M B A HOLDINGS INC
Form 10-Q
March 19, 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 January 31, 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 March 1, 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

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

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

ASSETS	JANUARY 31, 2001	OCTOBER 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 913,029	$ 1,128,281
Restricted cash	206,267	487,015
Investments	475,712	442,278
Accounts receivable, net of allowance for doubtful accounts of $19,025 (2001 and 2000)	323,915	404,370
Prepaid expenses and other assets	103,497	115,074
Deferred direct costs	5,221,374	5,048,367
Income tax receivable	155,437	155,437
Deferred income tax asset	550,333	387,787
Total current assets	7,949,564	8,168,609
PROPERTY AND EQUIPMENT:		
Computer equipment	241,303	226,777
Office equipment and furniture	166,290	165,919
Vehicle	16,400	16,400
Leasehold improvements	79,596	79,596
Capitalized software costs	27,289	26,959
Total property and equipment	530,878	515,651
Accumulated depreciation and amortization	(249,813)	(229,020)
Property and equipment - net	281,065	286,631
Other assets	46,169	46,170
Deferred direct costs	7,310,947	7,650,100
Deferred income tax asset	357,193	496,039
TOTAL	$ 15,944,938	$ 16,647,549

(CONTINUED)

See notes to condensed consolidated financial statements.

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	JANUARY 31, 2001	OCTOBER 31, 2000
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	$ 36,287	$ 437,214
Accounts payable and accrued expenses	717,107	753,802
Capital lease obligation - current portion	9,672	9,333
Deferred revenues	6,430,563	5,878,696
Total current liabilities	7,193,629	7,079,045
CAPITAL LEASE OBLIGATION - net of current portion	16,300	18,840
DEFERRED RENT	41,718	41,539
DEFERRED REVENUES	8,171,424	8,961,473
Total liabilities	15,423,071	16,100,897
COMMITMENTS AND CONTINGENCIES (Note 3)		
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	22,940	12,215
Retained earnings	351,564	387,074
Less: 31,600 shares of common stock in treasury, at cost	(55,500)	(55,500)
Total stockholders' equity	521,867	546,652
TOTAL	$15,944,938	$16,647,549

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
THREE MONTHS ENDED JANUARY 31, 2001 AND 2000

	JANUARY 31,	
	2001	2000
REVENUES:		
Vehicle service contract gross income	$ 1,687,361	$ 1,179,430

Net mechanical breakdown insurance income	277,181	570,357
MBI administrative service revenue	166,924	162,057
Total net revenues	2,131,466	1,911,844
OPERATING EXPENSES:		
Direct acquisition costs of vehicle service contracts	1,609,238	1,115,312
Salaries and employee benefits	365,617	375,409
Mailings and postage	30,822	82,193
Rent and lease expense	90,263	65,943
Professional fees	23,064	42,081
Telephone	16,406	24,623
Depreciation and amortization	20,793	16,416
Merchant and bank charges	3,191	5,219
Insurance	11,058	10,287
Supplies	4,999	10,486
License and fees	3,302	4,170
Other operating expenses	30,912	34,661
Total operating expenses	2,209,665	1,786,800
OPERATING INCOME (LOSS)	(78,199)	125,044
OTHER INCOME (EXPENSE):		
Finance and other fee income	5,081	15,708
Interest income	16,102	46,418
Interest expense and fees	(2,194)	(729)
Other expense		(390)
Other income - net	18,989	61,007
INCOME (LOSS) BEFORE INCOME TAXES	(59,210)	186,051
INCOME TAXES	(23,700)	74,420
NET INCOME (LOSS)	$ (35,510)	$ 111,631
BASIC NET INCOME (LOSS) PER SHARE	$ (0.02)	$ 0.06
DILUTED NET INCOME (LOSS) PER SHARE	$ (0.02)	$ 0.05
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	1,980,187	2,011,787
AVERAGE NUMBER OF COMMON AND DILUTIVE SHARES OUTSTANDING	1,980,187	2,093,134
Net income (loss)	$ (35,510)	$ 111,631
Other comperhensive income net of tax:		
Net unrealized gain on available-for-sale securities	10,725	
Comprehensive income (loss)	$ (24,785)	$ 111,631

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)
THREE MONTHS ENDED JANUARY 31, 2001 AND 2000

