liabilities	11,216,521	9,104,28
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' (DEFICIT) 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	2,01
Additional paid-in-capital	200,851	200,85
Accumulated other comprehensive loss	(9,234)	(3,14
(Accumulated deficit) retained earnings	(404,613)	174,52
Less: 31,600 shares of common stock in treasury, at cost (Note 8)	(55,500)	(55,50
Total shareholders' (deficit) equity	(266,484)	318,74
TOTAL	$ 10,950,037	$ 9,423,03

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
THREE AND NINE MONTHS ENDED JULY 31, 2002 AND 2001

	THREE MONTHS ENDED JULY 31,		NINE M
	2002	2001	200
NET REVENUES:			
Vehicle service contract gross income	$ 1,240,574	$ 10,464,155	$ 4,22
Net mechanical breakdown insurance income	40,014	97,420	15
MBI administrative service revenue	99,688	252,192	27
Total Net Revenues	1,380,276	10,813,767	4,66

OPERATING EXPENSES:			
Direct acquisition costs of vehicle service contracts	1,170,496	9,965,701	4,02
Salaries and employee benefits	290,524	354,909	89
Mailings and postage	12,879	8,382	5
Rent and lease expense	66,969	71,252	20
Professional fees	26,457	22,563	6
Telephone	34,893	20,458	7
Depreciation and amortization	19,977	20,176	6
Merchant and bank charges	3,357	12,239	
Insurance	7,345	8,389	2
Supplies	2,469	10,321	1
License and fees	5,050	7,909	1
Other operating expenses	87,338	27,574	13
Total operating expenses	1,727,754	10,529,873	5,56
OPERATING LOSS	(347,478)	283,894	(90
Finance fee income	7,077	5,065	2
Interest income	3,127	11,207	1
Interest expense	(3,075)	(1,331)	(
Other income	10,501	581	3
Realized (losses) gains on investments	--	(5,309)	
Total other income	17,630	10,213	5
(LOSS) INCOME BEFORE INCOME TAXES	(329,848)	294,107	(85
INCOME TAX (BENEFIT) EXPENSE	(111,105)	120,671	(27
NET (LOSS) INCOME	$ (218,743)	$ 173,436	$ (57
BASIC NET (LOSS) INCOME PER SHARE	$ (0.11)	$ 0.09	$
DILUTED NET (LOSS) INCOME PER SHARE	$ (0.11)	$ 0.08	$
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	1,980,187	1,980,187	1,98
AVERAGE NUMBER OF COMMON AND DILUTIVE SHARES OUTSTANDING	1,980,187	2,104,588	1,98
Net (loss) income	$ (218,743)	$ 173,436	$ (57
Other comprehensive loss net of tax:			
Net unrealized loss on available-for-sale securities	(6,656)	(3,813)	(
Comprehensive (loss) income	$ (225,399)	$ 169,623	$ (58

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)
NINE MONTHS ENDED JULY 31, 2002 AND 2001

JULY 31,

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (579,141)	$ 38,563
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization	61,136	59,002
Unrealized (loss) gain on available for sale securities	(6,085)	26,390
Gain on sale of equipment	(22,501)	(5,510)
Deferred income taxes	(10,654)	345,515
Changes in assets and liabilities:		
Restricted cash	(14,825)	143,585
Accounts receivable	(154,597)	299,956
Prepaid expenses and other assets	28,228	67,082
Deferred direct costs	(1,724,849)	7,779,280
Net premiums payable to insurance companies	397,941	58,886
Accounts payable, accrued expenses and other liabilities	(70,972)	(15,411)
Income tax receivable	144,637	(227,375)
Deferred rent	(8,394)	538
Unclaimed property		959
Deferred revenues	1,728,178	(8,693,461)
Net cash used in operating activities	(231,898)	(122,001)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,748)	(40,860)
Proceeds from sale of equipment	22,501	24,000
Sale of marketable securities, net	4,867	45,210
Net cash provided by investing activities	10,620	28,350
CASH FLOWS FROM FINANCING ACTIVITIES:		
Drawings on line of credit	378,020	
Repayments of line of credit drawings	(378,020)	
Proceeds of note payable - officer	73,398	
Payments on capital lease obligation	(7,918)	(6,749)
Net cash provided by (used in) financing activities	65,480	(6,749)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(155,798)	(100,400)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,083,024	1,128,281
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 927,226	$ 1,027,881
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 3,797	$ 9,745
Cash received from income tax refunds	$ 407,296	$ 66,700

