

M B A HOLDINGS INC  
Form 10-Q  
October 20, 2006  
**Table of Contents**

---

**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 **July 31, 2006**
- 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: **000-28221**

**M.B.A. HOLDINGS, INC.**

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

**Nevada**                      **87-0522680**  
(State or other              (I.R.S. Employer  
jurisdiction of              Identification No.)  
incorporation or  
organization)

**9419 E. San**  
**Salvador, Suite**  
**105**  
**Scottsdale, AZ**              **85258-5510**  
(Address of                      (Zip Code)  
principal  
executive offices)

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

Former name, former address and former fiscal year, if changed since last report: **None**

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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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 (no par value, \$0.0001 stated value) outstanding at July 31, 2006: 217,005,313 shares.

---

**Table of Contents**

**M.B.A. HOLDINGS, INC. AND SUBSIDIARIES**

**PART I - FINANCIAL INFORMATION**

	<u>Page</u>
<u>Item 1.</u>	
<u>Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of July 31, 2006 (Unaudited) and October 31, 2005</u>	3
<u>Condensed Consolidated Statements of Income (Loss) for the three and nine months ended July 31, 2006 and 2005 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Stockholders' Deficit as of July 31, 2006 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended July 31, 2006 and 2005 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
<u>Item 4.</u>	
<u>Controls and Procedures</u>	17

**PART II - OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	18
<u>Item 1A.</u>	<u>Risk Factors</u>	18
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	19
<u>Item 4.</u>	<u>Submissions of Matters to a Vote of Security Holders</u>	19
<u>Item 5.</u>	<u>Other Information</u>	19
<u>Item 6.</u>	<u>Exhibits</u>	19
<u>Signatures</u>		20

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****M.B.A. HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS  
JULY 31, 2006 AND OCTOBER 31, 2005**

<b>ASSETS</b>	<b>July 31, 2006 (Unaudited)</b>	<b>October 31, 2005</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 59,020	\$ 545,184
Restricted cash	120,341	25,653
Accounts receivable	351,562	284,502
Prepaid expenses and other assets	67,332	31,481
Deferred direct costs	2,141,205	2,496,606
Total current assets	2,739,460	3,383,426
<b>PROPERTY AND EQUIPMENT:</b>		
Computer equipment	347,531	332,523
Office equipment and furniture	161,038	208,523
Vehicles	25,000	410,318
Leasehold improvements	80,182	80,182
Total property and equipment	613,751	1,031,546
Accumulated depreciation and amortization	(507,341)	(498,274)
Property and equipment - net	106,410	533,272
<b>OTHER ASSETS</b>		
Deposits	4,217	-
Deferred direct costs	2,108,225	2,925,256
	2,112,442	2,925,256
<b>TOTAL ASSETS</b>	<b>\$ 4,958,312</b>	<b>\$ 6,841,954</b>

See notes to condensed consolidated financial statements.

**Table of Contents****M.B.A. HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)  
JULY 31, 2006 AND OCTOBER 31, 2005****LIABILITIES AND STOCKHOLDERS'  
DEFICIT**

	<b>July 31, 2006 (Unaudited)</b>	<b>October 31, 2005</b>
<b>CURRENT LIABILITIES:</b>		
Net premiums payable to insurance companies	\$ 357,670	\$ 349,000
Notes payable - short term	233,473	458,695
Notes payable - officer	487,375	147,500
Accounts payable and accrued expenses	628,191	721,884
Accounts payable - officer	356,584	175,006
Capital lease obligations	10,686	9,828
Deferred revenues	2,466,676	2,871,093
Total current liabilities	4,540,655	4,733,006
Capital lease obligations - net of current portion	18,519	14,067
Notes payable less current portion	47,862	477,624
Deferred income tax liability	12,802	12,802
Deferred revenues	2,448,802	3,356,602
Total liabilities	7,068,640	8,594,101
<b>COMMITMENTS AND CONTINGENCIES</b>		
Minority interest in consolidated subsidiary	-	-
<b>STOCKHOLDERS' DEFICIT:</b>		
Preferred stock, no par value; \$.0001 stated value 100,000,000 shares authorized in 2006 and 2005; 2,000,000 Class B non-convertible preferred issued and outstanding in 2006 and 2005	200	200
Common stock, no par value, \$.0001 stated value, 350,000,000 shares authorized (post split), 218,005,313 shares issued (post split) in 2006 and 209,871,980 (post split) in 2005, 217,689,313 shares (post split) outstanding in 2006 and 209,555,980 (post split) in 2005	21,769	20,987
Additional paid-in capital	9,962,318	9,805,836
Accumulated deficit	(12,039,115)	(11,523,670)
Less: 316,000 (post split) shares in 2006 and 2005 of common stock in treasury, at cost	(55,500)	(55,500)
Total stockholders' deficit	(2,110,328)	(1,752,147)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 4,958,312</b>	<b>\$ 6,841,954</b>

See notes to condensed consolidated financial statements.