	JANUARY 31, 2001	JANUARY 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (35,510)	$ 111,631
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,793	16,416
Deferred income taxes	(23,700)	(103,841
Changes in assets and liabilities:		
Restricted cash	280,748	685,525
Accounts receivable	80,455	1,537
Prepaid expenses and other assets	11,578	12,602
Deferred direct costs	166,146	(922,926
Net premiums payable to insurance companies	(400,927)	(636,985
Accounts payable and accrued expenses	(36,695)	16,789
Income taxes payable	(21,739)	
Deferred rent	179	2,358
Deferred revenues	(238,182)	998,446
Net cash (used in) provided by operating activities	(175,115)	159,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,227)	
Purchases of short-term investments	(22,709)	
Net cash used in investing activities	(37,936)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(2,201)	
Net cash used in financing activities	(2,201)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(215,252)	159,813
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,128,281	3,424,934
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 913,029	$ 3,584,747
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 5,147	$ 125
Cash paid for income taxes	$	$ 200,000

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED JANUARY 31, 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 ended January 31, 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 10-K for the year ended October 31, 2000.

2. NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated in accordance with 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.

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

	THREE MONTHS ENDED JANUARY 31,	
	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		81,347
Average number of common and dilutive shares outstanding	1,980,187	2,093,134

3. OTHER COMPREHENSIVE INCOME

Other comprehensive income (loss) for the three months ended January 31, 2001 resulted from unrealized gains of $10,725 on available-for-sale investments. There was no other comprehensive income (loss) during the three months ended January 31, 2000.

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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 January 31, 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 January 31, 2001.

7. NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial statements and footnotes that appear elsewhere in this report.

FORWARD-LOOKING STATEMENTS:

This report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by us from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "anticipate," and "project," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in section 27A of the Securities and Exchange Act of 1934, as amended. Such statements may include, but not be limited to, projections of revenues, income or loss, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation, and plans relating to our products or services, as well as assumptions relating to the foregoing. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Report, including the Notes to Condensed Consolidated Financial Statements (Unaudited) and "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED JANUARY 31, 2001 AND 2000

Total revenues for the quarter ended January 31, 2001 were approximately $2,131,000, an increase of $219,000 from net revenues of $1,912,000 for the quarter ended January 31, 2000. The increase in revenues is due to the recognition of deferred revenues from prior years related to vehicle service contract ("VSC") gross income.

Operating income (loss) decreased by $203,000 to an operating loss of $78,000 for the quarter ended January 31, 2001, from an operating income of $125,000 for the quarter ended January 31, 2000. The decrease is primarily due to a decrease in mechanical breakdown insurance ("MBI") sales during the quarter ended January 31, 2001 compared to the quarter ended January 31, 2000.

Total operating expenses including direct VSC costs were $2,210,000 for the quarter ended January 31, 2001, compared to $1,787,000 for the quarter ended January 31, 2000. The increase is due to an increase in direct VSC costs recognized from deferred acquisition costs. This is partially offset by a decrease in mailings and postage due to the phase out of the direct mail operations. As a percentage of net revenues, operating expenses were 103.7 percent for the quarter ended January 31, 2001, compared to 93.5 percent for the quarter ended January 31, 2000. The change in the margin was attributable to the decrease in MBI sales.

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Total other income decreased by $42,000 from $61,000 for the quarter ended January 31, 2000 to $19,000 for the quarter ended January 31, 2001. The decrease was primarily due to a decrease in cash 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.

Net loss for the quarter ended January 31, 2001 was $36,000 compared to net income for the quarter ended January 31, 2000 of $112,000, which is a result of the foregoing factors.

LIQUIDITY AND CAPITAL RESOURCES

COMPARISON OF JANUARY 31, 2001 AND OCTOBER 31, 2000

Working capital at January 31, 2001 consisted of current assets of $7,950,000 and current liabilities of $7,194,000, 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 January 31, 2001, the Company's cash position decreased to $1,119,000 from $1,615,000 at October 31, 2000. Of the $1,119,000, $206,000 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. This 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, decreased by $166,000 to $12,532,000 at January 31, 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 decrease in these costs is due to more costs recognized as expense than deferred onto the balance sheet from a decrease in sales.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of January 31, 2001, the amount owed to the insurance companies decreased to $36,000 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, decreased by $238,000 to $14,602,000 at January 31, 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 decrease is primarily due to the decrease in sales in the current quarter.

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.

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

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: March 15, 2001
Gaylen Brotherson Chairman of the Board and Chief Executive Officer	
By: /s/ Michael J. Zimmerman	Dated: March 15, 2001
Michael J. Zimmerman, Chief Financial Officer	