

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

M B A HOLDINGS INC  
Form 10-Q  
June 13, 2003

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 April 30, 2003.

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:

M.B.A. HOLDINGS, INC.

(Exact name of business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

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

9419 E. San Salvador, Suite 105  
Scottsdale, AZ  
(Address of principal executive offices)

85258-5510  
(Zip Code)

(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 May 1, 2003:  
1,980,187 shares.

MBA Holdings, Inc

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidated Balance Sheets as of April 30, 2003

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M.B.A. HOLDINGS, INC. AND SUBSIDIARY	
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)	
APRIL 30, 2003 AND OCTOBER 31, 2002	

ASSETS	APRIL 30, 2003	OCTOBER 31, 2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 676,528	\$ 611,520
Restricted cash	150,372	284,966
Investments	114,835	159,042
Accounts receivable	303,248	182,300
Prepaid expenses and other assets	16,195	10,429
Deferred direct costs	3,980,450	4,206,456
Income taxes receivable	83,004	436,778
Deferred income tax asset	257,527	283,271
Total current assets	5,582,159	6,174,762
PROPERTY AND EQUIPMENT:		
Computer equipment	295,730	285,894
Office equipment and furniture	140,259	140,259
Vehicle	15,000	16,400
Leasehold improvements	80,182	80,182
Total property and equipment	531,171	522,735
Accumulated depreciation and amortization	(402,464)	(368,065)
Property and equipment - net	128,707	154,670
Deferred direct costs	4,731,085	4,599,368
Deferred income tax asset	226,828	284,175
TOTAL ASSETS	\$ 10,668,779	\$ 11,212,975

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See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
APRIL 30, 2003 AND OCTOBER 31, 2002

LIABILITIES AND STOCKHOLDERS' DEFICIT	APRIL 30, 2003	OCTOBER 31, 2002
	-----	-----
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	\$ 840,147	\$ 793,389
Accounts payable and accrued expenses	846,065	632,519
Note payable - officer	86,549	106,548
Capital lease obligation - current portion	3,708	8,222
Deferred revenues	4,532,619	4,783,991
	-----	-----
Total current liabilities	6,309,088	6,324,669
Capital lease obligations and other liabilities - long term	3,259	49,572
Deferred rent	15,749	31,064
Deferred revenues	5,413,031	5,338,994
	-----	-----
Total liabilities	11,741,127	11,744,299
	-----	-----
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; 2,011,787 (2003 and 2002) shares issued; 1,980,187 (2003 and 2002) shares outstanding	2,012	2,012
Additional paid-in-capital	200,851	200,851
Accumulated other comprehensive loss	(4,541)	(5,418)
Accumulated deficit	(1,215,170)	(673,269)
Less: 31,600 shares of common stock in treasury, at cost	(55,500)	(55,500)
	-----	-----
Total stockholders' deficit	(1,072,348)	(531,324)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 10,668,779	\$ 11,212,975
	=====	=====

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)  
THREE AND SIX MONTHS ENDED APRIL 30, 2003 AND 2002