4

---

**Table of Contents****M.B.A. HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)  
THREE AND NINE MONTHS ENDED JULY 31, 2006 AND 2005**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2006	2005	2006	2005
<b>REVENUES:</b>				
Vehicle service contract gross income	\$ 580,351	\$ 1,212,202	\$ 1,786,034	\$ 3,104,164
Net mechanical breakdown insurance income (cancellations)	258,153	30,613	354,096	52,344
Brokerage, association and administrative service revenue	17,849	126,155	63,262	232,476
Motorcycle rental and related revenues	97,539	159,677	399,440	159,677
Licensing and association fees	16,881	–	120,553	–
Total net revenues	970,773	1,528,647	2,723,385	3,548,661
<b>OPERATING EXPENSES:</b>				
Direct acquisition costs of vehicle service contracts	594,187	1,184,071	1,761,271	2,938,592
Costs of motorcycle and insurance premium expense	7,568	79,886	35,293	79,886
Salaries and employee benefits	193,508	419,273	590,855	883,135
Mailings and postage	15,823	14,106	23,053	36,835
Rent and lease expense	81,444	84,151	270,288	236,603
Professional fees	80,485	316,711	342,774	707,994
Telephone	17,267	14,126	43,400	4,153
Depreciation and amortization	19,246	62,952	56,122	75,645
Merchant and bank charges	9,325	9,622	30,775	19,665
Insurance	8,726	2,240	49,326	7,730
Supplies	251	8,573	22,998	14,945
License and fees	915	1,323	10,999	5,224
Other operating expenses	43,316	127,449	193,133	262,367
Total operating expenses	1,072,061	2,324,483	3,430,287	5,272,774
Equity in net loss of Blue Sky Motorcycle Rentals, Inc.	–	–	–	(40,076)
<b>OPERATING LOSS</b>	<b>(101,288)</b>	<b>(795,836)</b>	<b>(706,902)</b>	<b>(1,764,189)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Finance and other fee income	7,203	239	12,538	4,164
Interest income	0	54	431	280
Interest expense and fees	(9,550)	(1,018)	(26,782)	(12,561)
Other income (expense)	82,039	(15,296)	73,857	(35,937)
Gain on sale of assets	131,413	0	131,413	0
Other income (expense) - net	211,105	(16,021)	191,457	(44,054)

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

INCOME (LOSS) BEFORE INCOME TAXES	109,817	(811,857)	(515,445)	(1,808,243)
INCOME TAXES	—	—	—	—
NET INCOME (LOSS)	\$ 109,817	\$ (811,857)	\$ (515,445)	\$ (1,808,243)
BASIC AND DILUTED NET LOSS PER SHARE	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED (Post Split)	213,667,574	188,574,389	210,953,049	151,282,437

See notes to condensed  
consolidated financial  
statements.

5

---



**Table of Contents****M.B.A. HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (Unaudited)  
YEAR ENDED OCTOBER 31, 2005 AND NINE MONTHS ENDED JULY 31, 2006**

	Preferred Stock		Common Stock		Additional	Retained	Treasury	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings (Deficit)	Stock	Stockholders' (Deficit) Equity
<b>BALANCE NOVEMBER 1, 2004</b>	2,000,000	\$ 200	121,268,264	\$ 12,126	\$ 2,433,205	\$ (3,668,184)	\$ (55,500)	\$ (1,278,153)
Issuance of common shares and exercise of stock options			42,603,716	4,261	2,777,231			2,781,492
Conversion of preferred to common shares	(460,000)	(46)	46,000,000	4,600	4,595,400			4,599,954
Retirement of Class A preferred shares	(1,540,000)	(154)						(154)
Issuance of preferred shares	2,000,000	200						200
Net loss		–	–	–	–	(7,855,486)	–	(7,855,486)
<b>BALANCE OCTOBER 31, 2005</b>	2,000,000	200	209,871,980	20,987	9,805,836	(11,523,670)	(55,500)	(1,752,147)
Issuance of common shares and exercise of stock options (Unaudited)			8,133,333	782	156,482			157,264
Net loss (Unaudited)		–	–	–	–	(515,445)	–	(515,445)
<b>BALANCE JULY 31, 2006 (Unaudited)</b>	2,000,000	\$ 200	218,005,313	\$ 21,769	\$ 9,962,318	\$ (12,039,115)	\$ (55,500)	\$ (2,110,328)

See notes to condensed consolidated financial statements

6

---

**Table of Contents****M.B.A. HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
NINE MONTHS ENDED JULY 31, 2006 AND 2005**

