M B A HOLDINGS INC
Form 10-Q
June 13, 2001

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, 2001.

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 May 31, 2001: 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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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

SIGNATURES

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

CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2001 (UNAUDITED) AND OCTOBER 31, 2000

ASSETS	APRIL 30, 2001	OCTOBER 31, 2000
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,192,573	$ 1,128,281
Restricted cash	260,152	487,015
Investments (Note 4)	370,090	442,278
Accounts receivable, net of allowance for doubtful accounts of $19,025 (2001 and 2000)	310,694	404,370
Prepaid expenses and other assets	94,108	115,074
Deferred direct costs	5,683,890	5,048,367
Income tax receivable	188,126	155,437
Deferred income tax asset	394,454	387,787
Total current assets	8,494,087	8,168,609
PROPERTY AND EQUIPMENT:		
Computer equipment	241,731	226,777
Office equipment and furniture	167,237	165,919
Vehicle	16,400	16,400
Leasehold improvements	79,596	79,596
Capitalized software costs	27,289	26,959
Total property and equipment	532,253	515,651
Accumulated depreciation and amortization	(267,846)	(229,020)
Property and equipment - net	264,407	286,631
Other assets	46,169	46,170
Deferred direct costs	7,240,240	7,650,100
Deferred income tax asset	479,487	496,039
TOTAL	$ 16,524,390	$ 16,647,549

(Continued)

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2001 (UNAUDITED) AND OCTOBER 31, 2000

LIABILITIES AND STOCKHOLDERS' EQUITY	APRIL 30, 2001 (Unaudited)	OCTOBER 31, 2000
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	$ 332,660	$ 437,214
Accounts payable and accrued expenses	780,331	753,802
Capital lease obligation - current portion	10,147	9,333
Deferred revenues	6,527,726	5,878,696
Total current liabilities	7,650,864	7,079,045
CAPITAL LEASE OBLIGATION - net of current portion	13,650	18,840
DEFERRED RENT	41,897	41,539
DEFERRED REVENUES	8,428,775	8,961,473
Total liabilities	16,135,186	16,100,897
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' 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 (2001 and 2000) shares issued; 1,980,187 (2001 and 2000) shares outstanding	2,012	2,012
Additional paid-in-capital	200,851	200,851
Accumulated other comprehensive income (loss)	(10,362)	12,215
Retained earnings	252,203	387,074
Less: 31,600 shares of common stock in treasury, at cost	(55,500)	(55,500)
Total stockholders' equity	389,204	546,652
TOTAL	$ 16,524,390	$ 16,647,549

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

THREE AND SIX MONTHS ENDED APRIL 30, 2001 AND 2000

	THREE MONTHS ENDED APRIL 30,		SIX MONTH
	2001	2000	2001

REVENUES:			
Vehicle service contract gross income	$ 2,054,745	$ 1,249,072	$ 3,742,1
Net mechanical breakdown insurance income	134,772	601,759	411,9
MBI administrative service revenue	159,981	164,250	326,9
NET REVENUES	2,349,498	2,015,081	4,480,9
OPERATING EXPENSES:			
Direct acquisition costs of vehicle service contracts	1,947,326	1,185,335	3,556,5
Salaries and employee benefits	333,813	455,536	699,4
Mailings and postage	39,226	96,406	70,0
Rent and lease expense	77,447	73,738	167,7
Professional fees	20,334	43,748	43,3
Telephone	25,801	20,580	42,2
Depreciation and amortization	18,033	22,296	38,8
Merchant and bank charges	4,023	5,548	7,2
Insurance	5,428	8,430	16,4
Supplies	5,975	8,403	10,9
License and fees	9,067	6,080	12,3
Other operating expenses	55,371	50,934	86,2
Total operating expenses	2,541,844	1,977,034	4,751,5
OPERATING INCOME (LOSS)	(192,346)	38,047	(270,5
Finance fee income	5,206	15,162	10,2
Interest income	12,774	34,896	28,8
Interest expense	(5,762)	(373)	(7,9
Other expense		(45)	
Realized gains on investments	20,938		20,9
Total other income	33,156	49,640	52,1
INCOME (LOSS) BEFORE INCOME TAXES	(159,190)	87,687	(218,4
INCOME TAXES	(59,829)	35,750	(83,5
NET INCOME (LOSS)	$ (99,361)	$ 51,937	$ (134,8
BASIC NET INCOME (LOSS) PER SHARE	$ (0.05)	$ 0.03	$ (0.
DILUTED NET INCOME (LOSS) PER SHARE	$ (0.05)	$ 0.02	$ (0.
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	1,980,187	2,011,787	1,980,1
AVERAGE NUMBER OF COMMON AND DILUTIVE SHARES OUTSTANDING	1,980,187	2,116,487	1,980,1
Net income (loss)	$ (99,361)	$ 51,937	$ (134,8
Other comprehensive income (loss) net of tax:			
Net unrealized loss on available for sale securities	(33,302)		(22,5
Comprehensive income (loss)	$ (132,663)	$ 51,937	$ (157,4