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	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,
	2003	2002	2003
<b>REVENUES:</b>			
Vehicle service contract gross income	\$ 1,325,527	\$ 1,336,027	\$ 2,674,000
Net mechanical breakdown insurance income	27,771	(10,228)	51,000
MBI administrative service revenue	68,198	87,001	136,000
<b>Total net revenues</b>	<b>1,421,496</b>	<b>1,412,800</b>	<b>2,862,000</b>
<b>OPERATING EXPENSES:</b>			
Direct acquisition costs of vehicle service contracts	1,251,877	1,300,266	2,518,000
Salaries and employee benefits	259,832	282,719	511,000
Mailings and postage	2,308	14,737	4,000
Rent and lease expense	89,939	66,312	161,000
Professional fees	28,765	21,427	63,000
Telephone	42,355	19,561	67,000
Depreciation and amortization	17,893	20,726	35,000
Merchant and bank charges	1,928	2,375	3,000
Insurance	5,958	9,714	8,000
Supplies	3,059	2,386	7,000
License and fees	7,593	6,951	12,000
Other operating expenses	31,483	8,956	52,000
<b>Total operating expenses</b>	<b>1,742,990</b>	<b>1,756,130</b>	<b>3,447,000</b>
<b>OPERATING LOSS</b>	<b>(321,494)</b>	<b>(343,330)</b>	<b>(584,000)</b>
<b>OTHER INCOME (EXPENSE):</b>			
Finance and other fee income	39,320	27,231	49,000
Interest income	1,655	3,411	3,000
Interest expense and fees	(2,620)	(1,858)	(4,000)
<b>Other income - net</b>	<b>38,355</b>	<b>28,784</b>	<b>49,000</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(283,139)</b>	<b>(314,546)</b>	<b>(535,000)</b>
<b>INCOME TAXES</b>	<b>46,219</b>	<b>(111,755)</b>	<b>6,000</b>
<b>NET LOSS</b>	<b>\$ (329,358)</b>	<b>\$ (202,791)</b>	<b>\$ (541,000)</b>
<b>BASIC AND DILUTED NET LOSS PER SHARE</b>	<b>\$ (0.17)</b>	<b>\$ (0.10)</b>	<b>\$ (0.10)</b>
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED</b>	<b>1,980,187</b>	<b>1,980,187</b>	<b>1,980,187</b>
<b>Net loss</b>	<b>\$ (329,358)</b>	<b>\$ (202,791)</b>	<b>\$ (541,000)</b>
<b>Other comprehensive gain net of tax:</b>			
Net unrealized gain on available-for-sale securities	851	735	
<b>Comprehensive loss</b>	<b>\$ (328,507)</b>	<b>\$ (202,056)</b>	<b>\$ (541,000)</b>

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
SIX MONTHS ENDED APRIL 30, 2003 AND 2002

	APRIL 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (541,901)	\$ (360,397)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,399	41,159
Gain on sale of fixed assets		(12,000)
Deferred income taxes	83,091	(20,104)
Changes in assets and liabilities:		
Restricted cash	134,594	98,166
Accounts receivable	(120,948)	(375,622)
Prepaid expenses and other assets	(5,766)	26,938
Deferred direct costs	94,289	(1,411,962)
Net premiums payable to insurance companies	46,758	461,563
Accounts payable and accrued expenses	213,546	(58,367)
Income taxes receivable	353,774	261,490
Other liabilities	(49,572)	
Deferred rent	(15,315)	(5,596)
Deferred revenues	(177,335)	1,438,939
Net cash provided by operating activities	49,614	84,207
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of equipment	--	12,000
Retirement of equipment	1,400	
Purchase of property and equipment	(9,836)	(14,805)
Unrealized (gain) loss on available-for-sale securities	877	571
Sale of short-term investments	44,207	984
Net cash provided by (used in) investing activities	36,648	(1,250)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Drawings on line of credit	185,288	
Repayments of line of credit drawings	(185,288)	
Proceeds (repayment) of borrowing from officer	(19,999)	73,398
Payments on capital lease obligation	(1,255)	(5,180)
Net cash provided by (used in) financing activities	(21,254)	68,218
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	65,008	151,175
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	611,520	1,083,024
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 676,528	\$ 1,234,199
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 552	\$ 2,063,552
Cash received from income tax refunds	\$ 431,186	\$ 425,396

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SIX MONTHS ENDED APRIL 30, 2003 AND 2002

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#### 1. BASIS OF PRESENTATION

In accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, not all of the information and notes required by generally accepted accounting principles for complete financial statements are included. The unaudited interim financial statements furnished herein reflect all adjustments (which include only normal, recurring adjustments), in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Operating results for the six months ended April 30, 2003 may not be indicative of the results that may be expected for the year ending October 31, 2003. 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, 2002.

#### 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 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 six months ended April 30, 2003 and 2002, the average number of outstanding shares for basic and dilutive net loss per share is 1,980,187.