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NINE MONTHS ENDED JULY 31, 2002 AND 2001

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 nine months ended July 31, 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. TERMINATION OF CONTRACTS

Two of the Company's underwriters transferred the administration of the contracts and policies sold and administered by M.B.A. to a third party. If the Company had retained administrative authority over those policies and contracts, the deferred amounts would have been recognized in income over the next six years. Since M.B.A. is no longer the administrator of the contracts and policies, all of the revenue and direct acquisition costs associated with them was recognized except for the revenue and direct acquisition costs relating to future cancellations, as discussed below. An additional $8,488,000 of deferred Vehicle Service Contracts ("VSC") revenue, $8,089,000 of deferred direct acquisition costs and $345,000 of deferred administrative service fee revenue related to these contracts and policies was recognized as income and operating expenses in the third quarter of 2001.

The Company continues to perform certain administrative duties relating to the calculation and administration of policy and contract cancellations. The remaining balance in deferred revenue and deferred direct acquisition costs relating to these underwriters to offset against future cancellation administration equals $1,537,000 of deferred revenue and $1,455,000 of deferred direct acquisition cost. The Company will recognize this revenue and expense over the remaining life of the policy or contract. If the policy or contract is cancelled, then the company will recognize the remaining portion of the unearned revenue and direct acquisition cost in the month the policy or contract is cancelled.

The Company also wrote off a receivable from the underwriters for deferred administrative costs. When a policy or contract is sold, the Company would remit a portion of their commission to the underwriter for administrative services. As the policies and contracts expire, the underwriters would return the commission submitted. Under the administrative release agreements, the Company agreed to forfeit all of the deferred administrative costs remitted to the underwriters. The total amount written off equals $254,000. The net effect of the above adjustments was to increase net operating income by $490,000 for the quarter ended July 31, 2001.

3. NET (LOSS) INCOME PER SHARE

Net (loss) income per share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, EARNINGS PER SHARE ("EPS") which requires dual presentation of BASIC and DILUTED EPS on the face of the statements of (loss) income and requires a reconciliation of the numerator and denominator of basic and diluted EPS calculations. Basic (loss) income per common share is computed using the weighted average number of shares of common stock outstanding during each period. (Loss) income 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 nine months ended July 31, 2002, the average number of outstanding shares for basic and dilutive net loss per share is 1,980,187. Below is the reconciliation required by SFAS No. 128.

NUMBER OF SHARES USED IN COMPUTING (LOSS) INCOME PER SHARE

	THREE MONTHS ENDED JULY 31,	
	2002	2001
Average number of common shares outstanding - Basic	1,980,187	1,980,187
Dilutive shares from common stock options calculated using the treasury stock method	--	124,401
Average number of common and dilutive shares outstanding	1,980,187	2,104,588

	NINE MONTHS ENDED JULY 31,	
	2002	2001
Average number of common shares outstanding - Basic	1,980,187	1,980,187
Dilutive shares from common stock options calculated using the treasury stock method	--	94,821
Average number of common and dilutive shares outstanding	1,980,187	2,075,008

4. OTHER COMPREHENSIVE LOSS

Other comprehensive loss for the three and nine months ended July 31, 2002 increased in both periods as a result of unrealized losses of $6,656 and $6,085, respectively, on available-for-sale securities. During the three and nine months ended July 31, 2001, there were $3,813 and $26,390 of unrealized losses, respectively, on available-for-sale securities.

5. INVESTMENTS

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

6. INCOME TAXES

Provision for recoverable income taxes and related income tax receivable in the

period ended July 31, 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 because Arizona law does not provide for the carry back of losses.

Deferred income tax is recorded based on differences between the financial statement and tax basis of assets and liabilities using income tax rates currently in effect. The deferred tax assets generated by the state net operating losses have been fully offset by a valuation allowance at July 31, 2002 and October 31, 2001.