	2006	July 31,	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (515,445)	\$	(1,808,243)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	56,122		75,645
Issuance of stock for services	44,634		-
Write-off of Book Value of Vehicle Sold	8,789		-
Gain on Sale of Assets	(131,413)		-
Stock based Compensation	-		213,000
Related party rent expense paid in excess of accrual	-		11,729
Equity in net loss of Blue Sky Motorcycle Rentals, Inc.	-		40,076
Issuance of preferred stock in return for related party rent	-		214,129
Changes in assets and liabilities:			
Accounts receivable	(68,951)		(294,580)
Inventory	-		(5,677)
Prepaid expenses and other assets	(19,723)		(5,399)
Deferred direct costs	1,172,433		1,413,082
Net premiums payable to insurance companies	8,670		239,253
Insurance deposits from members	-		16,368
Accounts payable - officer	181,578		-
Accounts payable and accrued expenses	(78,899)		(77,957)
Deposits	(4,217)		-
Deferred revenues	(1,312,217)		(1,555,128)
Net cash (used in) operating activities	(658,639)		(1,523,702)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment in Blue Sky Motorcycle Rentals, Inc.	-		309,214
Payments from Restricted cash	(94,688)		(61,003)
Purchase of Property and Equipment	(17,635)		(1,042,669)
Proceeds of Sale of Vehicle and Equipment	12,000		-
Net cash provided by investing activities	(100,323)		(794,458)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds (repayment) of borrowing from officers and affiliates	339,875		(190,664)
Issuance of common stock	67,630		1,918,674
Payments of notes payable	(140,016)		-
Additions to (Payments on) capital lease obligation	5,309		15,593
Net cash provided by (used in) financing activities	272,798		1,743,603
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(486,164)</b>		<b>(574,557)</b>

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		545,184		782,848
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	59,020	\$	208,291
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for interest	\$	4,719	\$	1,779
Non Cash Investing and Financing Activities				
Stock issued to employees and consultants for services	\$	89,634	\$	—

See notes to condensed consolidated financial  
statements.

7

---

**Table of Contents**

**M.B.A. HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SIX MONTHS ENDED JULY 31, 2006 AND 2005**

---

**1. BASIS OF PRESENTATION**

In accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, not all of the information and notes required by generally accepted accounting principles for complete financial statements are included. Accounting principles assume the continuation of the Company as a going concern. The Company's auditors, in their opinion on the financial statements for the year ended October 31, 2005, expressed concern about this uncertainty. The accompanying condensed consolidated financial statements do not include any adjustment that might arise from the outcome of this assumption. The unaudited interim condensed consolidated financial statements furnished herein reflect all adjustments (which include only normal, recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine months ended July 31, 2006 may not be indicative of the results of operations that may be expected for the year ending October 31, 2006. 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, 2005.

**2. NET INCOME/LOSS PER SHARE**

Net income/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 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. SFAS No. 128 requires that income per common share assuming dilution is computed on the same weighted average number of shares of common stock outstanding as basic loss per share. The additional shares representing the exercise of outstanding common stock options using the treasury stock method are not considered nor are the dilutive effect of the voting rights of the Class B preferred stock and employee stock options for the same reason. The 10-1 forward stock split, the 1 for 100 stock dividend and the 1 for 200 stock dividend are reflected retroactively for all periods presented. At July 31, 2006, the Company had 6,150,010 stock options outstanding that have been excluded from the diluted loss per share calculation because inclusion of such would be anti-dilutive.

**3. LIQUIDITY AND GOING CONCERN**

The Company has incurred losses in prior years and in two of the three quarters of 2006 and expects such losses to continue through 2006. In fiscal 2005 and earlier periods, the Company has used funds obtained from the exercise of stock options by its employees to supplement funds provided by operations. In the current fiscal quarter a related party has advanced funds on demand notes and through the deferral of rent payments (See Note 4) in order to overcome working capital deficiencies. The Company has granted the related party, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets. There is no assurance that additional advances will be made if additional working capital is required. The Company's auditors have expressed doubt about the Company's ability to continue as a going concern in their opinion. Based upon the foregoing, the accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company is attempting to reverse this downward trend of its warranty operations and motorcycle rental operations, with increased number of

licensed stores and marketing contacts with other Internet vendors and further expansion into the motorcycle market through its subsidiaries, National Motorcycle Dealers Association, LLC., Rent 2 Ride Nationwide, LLC., Blue Sky Motorcycle Rentals, Inc. and the Street Eagle licensed dealerships.

## **Table of Contents**

### **4. RELATED PARTY TRANSACTIONS**

The Company leases its office space from Cactus Family Investments, LLC. The managing member of Cactus Family Investments, LLC is Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was \$47,347 and \$71,376 for the three months ending July 31, 2006 and 2005 and \$165,069 and \$214,129 for the nine months ended July 31, 2006 and 2005.