#### 3. OTHER COMPREHENSIVE GAIN (LOSS)

Other comprehensive gain for the three months ended April 30, 2003 and 2002 resulted from unrealized gains of \$851 and \$735 respectively on available-for-sale investments. During the six months ended April 30, 2003 and 2002, there were \$877 and \$571 of unrealized gains on available-for-sale investments.

#### 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

Provision for income taxes and related income tax receivable in the periods ended April 30, 2003 and 2002 reflect the Company's intent to carry back the current year losses to recover federal income taxes paid in previous years.

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Similar provisions for recoverable state income taxes were not provided, as Arizona law does not allow for loss carry back.

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

### 6. RELATED PARTY TRANSACTIONS

The Company leases its office space from Cactus Partnership. The managing partner of Cactus Partnership is Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was \$85,452 and \$62,177 for the three months ended April 30, 2003 and 2002 and \$152,443.13 and \$124,761 for the six months ended April 30, 2003 and 2002, respectively. The current lease expires on December 31, 2003.

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On February 13, 2002, Gaylen Brotherson, the Chief Executive Officer, loaned the Company \$73,398 and on October 31, 2002 loaned an additional \$30,000. During the 2nd quarter of 2003, the Company repaid \$22,067 of those loans. The loans mature on the anniversary date of the separate notes and the bear interest at a rate of 6%.

### 7. TREASURY STOCK

As of April 30, 2003 and 2002, the Company holds 31,600 shares of its common stock in the Treasury. These shares were purchased for the purpose of retirement and bonuses to employees. Management will explore additional uses of the stock.

### 8. COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance 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 has available a \$200,000 working capital line of credit which was renewed on April 30, 2003 and expires on August 31, 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 secured by the Company's investments. There were no borrowings outstanding at April 30, 2003.

### 9. NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE" (SFAS 148). SFAS 148 amends the transition provisions of FASB No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION" ("SFAS 123"), for entities that voluntarily change to the fair value method of accounting for stock-based compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decision with respect to stock-based employee

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compensation and amends APB Opinion No. 28, "INTERIM FINANCIAL REPORTING" ("APB 28") to require disclosure about such effects in interim financial information. The amendments to APB 28 for interim disclosure of pro forma results are effective for interim periods beginning after December 15, 2002, which for the Company is the three months ended April 30, 2003. The adoption had no significant impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES" (FIN 46) which requires the consolidation of variable interest entities, as defined. FIN 46 is applicable to financial statements to be issued by the Company after 2002; however, disclosures are required currently if the Company expects to consolidate any variable interest entities. The Company does not currently believe that any material entities will be consolidated with the Company as a result of FIN 46.

### 10. 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.

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#### 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.

#### 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



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critical accounting policies that affect significant areas and involve management's judgment 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 apportions the commissions received in a manner that it believes is proportionate to the values of the services provided. The revenues relating to policy sales are recorded in income when the policy information is received and approved by the Company. The revenues related to providing administrative claims services are deferred and recognized in income on a straight-line basis over the actual life of the policy.

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.

Provision for recoverable income taxes and related income tax receivable in the year ended October 31, 2002 reflect the Company's intent to carry back the current year losses to recover federal income taxes paid in previous years. Arizona law does not provide for the carry back of losses and therefore provisions for recoverable state income taxes have not been provided.

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## RESULTS OF OPERATIONS

### COMPARISON OF THREE MONTHS ENDED APRIL 30, 2003 AND 2002

#### NET REVENUES

Net revenues for the fiscal quarter ended April 30, 2003 totaled \$1,421,000, a slight increase of \$8,000 over the comparable quarter in 2002. The variation occurred because of a slight change in the pricing mix of the products sold during the periods.

#### OPERATING EXPENSES

Operating costs decreased to \$1,743,000 in the quarter ended April 30, 2003 down \$13,000 from the \$1,756,000 expended in the quarter ended April 30, 2002. The decrease is the result of a continuation of the Company's actions to curtail expenses wherever possible and a slight change in the cost of the mix of products sold.