7. 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 of M.B.A. Holdings, Inc. and Subsidiary. Rent expense for this office space was $63,432 and $64,057 for the three months ended July 31, 2002 and 2001,

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respectively, and was $188,193 and $207,658 for the nine months ended July 31, 2002 and 2001, respectively. The current lease expires on December 31, 2003.

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

8. TREASURY STOCK

As of July 31, 2002 and 2001, the Company holds 31,600 shares of its common stock in its treasury. These shares were purchased for the purpose of retirement. Management is exploring additional uses of the stock.

9. COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits that arise in the ordinary course of business. These matters consist principally of alleged errors and omissions in connection with the sale of insurance and of disputes over outstanding accounts. The Company is also 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 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 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 July 31, 2002 or 2001.

10. NEW ACCOUNTING PRONOUNCEMENTS

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 does not expect that the adoption will have a significant impact on the Company's financial position or results of operations.

In May 2002, the FASB issued SFAS No. 145, "RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS AS OF APRIL 2002", that, among other things, rescinded SFAS No. 4, "REPORTING GAINS AND LOSSES FROM EXTINGUISHMENT OF DEBT." With the rescission of SFAS No. 4, companies generally will no longer classify early extinguishment of debt as an extraordinary item. The provision related to the rescission is effective for fiscal years beginning after May 15, 2002, and early application is encouraged. The Company will adopt the standard at such time and does not expect that the adoption will have a significant impact on the Company's financial position or results of operations.

In July, 2002, the FASB issued SFAS No. 146, "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES", which replaces Emerging Issues Task Force Issue No. 94-3, "LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING)." The new standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS 146 are effective for disposals after December 31, 2002. The Company will adopt the standard at such time and does not expect that the adoption will have a significant impact on the Company's financial position or results of operations.

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11. RECLASSIFICATIONS

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

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

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JULY 31, 2002 AND 2001

In the third quarter of 2001, the Company recognized an additional $8,488,000 of deferred VSC revenue, $8,089,000 of deferred direct acquisition costs and $345,000 of deferred administrative service fee revenue into income and operating expenses. Two of the Company's underwriters transferred the administration of the contracts and policies sold and administered by M.B.A. to a third party. If the Company had retained administrative authority over those policies and contracts, then the amounts would have been recognized into income over the next six years. Since M.B.A. is no longer the administrator of the contracts and policies, all of the revenue and direct acquisition costs associated with them was recognized except for the revenue and direct acquisition costs relating to future cancellations, as discussed below.

The Company continues to perform certain administrative duties relating to the calculation and administration of policy and contract cancellation. The remaining balance in deferred revenue and deferred direct acquisition costs relating to these underwriters to offset against future cancellation administration equaled $1,537,000 of deferred revenue and $1,455,000 of deferred direct acquisition cost at July 31, 2001. The Company recognizes this revenue and expense over the remaining life of the policy or contract. If the policy or contract is cancelled, then the company recognizes the remaining portion of the unearned revenue and direct acquisition cost in the month the policy or contract is cancelled.

The Company also expensed a receivable from the underwriters for deferred administrative costs. When a policy or contract is sold, the Company would remit a portion of their commission to the underwriter for administrative services. As the policies and contracts expire, the underwriters would return the commission submitted. Per the administrative release agreements, the Company agreed to forfeit all of the deferred administrative costs remitted to the underwriters. The total amount written off equals $254,000. The net effect of the above adjustments was to increase net operating income by $490,000 for the quarter ended July 31, 2001.

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NET REVENUES

Net revenues for the quarter ended July 31, 2002 totaled approximately $1,380,000; a decrease of $9,433,000 from net revenues of $10,814,000 for the quarter ended July 31, 2001. The decrease in revenues is due to the transferring of the responsibility for administration of the contracts and policies ($8,833,000) by two of the Company's underwriters to a third party, to a decrease in Net Vehicle Service Contract ("VSC") revenues ($378,000), to a decrease in MBI administrative service revenues ($166,000) and to a decrease in Net Mechanical Breakdown Insurance ("MBI") income ($56,000). The change in responsibility relieved the Company of the requirement for administering the two underwriters' contracts and policies. The Company recognized the deferred revenues and deferred costs relating to these contracts and policies in the third quarter of 2001. VSC's are contracts where the Company is the original contract obligor and reinsures its risk with contracts underwritten by an

associated insurance company. MBI's are a policies that have been sold by the Company acting as agent for the insurance company. The underwriting insurance company accepts the risk of loss directly for its own account.