From time to time, Gaylen Brotherson, the Chief Executive Officer, directly and through an affiliated company, has loaned the Company funds to enable it to meet its operating expenses. The loans are evidenced by a note that matures on demand and bears interest at a rate of 6%. As security for the loan, the Company has granted the affiliated company, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets.

### **5. EMPLOYEE STOCK OPTION PLAN**

On April 7, 2004, the Company adopted the M.B.A. Holdings, Inc. Employee Stock Incentive Plan for the Year 2004 and on July 7, 2004, the M.B.A. Holdings, Inc. Employee Stock Incentive Plan for the Year 2004 -B. These plans have the purpose of advancing the business and development of the Company and its shareholders by affording employees of the Company the opportunity to acquire an equity interest in the Company. Under the terms of the plans, employees are granted options to purchase Company stock at specified prices. The plan is administered by the Compensation Committee of the Board of Directors and is authorized to grant options for up to 128,000,000 shares of the common stock of the Company. As of July 31, 2006, the Company has granted options for a total of 118,275,000 shares to selected employees. There were no options granted during the current quarter and no compensation expense was recorded in the three months ended July 31, 2006. As of July 31, 2006, there were 2,500,000 options outstanding under this plan.

On that same date, the Company also adopted the M.B.A. Holdings, Inc. Non-Employee Directors and Consultants Retainer Stock Plan for 2004 and the M.B.A. Holdings, Inc. Non-Employee Directors and Consultants Retainer Stock Plan for 2004-B. The Company seeks to motivate, retain and attract highly competent directors and consultants to advance the business and development of the Company and its shareholders by affording directors and consultants the opportunity to acquire an equity interest in the Company. Under the terms of the plan, directors and consultants are granted options to purchase Company stock at specified prices in return for their services to the Company. The options include a deferral option that allows the director/consultant to defer delivery of the stock retainer. The plan is administered by the Compensation Committee of the Board of Directors and is authorized to grant options for up to 22,000,000 shares of the common stock of the Company. As of July 31, 2006, the Company has granted options for a total of 19,987,000 shares to selected directors/consultants. Compensation expense of \$5000 was recorded in connection with these transactions in the quarter ended April 30, 2006. As of July 31, 2006 there were 2,013,000 options outstanding under this plan.

### **6. BUSINESS SEGMENTS**

During the fiscal quarter ended July 31, 2006 and the fiscal year ended October 31, 2005, the Company operated in two business segments: Extended Warranty Sales and Servicing and Motorcycles. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations. The Motorcycle segment became a reportable segment during 2005.

The Extended Warranty Sales and Servicing segment consists of Mechanical Breakdown Administrators, Inc. that markets and administers vehicular mechanical breakdown insurance ("MBI") policies and sells contracts for repair services to vehicles ("VSCs"). The MBI policies and VSC contracts are for the repair of automobiles, light trucks, recreational vehicles, motorcycles, boats and certain automotive components, that are sold through Credit Unions,

Auto, Recreational Vehicle, and Motorcycle Dealers, and via Direct Mail and Inbound Telemarketing with call centers in several cities, including Scottsdale, Az., St. Louis, Mo., Watertown, SD. and the Atlanta, GA.

The Motorcycle segment offers motorcycles and off road vehicles for rent at licensed locations under the name Street Eagle Motorcycle Rentals, Rent 2 Ride and Blue Sky Motorcycle Rentals. The company sold the company operated rental locations during 2006. The segment also provides assistance to Motorcycle Dealer Members in being professional, successful, and profitable businesses through special services, products and programs through the National Motorcycle Dealers Association.



**Table of Contents**

Information by industry segment is set forth below for the quarter ended July 31, 2006 and 2005, and as of July 31, 2006 and October 31, 2005:

	<b>July 31, 2006</b>	<b>July 31, 2005</b>
<b>Net revenues:</b>		
Extended Warranty Sales and Servicing	\$ 856,353	\$ 1,319,847
Motorcycles	114,420	208,800
	970,773	1,528,647
<b>Income (Loss) from operations:</b>		
Extended Warranty Sales and Servicing	343,812	(660,271)
Motorcycles	(233,995)	(151,586)
	109,817	(811,857)
	<b>July 31,</b>	<b>October 31,</b>
	<b>2006</b>	<b>2005</b>
<b>Identifiable assets:</b>		
Extended Warranty Sales and Servicing	680,995	1,042,301
Motorcycles	27,887	377,791
	708,882	1,420,092
<b>Deferred policy acquisition costs:</b>		
Extended Warranty Sales and Servicing	4,249,430	5,421,862
Motorcycles	None	None

See Note 10. The Company disposed of certain retail outlets within its motorcycle segment. The Company continues to rent motorcycles and intends to pursue other retail outlets for these rentals and does not intend on exiting this business segment.