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED APRIL 30, 2001 AND 2000

	APRIL 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (134,871)	$ 163,568
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	38,826	38,712
Deferred income taxes	9,885	(136,421)
Changes in assets and liabilities:		
Restricted cash	226,863	278,430
Accounts receivable	93,676	(38,754)
Prepaid expenses and other assets	20,967	11,647
Deferred direct costs	(225,663)	(1,944,149)
Net premiums payable to insurance companies	(104,554)	(1,023,761)
Accounts payable and accrued expenses	26,529	(27,301)
Income tax receivable	(32,689)	(58,409)
Deferred rent	358	4,716
Deferred revenues	116,332	2,110,788
Net cash provided by (used in) operating activities	35,659	(620,934)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,602)	(23,670)
Sale (purchase) of marketable securities, net	49,611	(473,326)
Net cash provided by (used in) investing activities	33,009	(496,996)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(4,376)	
Net cash used in financing activities	(4,376)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,292	(1,117,930)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,128,281	3,424,934
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,192,573	$ 2,307,004
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 8,414	$ 1,633
Cash paid for income taxes	$	$ 305,000

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SIX MONTHS ENDED APRIL 30, 2001 AND 2000

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, 2001 may not be indicative of the results that may be expected for the year ending October 31, 2001. 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, 2000.

2. NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated in accordance with Statement of Financial Acconting Standards ("SFAS") No. 128, EARNINGS PER SHARE which requires dual presentation of BASIC and DILUTED EPS on the face of the statements of income (loss) and requires a reconciliation of the numerator and denominator of basic and diluted EPS calculations. Basic income (loss) per common share is computed on the weighted average number of shares of common stock outstanding during each period. Income (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. Below is the reconciliation required by SFAS No. 128. All common stock options are anti-dilutive for the three and six months ended April 30, 2001.

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

	THREE MONTHS ENDED APRIL 30,	
	2001	2000
Average number of common shares outstanding - Basic	1,980,187	2,011,787
Dilutive shares from common stock options calculated using the treasury stock method		104,700
Average number of common and dilutive shares outstanding	1,980,187	2,116,487

	SIX MONTHS ENDED APRIL 30,	
	2001	2000

Average number of common shares outstanding - Basic	1,980,187	2,011,787
Dilutive shares from common stock options calculated using the treasury stock method		124,238
Average number of common and dilutive shares outstanding	1,980,187	2,136,025

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3. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) for the six months ended April 30, 2001 resulted from unrealized losses of $22,577 on available-for-sale investments. There was no additional other comprehensive income (loss) during the six months ended April 30, 2001.

4. INVESTMENTS

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

5. TREASURY STOCK

As of April 30, 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 will be explored by management.

6. 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. 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, 2001 and expires on February 28, 2002. 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 outstanding at April 30, 2001.

7. NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, requires that an enterprise recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company adopted SFAS No. 133 effective November 1, 2000, and the adoption did not have a material impact on the Company.

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.

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RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED APRIL 30, 2001 AND 2000

Net revenues for the quarter ended April 30, 2001 totaled approximately $2,349,000, an increase of $334,000 from net revenues of $2,015,000 for the quarter ended April 30, 2000. The increase in revenues is primarily due to the increase in vehicle service contracts ("VSC") sold offset by the decrease in net mechanical breakdown insurance ("MBI") income. The increase in vehicle service contracts is due to an increase in the number of dealerships selling automotive VSCs and recreational vehicle VSCs. The decrease in MBI is due to increased competition that has resulted in a loss of market share for MBA. Vehicle service contracts are contracts where the Company is the original obligor and therefore, these contracts are required to be reported at the gross sales price. The direct acquisition costs of vehicle service contracts, which would be premiums paid to the insurance companies and agent commissions, are reported as operating expenses.

Operating income (loss) decreased by $230,000 to a loss of $192,000 for the quarter ended April 30, 2001, from operating income of $38,000 for the quarter ended April 30, 2000. The decrease is due to a $467,000 decrease in MBI revenue. This decrease in MBI revenue is offset by a decrease in salary and employee benefits due to a decrease in the number of employees and a decrease in the mailings and postage expense due to the phase out of the direct mail operations. The decrease in employees is due to process improvement and technology upgrades.

Total operating expenses including direct vehicle service contract costs were $2,542,000 for the quarter ended April 30, 2001, compared to $1,977,000 for the quarter ended April 30, 2000. The increase in direct vehicle service contract costs were due to the increase in VSC sales offset by decreases in salaries and employee benefits and mailings and postage.