The decrease in VSC net revenues is the result of changes in the marketplace for this product. Consumer demand has kept the volume of VSC contracts sold relatively unchanged from period to period but the length of individual contracts has increased resulting in an increase in the amount of net revenue being deferred.

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 as well as to the forced the elimination of the very successful direct mail program. This latter program was terminated in response to changes in federal privacy legislation that eliminated a vital source of customer information. The Company has developed an internet based solution whereby potential purchasers can obtain the same individualized mechanical breakdown insurance quotation for their new vehicles through the Company's interactive web site. The Company believes that, over time, internet sales will substantially replace those lost as a result of the termination of the direct mail program.

OPERATING LOSS

An operating loss of $347,000 was incurred for the quarter ended July 31, 2002. The loss is largely the result of the revenue declines discussed above and increased cost of the products sold because of price increases imposed by the Company's associated underwriters and other fees payable to its agents. The Company has not been able to pass these increased costs through to the consumer and gross margins have suffered accordingly.

The Company has been able to partially offset this loss with reductions in operating expenses. The cost reduction programs have included staffing and benefits reductions and other tightened controls over all areas of operating expense. The Company has eliminated all non-essential capital expenditures as a part of its ongoing effort to control expenditures.

OTHER INCOME

Total other income increased $8,000 for the quarter ended July 31, 2002 to $18,000. The increase was largely due to the Company's receipt of the final proceeds from the sale of direct mailing insertion machinery that it can no longer use because of the restrictions placed on it by the federal privacy legislation described above. These proceeds were offset by a decline in interest income caused by both lower available investment balances and declining interest rates.

INCOME TAXES

Provision for recoverable federal income taxes of $111,000 was recorded in the three month period ended July 31, 2002 recognizing the Company's intent to carry back the current year losses to recover federal income taxes paid in prior years. Similar provisions for recoverable state income taxes were not recorded because Arizona law does not provide for the carry back of losses. The deferred tax assets generated by the state net operating losses have been fully offset by a valuation allowance at July 31, 2002 and October 31, 2001.

COMPARISON OF THE NINE MONTHS ENDED JULY 31, 2002 AND 2001

NET REVENUES

Net revenues for the nine months ended July 31, 2002 totaled approximately $4,661,000; a decrease of $10,634,000 from net revenues of $15,295,000 for the nine months ended July 31, 2001. The decrease in revenues is due to the transferring of the responsibility for administration of the contracts and policies ($8,833,000) by two of the Company's underwriters to a third party as discussed above. The decrease in revenues is due to a decreased in both VSC and MBI revenues. The decline in VSC revenues is the result of changes in the insurance marketplace for this product. Consumer demand has kept the volume of VSC contracts sold relatively unchanged from period to period but the length of individual contracts has increased resulting in an increase in the amount of net revenue being deferred.

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 as well as to the forced the elimination of the very successful direct mail program. This latter program was terminated in response to changes in federal privacy legislation that eliminated a vital source of customer information. The Company has developed an internet based solution whereby potential purchasers can obtain the same individualized mechanical breakdown insurance quotation for their new vehicles through the Company's interactive web site. The Company believes that, over time, internet sales will substantially replace those lost as a result of the termination of the direct mail program.

OPERATING LOSS

The operating loss incurred for the nine months ended July 31, 2002 amounted to $909,000. An operating profit of $13,000 was earned in the comparable nine-month period of 2001. The loss is largely the result of the revenue declines discussed above and increased cost of the products sold because of price increases imposed by the Company's associated underwriters and other fees payable to its agents. The Company has not been able to pass these increased costs through to the consumer and gross margins have suffered accordingly.

The Company has been able to partially offset this loss with reductions in operating expenses. The cost reduction programs have included staffing and benefits reductions and other tightened controls over all areas of operating expense. The Company has eliminated all non-essential capital expenditures as a part of its ongoing effort to control expenditures.