## **7. COMMITMENTS AND CONTINGENCIES**

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance and personnel matters and of disputes over outstanding accounts.

The Company has been named as a party to a lawsuit involving the plaintiff and the former owner of Blue Sky Motorcycle Rentals, Inc. ("BSMR"). The complaint alleges that the Company and the former owner of BSMR improperly utilized certain assets of the plaintiff as security for its borrowings. The Company has responded to the complaint by denying the allegations and intends to vigorously pursue all defenses available.

The Company has received a letter from an attorney representing the former owner of BSMR that alleges wrong doing, including securities violations, on the part of the Company and contends that certain of the representations and warranties made at the time of the purchase of BSMR were incorrect. The Company denies the allegations and contends that the former owner of BSMR misrepresented the ownership and location of BSMR's assets and misled the Company concerning the amount of BSMR's liabilities. The former owner has refused to transfer ownership of all

BSMR's assets to the Company. The Company has unilaterally terminated its consulting contract with the former owner of BSMR and believes it has no further obligations thereunder. At the direction of the Board of Directors of the Company, a subcommittee has been formed to vigorously pursue the location and title to the BSMR assets and to use all defenses available to answer any formal complaint received. To this end, the subcommittee has retained a legal firm to represent it in this matter and to pursue all possible claims against the former owner. MBA Holdings, Inc and MBA, Inc. has filed a complaint in the Superior Court of the State of Arizona, Case Number CV2006-004615, and were most recently awarded a Partial Judgment in the amount of \$622,000.00, and eleven (11) Domain Names and eleven (11) Websites including [www.blueskymotorcyclere rentals.com](http://www.blueskymotorcyclere rentals.com). The monetary award far exceeds the amount of a Note Payable to the former owner on the books of MBA, Inc. in the amount of \$83,000. At the time of filing of this document, no formal summons has been received relating alleged company wrong doing, however a formal complaint has been filed against the former owner of BSMR which resulted in a formal judgment against the former owner.

## **Table of Contents**

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.

As the 50% owner of iDigital, LLC, the Company is obligated to award 200,000 common shares of M.B.A. Holdings, Inc. as additional compensation for each year of service that they complete with the Company.

### **8. NEW ACCOUNTING PRONOUNCEMENTS**

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities* (“FIN 46”) that is an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46 requires a variable interest entity (“VIE”) to be consolidated by a company that is considered to be the primary beneficiary of that VIE. In December 2003, the FASB issued FIN No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (“FIN 46-R”) to address certain FIN 46 implementation issues. The Company has determined that FIN 46 does not require the consolidation of Cactus Family Investments, LLC, an entity owned by the majority shareholders of the Company.

In December 2004, the FASB published FASB Statement No. 123 (R), *Share-Based Payment*, (“FAS 123 (R)”) which will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The Company is required to and will apply FAS 123 (R) at October 31, 2006. Since the options that are currently outstanding are exercisable at prices that are at or above current market values, the Company does not expect that implementation will have a material effect on its reported results of operations.

In December 2004, the FASB issued Statement No. 153, *Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions* (“FAS 153”). The amendments made by FAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The Company has adopted FAS 153 in these statements.

In May 2005, the FASB issued FAS 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This Statement requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. It shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt this Statement in fiscal 2006. The Company does not expect that implementation will have a material effect on its reported results of operations.

### **9. RECLASSIFICATIONS**

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

### **10. DISPOSAL OF MOTORCYCLE OPERATIONS**

On June 30, 2006 the company sold two of its motorcycle rental operations, World Wide Rentals and Escape Eagles, back to the original owners of each company. They were sold for assumption of all assets and liabilities of the operations, plus World Wide Rentals paid a sum of \$10. Assets and liabilities were recorded as sold at book value, a summary of which follows:



**Table of Contents**

	<b>World Wide Rentals</b>	<b>Escape Eagles</b>	<b>Total</b>
Vehicles, Property & Equipment, net of accumulated depreciation	\$ (183,026)	\$ (184,435)	\$ (367,461)
Prepaid Expenses and Other Assets	(2,592)	(28,296)	( 30,888)
Accounts Payable	7,262	7,532	14,794
Notes Payable	189,965	325,003	514,968
Gain (Loss) on Sale of Assets	\$ 11,609	\$ 119,804	\$ 131,413

**11. ADDITIONAL SHARES ISSUED**

On June 14, the company issued 5,000,000 shares to Crescent Fund, LLC in exchange for six months of consulting to raise long term and short term financing and to provide possible mergers and acquisitions. The value of these shares at \$45,000 was capitalized as a prepaid expense. The Company is accounting for this transaction in accordance with EITF 96-18. The measurement date will occur as the counterparty performs under the contract and the prepaid expense will be amortized and revalued as those services are performed.