Total other income decreased by $17,000 from $50,000 for the quarter ended April 30, 2000 to $33,000 for the quarter ended April 30, 2001. The decrease was primarily due to a decrease in cash and cash equivalents which, in turn, decreased the interest income earned. In addition, there was a decrease in finance fee income due to the reduction in the amount of policies financed from the direct mail operations. This was offset by a gain recognized on securities sold during the quarter.

Net loss for the quarter ended April 30, 2001 was $99,000 compared to net income for the quarter ended April 30, 2000 of $52,000, which is a result of the foregoing factors.

COMPARISON OF THE SIX MONTHS ENDED APRIL 30, 2001 AND 2000

Net revenues for the six months ended April 30, 2001 totaled approximately $4,481,000, an increase of $554,000 from net revenues of $3,927,000 for the six months ended April 30, 2000. The increase in revenues is primarily due to the increase in VSCs sold offset by the decrease in MBI policies sold.

Operating income (loss) decreased by $434,000 to an operating loss of $271,000 for the six months ended April 30, 2001, from an operating income of $163,000 for the six months ended April 30, 2000. The decrease is primarily due to a decrease in MBI sales during the six months ended April 30, 2001 compared to the six months ended April 30, 2000. This is offset by the increase in net VSC revenue and a decrease in salaries and employee benefits and mailings and postage.

Total operating expenses including direct vehicle service contract costs were $4,752,000 for the six months ended April 30, 2001, compared to $3,764,000 for the six months ended April 30, 2000. The increases are due to an increase in direct vehicle service contract costs offset by a decrease in salaries and employee benefits and mailings and postage.

Total other income decreased by $59,000 from $111,000 for the six months ended April 30, 2000 to $52,000 for the six months ended April 30, 2001. The decrease is primarily due to a decrease in interest income due to less cash, cash equivalents and restricted cash available for investment during the period. This is offset by a gain recognized on securities sold.

Net loss for the six months ended April 30, 2001 was $135,000 compared to net income of $164,000 for the six months ended April 30, 2000, which is a result of the foregoing factors.

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LIQUIDITY AND CAPITAL RESOURCES

COMPARISON OF APRIL 30, 2001 AND OCTOBER 31, 2000

Working capital at April 30, 2001 consisted of current assets of $8,494,000 and current liabilities of $7,651,000, or a current ratio of 1.11:1. At October 31, 2000, the current ratio was 1.15:1 with current assets of $8,169,000 and current liabilities of $7,079,000.

As of April 30, 2001, the Company's cash position decreased to $1,453,000 from $1,615,000 at October 31, 2000. Of the $1,453,000, $260,000 is classified as restricted cash; there was $487,000 of restricted cash at October 31, 2000. The largest component of the restricted cash represented claims payment advances provided by insurance companies which enables the Company to make claims payments on behalf of the insurance companies. The decrease in cash is due to the timing of when the Company receives cash from the insurance companies for claims payments.

Deferred direct costs, including both the current and non-current portions, increased by $226,000 to $12,924,000 at April 30, 2001 from $12,698,000 at

October 31, 2000. Direct costs are costs that are directly related to the sale of VSCs. These costs are deferred in the same proportion as VSC revenue. The increase in these costs is due to less costs recognized as expense than deferred onto the balance sheet from an increase in sales.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of April 30, 2001, the amount owed to the insurance companies decreased to $333,000 from $437,000 at October 31, 2000, which is due to the timing of payments remitted to the insurance companies.

Deferred revenues, including both the current and non-current portions, increased by $117,000 to $14,957,000 at April 30, 2001 from $14,840,000 at October 31, 2000. Deferred revenue consists of VSC gross sales and estimated administrative service fees relating to the sales of MBI policies. The increase is primarily due to the increase in VSC sales offset by the decrease in MBI sales.

The Company is operating with a working capital line of credit from Merrill Lynch. This is the only debt utilized by the Company. The working capital line of credit is used to make claims payment if there is a timing difference between when the Company pays for the claims and when the claims are reimbursed by the insurance companies. The Company's ability to fund its operations over the short-term is not hindered by lack of short-term financing. The Company uses premiums received to pay agent commissions and fund operations and claims payment advances provided by insurance companies to administer and pay claims. The Company believes its 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 or hyperinflation is not expected to have a material effect on the Company. However, the precise effect of inflation on operations can not be determined.

The Company does not have any 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. This is offset by an increase in market share of the VSCs. The future effect of this increased competition may have an adverse effect on future earnings.

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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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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 12, 2001

Gaylen Brotherson
Chairman of the Board and Chief Executive Officer

By: /s/ Michael J. Zimmerman Dated: June 12, 2001

Michael J. Zimmerman,
Chief Financial Officer

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