OTHER INCOME

Total other income decreased by approximately $5,000 from $62,000 for the nine months ended July 31, 2001 to $57,000 for the nine months ended July 31, 2002. The net decrease is primarily due to a decline in interest income caused by both lower available balances and declining interest rates. The decrease was partially offset by the Company's receipt of the proceeds from the sale of direct mailing insertion machinery that it can no longer use because of the restrictions placed on it by the federal privacy legislation described above. Also contributing to the decline was the fact that the Company did not realize any gains on investments in 2002.

INCOME TAXES

A provision for recoverable federal income taxes of $273,000 was recorded in the nine month period ended July 31, 2002, recognizing the Company's intent to carry back the current year losses and to recover federal income taxes paid in prior years. Similar provisions for recoverable state income taxes were not recorded because Arizona law does not provide for the carry back of losses. The deferred tax assets generated by the state net operating losses have been fully offset by a valuation allowance at July 31, 2002 and October 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

COMPARISON OF JULY 31, 2002 AND OCTOBER 31, 2001

Working capital at July 31, 2002 consisted of current assets of $6,238,000 and current liabilities of $6,109,000, or a current ratio of 1.03:1. 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 July 31, 2002, the Company's cash position decreased to $1,102,000 from $1,243,000 at October 31, 2001. Of the $1,102,000, $175,000 is classified as restricted cash at July 31, 2002 compared to $160,000 of restricted cash at October 31, 2001. Restricted cash consists of funds advanced by insurance companies to enable the Company to make claims payments on their behalf. The decrease in cash balances is the result of fewer monies being held in the insurance company premium accounts at July 31, 2002 offset by the increase in the net restricted cash accounts.

Deferred Revenues and Deferred Direct Costs increased $1,728,000 and $1,725,000, respectively, from balances at October 31, 2001. Deferred revenues consist of VSC gross sales and estimated MBI administrative service fees. Deferred direct costs are costs that are directly related to the sale of VSCs. Both revenues and costs are deferred and amortized over the policy terms. The increases are the result of the gradual building of the new underwriting company's book of business and to an increase in the term of VSC contracts being sold. The Company recognized the deferred revenues and deferred direct costs associated with two former underwriters in July 2001 thereby eliminating substantial portions of the deferred balances at that date. (See Note 2 to the Unaudited Condensed Consolidated Financial Statements)

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of July 31, 2002, the amount owed to the insurance companies increased to $783,000 from $385,000 at October 31, 2001. The change is due to the timing of payments received from and remitted to the insurance companies.

The Company borrowed $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 February 2003 and bears interest at 6%. In addition, the Company has a working capital line of credit from Merrill Lynch. The working capital line of credit is occasionally used to make claims payments. 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. It uses the advances provided by insurance companies to administer and pay claims. The Company believes its current working capital supplemented by 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 rate of inflation is not expected to have a material effect on the Company. However, the precise effect of inflation on operations cannot be determined.

The Company is primarily responsible for liability the terms of the Company's VSC contracts. These contracts are reinsured with highly rated insurance companies such as American Bankers Insurance Group, Kemper Cost Management, Fireman's Fund Insurance Company and Heritage RRG. In the unlikely event that the third party reinsuring companies were unable to meet their contractual commitments, the Company 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. Any borrowings by the Company under its line of credit are very short term in nature. Therefore, it is not subject to significant interest rate risk.

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Due to increased competition by automobile manufacturers and to changes in federal privacy legislation, the Company has seen a substantial loss in MBI market share and a decline in the net revenues received from VSC sales. The Company has developed its 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 the Company's ability to be of service to its 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 replace the direct mail program results. The future effect of this increased competition may have an adverse effect on future earnings.

ITEM 4. CONTROLS AND PROCEDURES

In the quarter ended July 31, 2002, 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 cancellations expenditures. The Company maintains a 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.

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

(a) Exhibit Index

Exhibit 99.1 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 99.2 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 99.3 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

Exhibit 99.4 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

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: September 16, 2002

Gaylen Brotherson
Chairman of the Board and
Chief Executive Officer

By: /s/ Dennis M. O'Connor　　　Dated: September 16, 2002

Dennis M. O'Connor,
Chief Financial Officer