## **Table of Contents**

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

The following discussion should be read in conjunction with the condensed consolidated 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.

#### **CRITICAL ACCOUNTING POLICIES**

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

13

---

## **Table of Contents**

### **SIGNIFICANT EVENTS**

In December 2004, the Company acquired a 50% interest in Blue Sky Motorcycle Rentals, Inc. (BSMR) for the sum of \$350,000 in cash. BSMR is a Colorado corporation that serves the motorcycle rental industry through the rental of its motorcycles out of Denver and through its internet web sites that offer a reservation system to those desiring to rent motorcycles throughout the United States. BSMR has licensed its name and business plan to motorcycle rental stores located within the southwestern United States. The former owner of BSMR entered into a consulting contract with the Company to provide a continuity of services. The Company purchased the remaining 50% equity interest in April 2005 by forgiving \$75,000 of indebtedness owed to it by the former owner of BSMR and by issuing a note in the amount of \$200,000 payable in installments over the next twelve months, but MBA has since found out that 48% percent of the stock in Blue Sky was encumbered by a large loan which was not disclosed to MBA. The Company amended and extended the consulting contract with the former owner of BSMR to acquire his services for a period of eight (8) years. The Company unilaterally terminated this consulting contract during the year ended October 31, 2005. Blue Sky - Denver rental store was closed by the former owner in December 2005. MBA Holdings, Inc and MBA, Inc. has filed a complaint in the Superior Court of the State of Arizona, Case Number CV2006-004615, and were most recently awarded a Partial Judgment in the amount of \$622,000.00, and eleven (11) Domain Names and eleven (11) Websites including [www.blueskymotorcyclere rentals.com](http://www.blueskymotorcyclere rentals.com). The monetary award far exceeds the balance due on the Note Payable to the former owner in the amount of \$83,000.

MBA has returned to it's root business plan by restarting it's Direct Mail and Inbound Telemarketing with call centers in several cities, including Scottsdale, Az., St. Louis, Mo, Watertown, SD., and Atlanta, GA. These call centers produced additional gross sales of \$272,000.00 in recent months.

MBA, and other marketers of third party VSC and MBI contracts, may find it difficult to maintain their sales and profit margins should the major automakers resume 0% financing. This is because MBA acquires most of its business through alternative financing sources such as credit unions.

In July 2005, the company purchased the assets of Street Eagle, Inc., Rent2Ride Nationwide, Inc. and Rent2Ride Arizona, Inc. ("R2R") for the sum of \$200,000 payable in monthly installments over an eleven (11) month period. The R2R companies are engaged in the motorcycle rental business in Hawaii and are the owners of computer software that is specifically designed to be used in a motorcycle rental location. The R2R purchase gave the Company access to this series of specialty programs that it intends to incorporate into its own and its licensed locations. The company has opened a Rent 2 Ride store Murphysboro, Tenn. We have opened Street Eagle Rental stores in Spring of 2006 in Mountain View, California, San Antonio, Texas and Maui, Hawaii, Street Eagle has additional licensed stores opening in Key Largo, Florida, Monterey, California, and Peoria, Arizona.

On June 30, 2006 the company sold Liberty Motorcycle Rentals back to the previous owner for a payment to MBA Holdings, Inc. of \$10.00 and assumption of any and all loans, liabilities and the company cancelled the employment and consulting contract with the previous owners.

On June 30, 2006 the company transferred back the operations, assets and liabilities of Escape Eagles to the former owner, as covered in the original contract of sale.

On July 14, 2006 the company entered into a consulting agreement with the Crescent Fund, LLC., a Delaware Limited Liability Company, 40 Wall Street, New York, NY. In exchange for 5,000,000 shares of stock, Crescent Fund will provide management consulting services to the company for six months. The focus of the consulting is to arrange long term financing for MBA Holdings, Inc. and short-term financing for our extended warranty sales. They have arranged small amounts of financing over the last few months and are facilitating proposals for mergers and acquisitions.





## **Table of Contents**

### **RESULTS OF OPERATIONS**

#### **COMPARISON OF THE THREE MONTHS ENDED JULY 31, 2006 AND 2005**

##### **NET REVENUES**

Net revenues for the fiscal quarter ended July 31, 2006 totaled \$970,773, down \$557,874 from the \$1,528,647 recognized in the quarter ended July 31, 2005. The decline is the result of continuing competitive pressures being experienced by the Company from vehicle manufacturers and other competitors as well as legislative changes in certain states that limited the companies that were allowed to underwrite policies in those states. In addition, the Company has not been able to generate significant revenues from its motorcycle rental operations.