#### OTHER INCOME (EXPENSE)

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Total other income rose in the quarter ended April 30, 2003 by approximately \$9,000 over the comparable 2002 quarter. The 2003 quarter included the receipt of the 2% fee that was negotiated as a part of the service termination agreement with two insurance companies in July 2002. The comparable 2002 quarter included the receipt of the proceeds from the sale of surplus equipment and the reimbursement of certain web development costs by an associated insurance company.

### INCOME TAXES

Provision for income taxes in the quarter ended April 30, 2003 was recorded in the recognizing the Company's intent to carry back the current year losses to recover federal income taxes paid in prior years to the extent that such carrybacks remain available. Offsetting these credits were charges arising from changes in the temporary differences created by the fluctuation in the deferred revenue and deferred cost balances. Similar provisions for recoverable state income taxes were not recorded, as Arizona law does not allow for loss carryback.

### COMPARISON OF THE SIX MONTHS ENDED APRIL 30, 2003 AND 2002

#### NET REVENUES

The downward trend in revenues that has been noted in prior periods continued in the six months ended April 30, 2003 with net revenues down \$419,000 from the comparable six months in 2002. The number of contracts and policies sold continues to decline as a result of continuing competitive pressure from the vehicle manufacturers.

#### OPERATING EXPENSES

Operating costs decreased to \$3,447,000 in the six months ended April 30, 2003 down \$395,000 from the \$3,842,000 expended in the six months ended April 30, 2002. The decrease is the result of staff reductions and expense curtailments that have been instituted to protect the Company during this extended sales downturn.

#### OTHER INCOME (EXPENSE)

Other income (expense) rose in the six months ended April 30, 2003 by approximately \$10,000 over the comparable 2002 period. As explained above, the six months in 2003 contained the receipt of the 2% fee that was negotiated as a part of the service termination agreement with two insurance companies in July 2002. The comparable 2002 half year contained the receipt of the proceeds from

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the sale of surplus equipment and the reimbursement of certain web development costs by an associated insurance company.

### INCOME TAXES

Provision for income taxes in the six months ended April 30, 2003 were recorded in recognition of the Company's intent to carry back the current year losses to recover federal income taxes paid in prior years to the extent that such carrybacks remain available. Offsetting these credits were charges arising from changes in the temporary differences created by the fluctuation in the deferred revenue and deferred cost balances. Similar provisions for recoverable state income taxes were not recorded, as Arizona law does not allow for loss carryback.

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### LIQUIDITY AND CAPITAL RESOURCES

#### COMPARISON OF APRIL 30, 2003 AND OCTOBER 31, 2002

Working capital at April 30, 2003 consisted of current assets of \$5,582,000 and current liabilities of \$6,309,000, or a current ratio of 0.88 : 1. At October 31, 2002 the working capital ratio was 0.98 : 1 with current assets of \$6,175,000 and current liabilities of \$6,325,000. The decline occurred primarily because the Company has received substantially all of the prior period income taxes and therefore less to recover from current period losses.

Deferred Revenues decreased \$177,000 and Deferred Direct Costs decreased \$94,000 from balances at October 31, 2002. Deferred revenues consist of unearned VSC gross sales and estimated administrative service fees related to MBI policies. Deferred direct costs are costs that are directly related to the sale of VSCs. The change results from the overall decline in sales that has been experienced over the last several quarters.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of April 30, 2003, the amount owed to insurance companies increased \$47,000 over the balance at October 31, 2002. The change is due to differences in the timing of payments remitted to the insurance companies.

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

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

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

The Company does not have any outstanding debt or long-term receivables. Therefore, it is not subject to significant interest rate risk.

#### ITEM 4. CONTROLS AND PROCEDURES

In the quarter and six months ended April 30, 2003, 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.

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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 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

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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.

Item 2. Changes in Securities and Use of Proceeds

None

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 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

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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: June 12, 2003

By: /s/ Gaylen Brotherson

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Gaylen Brotherson

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Chairman of the Board and Chief Executive  
Officer

Dated: June 12, 2003

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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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