##### **OPERATING EXPENSES**

Operating Expenses decreased to \$1,072,061 in the quarter ending July 31, 2006. This was a decrease of \$1,252,422 from the \$2,324,483 reported for the quarter ended July 31, 2005. The closure of the Blue Sky Motorcycle Rentals, Inc. in Denver, CO this past November was beneficial to the operating costs in the motorcycle segment, while the balance of the decrease is attributable to the Company's continued efforts at cost containment. The decline in operating costs was moderated some by the appearance of price inflation in the economy this year owing to higher energy costs.

##### **OTHER INCOME (EXPENSE)**

Total other income/expense for the quarter ended July 31, 2006 was income of \$211,105. This was an improvement of \$227,126 over the \$16,021 expense reported in the corresponding quarter of 2005, mainly due to the sales of the motorcycle operations.

#### **COMPARISON OF THE NINE MONTHS ENDED JULY 31, 2006 AND 2005**

##### **NET REVENUES**

The downward trend in revenues that has been noted in prior periods continued in the nine months ended July 31, 2006 with net revenues down \$825,276 from the comparable nine months in 2005. The decline is the result of continuing competitive pressures being experienced by the Company from vehicle manufacturers and other competitors as well as legislative changes in certain states that limited the companies that were allowed to underwrite policies in those states. There was also a decline in the motorcycle revenues since the operations were sold during this period.

##### **OPERATING EXPENSES**

Operating Expenses decreased to \$3,430,287 in the nine months ending July 31, 2006. This was a decrease of \$1,842,487 from the \$5,272,774 reported for the nine months ended July 31, 2005. The closure of the Blue Sky Motorcycle Rentals, Inc. in Denver, CO this past November and the subsequent sales of Escape Eagles and World Wide Rentals was beneficial to the operating costs in the motorcycle segment, while the balance of the decrease is attributable to the Company's continued efforts at cost containment. The decline in operating costs was moderated some by the appearance of price inflation in the economy this year owing to higher energy costs.

##### **OTHER INCOME (EXPENSE)**

Total other income/expense for the nine months ended July 31, 2006 was income of \$191,457. This was an increase of \$235,511 over the \$44,054 expense reported in the corresponding period of 2005, mostly due to the sales of the motorcycle operations.

## **Table of Contents**

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company has incurred losses in prior years and in two of the three quarters of 2006 and expects such losses to continue through 2006. In fiscal 2005 and earlier periods, the Company has used funds obtained from the exercise of stock options by its employees to supplement funds provided by operations. In the previous fiscal quarter a related party has advanced funds on demand notes and through the deferral of rent payments in order to overcome working capital deficiencies. The Company has granted the related party, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets. There is no assurance that additional advances will be made if additional working capital is required. The Company's auditors have expressed a doubt about the Company's ability to continue as a going concern in their opinion. The Company is attempting to reverse this downward trend with its motorcycle rental operations, with increased marketing contacts with other Internet vendors and further expansion into the motorcycle market through its subsidiary, National Motorcycle Dealers Association, LLC, Rent 2 Ride, Blue Sky Motorcycle Rentals and its Street Eagle licensed dealerships. The Company is seeking to grow its warranty business by means of a direct mail marketing program of a product warranty facilitated by inbound telemarketing with call centers in several cities, including Scottsdale, Az., Baton Rouge, La., and Atlanta, GA. These call centers produced additional gross sales of \$272,000.00 from inception of the program in April, 2006 through July, 2006.

The Company anticipates new warranty products for autos, Recreational Vehicles, and motorcycles. These new products will be marketed by MBA and member dealers of NMDA, Street Eagle, Rent2Ride, and Blue Sky. This growth will require additional capital through either borrowings or infusions of equity.

### **SEASONALITY**

The motorcycle rental business is seasonal in nature in that sales increase as weather becomes favorable and decline as weather worsens. To mitigate this affect on sales, the Company expects to relocate its rental assets with seasonal changes to its owned and/or licensed locations having the most favorable expected weather for motorcycle riding.

### **COMPARISON OF JULY 31, 2006 AND OCTOBER 31, 2005**

Working capital at July 31, 2006 consisted of current assets of \$2,739,000 and current liabilities of \$4,540,000, for a current ratio of 0.60 : 1. At October 31, 2005 the working capital ratio was 0.71 : 1 with current assets of \$3,383,000 and current liabilities of \$4,733,000. The negative trend continues as the Company has absorbed additional operating losses. Loans from the Company's principal shareholder have funded continuing operations.

Deferred Revenues decreased \$1,312,000 while Deferred Direct Costs decreased \$1,172,000 from balances at October 31, 2005. 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 is due to the overall decline in new policy sales that has been experienced over the last several years and changes in the contract terms of contracts in the deferral pool.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of July 31, 2006, the amount owed to insurance companies, \$357,000, is little changed from the \$349,000 owed at October 31, 2005.

**Table of Contents**

**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 insurance companies such as Old Republic Insurance Company and Capital Assurance Risk Retention Group, Inc., 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 variable interest rate outstanding debt or long-term receivables. Therefore, it is not subject to significant interest rate risk.

**ITEM 4. CONTROLS AND PROCEDURES**

We have evaluated, with the participation of our Chief Executive Officer/ Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer/Chief Financial Officer has concluded that our disclosure controls and procedures were not effective as of the end of the last reporting period and have moved to improve the controls covered by this report and appointed a new Audit company Epstein, Weber and Conover of Scottsdale, Arizona.

It has been noted that a material weakness exists in the internal controls over the newly acquired assets namely BSMR. It was noted that the recent experiences with the acquisition of BSMR clearly indicated that these controls needed to be reinforced in order to create an acceptable level of control over those assets. Further, in December, 2005, the Company's Chief financial officer resigned and the CEO has been acting as replacement. As such, the Company identified a material weakness due to a lack of a chief financial officer with appropriate knowledge of US GAAP and SEC reporting requirements. The Company has recognized these weaknesses and has established a group to evaluate those controls and to recommend changes to those internal controls to the Board of Directors.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**Table of Contents**

**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 has been named as a party to a lawsuit involving the plaintiff and the former owner of Blue Sky Motorcycle Rentals, Inc. ("BSMR"). The complaint alleges that the Company and the former owner of BSMR improperly utilized certain assets of the plaintiff as security for its borrowings. The Company has responded to the complaint by denying the allegations and intends to vigorously pursue all defenses available.

The Company has received a letter from an attorney representing the former owner of BSMR that alleges wrong doing, including securities violations, on the part of the Company and contends that certain of the representations and warranties made at the time of the purchase of BSMR were incorrect. The Company denies the allegations and contends that the former owner of BSMR misrepresented the ownership and location of BSMR's assets and misled the Company concerning the amount of BSMR's liabilities. The former owner has refused to transfer ownership of all of BSMR's assets to the Company. The Company has unilaterally terminated its consulting contract with the former owner of BSMR and believes it has no further obligations thereunder. At the direction of the Board of Directors of the Company, a subcommittee has been formed to vigorously pursue the location and title to the BSMR assets and to use all defenses available to answer any formal complaint received. To this end, the subcommittee has retained a legal firm to represent it in this matter and to pursue all possible claims against the former owner. MBA Holdings, Inc and MBA, Inc. has filed a complaint in the Superior Court of the State of Arizona, Case Number CV2006-004615, and were most recently awarded a Partial Judgment in the amount of \$622,000.00 total, and eleven (11) Domain Names and eleven (11) Websites including [www.blueskymotorcyclere rentals.com](http://www.blueskymotorcyclere rentals.com). The monetary award far exceeds the amount of a Note Payable balance of \$83,000 to the former owner on the books of MBA, Inc. At the time of filing of this document, no formal summons has been received relating alleged company wrong doing, however a formal complaint has been filed against the former owner of BSMR which resulted in a formal judgment against the former owner.

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 1A. RISK FACTORS**

In addition to the risk factors enumerated in Form 10K under Item 1A, it should be noted that during the current fiscal quarter a related party has advanced funds on demand notes and through the deferral of rent payments (See Note 4) in order to overcome working capital deficiencies. In prior years, the Company has granted the related party, Cactus Family Investments, LLC, a security interest in all of its unencumbered assets. There is no assurance that additional advances will be made if additional working capital is required. Based upon the foregoing, the accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern.

The Company continues to incur operating losses and expects such losses to continue thru 2006. The Company is attempting to reverse this downward trend with its Direct Mail Warranty sales and inbound telemarketing call center and has had gross sales of \$272,000.00 from the new Direct Mail Call Center activities and expects this trend to continue. The company is also working with increased marketing contacts with other Internet vendors and with further

expansion into the motorcycle market through its subsidiary, National Motorcycle Dealers Association, LLC and its Street Eagle licensed rental agencies. There is no assurance that these efforts will be successful in reversing the trend of operating losses.

**Table of Contents**

**ITEM 2. UNREGISTERED SALES OF EQUITY 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**

Exhibit 31 Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

19

---



**Table of Contents**

**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.

**M.B.A. HOLDINGS, INC.**

Dated: October 19, 2006

By: /s/ Gaylen M. Brotherson

---

Gaylen M. Brotherson  
Chairman of the Board, Chief Executive Officer and  
Chief Financial Officer

