

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

M B A HOLDINGS INC  
Form 10-Q  
September 15, 2004

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, 2004.

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

9419 E. San Salvador, Suite 105  
Scottsdale, AZ 85258-5510  
(Address of principal executive offices) (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 (no par value, \$0.0001 stated value) outstanding at September 7, 2004: 107,801,870 shares.

MBA Holdings, Inc and Subsidiary

PART I - FINANCIAL INFORMATION

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

#### CONDENSED CONSOLIDATED BALANCE SHEETS JULY 31, 2004 AND OCTOBER 31, 2003

ASSETS	July 31, 2004	October 31, 2003
	(Unaudited)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 724,691	\$ 448,240
Restricted cash	23,879	291,437
Investments	--	117,203
Accounts receivable	325,815	232,184
Prepaid expenses and other assets	2,254	5,248
Deferred direct costs	2,856,305	3,730,410
	3,932,944	4,824,722
Total current assets	3,932,944	4,824,722

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PROPERTY AND EQUIPMENT:		
Computer equipment	320,844	309,128
Office equipment and furniture	140,259	140,259
Vehicle	15,000	15,000
Leasehold improvements	80,182	80,182
	-----	-----
Total property and equipment	556,285	544,569
Accumulated depreciation and amortization	(451,347)	(426,661)
	-----	-----
Property and equipment - net	104,938	117,908
Deferred compensation	60,000	--
Deferred direct costs	5,393,032	4,804,532
	-----	-----
TOTAL ASSETS	\$ 9,490,914	\$ 9,747,162
	=====	=====

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS  
JULY 31, 2004 AND OCTOBER 31, 2003

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LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Net premiums payable to insurance companies  
Accounts payable and accrued expenses  
Line of credit borrowings  
Accounts payable to affiliated entity  
Capital lease obligation - current portion  
Deferred revenues

Total current liabilities

Capital lease obligations - net of current portion  
Deferred rent  
Deferred income tax liability  
Deferred revenues

Total liabilities

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIT:

Preferred stock, no par value; \$.0001 stated value 100,000,000 shares authorized in 2004 and \$.001 par value 20,000,000 authorized in 2003; 2,000,000 Class A convertible preferred issued and outstanding in 2004, none issued and outstanding in 2003  
Common stock, no par value, \$.0001 stated value, 800,000,000 shares authorized (post split), 86,617,870 shares issued (post split) in 2004 and

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20,617,870 (post split) in 2003, 86,301,870 shares (post split)  
 outstanding in 2004 and 20,301,870 (post split) in 2003  
 Additional paid-in-capital  
 Accumulated other comprehensive income  
 Accumulated deficit  
 Less: 316,000 (post split) shares of common stock in treasury, at cost

Total stockholders' deficit

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

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

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND  
 COMPREHENSIVE LOSS (UNAUDITED)  
 THREE AND NINE MONTHS ENDED JULY 31, 2004 AND 2003

	Three Months Ended July 31,	
	2004	2003
<b>REVENUES:</b>		
Vehicle service contract gross income	\$ 1,219,052	\$ 1,301,469
Net mechanical breakdown insurance income	5,919	31,070
MBI brokerage and administrative service revenue	78,400	68,118
Total net revenues	1,303,371	1,400,657
<b>OPERATING EXPENSES:</b>		
Direct acquisition costs of vehicle service contracts	1,113,281	1,227,856
Salaries and employee benefits	358,416	259,026
Mailings and postage	2,733	9,094
Rent and lease expense	73,602	86,708
Professional fees	17,019	32,647
Telephone	10,137	43,981
Depreciation and amortization	6,529	17,951
Merchant and bank charges	3,592	2,265
Insurance	1,840	5,865
Supplies	1,181	1,323
License and fees	4,883	3,812
Other operating expenses	21,009	34,818
Total operating expenses	1,614,222	1,725,346
<b>OPERATING LOSS</b>	(310,851)	(324,689)
<b>OTHER INCOME (EXPENSE):</b>		
Finance and other fee income	(942)	7,827
Interest income	223	1,955
Interest expense and fees	(6,678)	(460)
Other income (expense) - net	(7,397)	9,322

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LOSS BEFORE INCOME TAXES	(318,248)	(315,367)
INCOME TAXES	--	59,643
NET LOSS	\$ (318,248)	\$ (375,010)
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.01)	\$ (0.02)
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	50,880,713	19,801,870
Net loss	\$ (318,248)	\$ (375,010)
Other comprehensive gain net of tax: Net unrealized gain on available-for-sale securities	--	408
Comprehensive loss	\$ (318,248)	\$ (374,602)

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
YEAR ENDED OCTOBER 31, 2003 AND NINE MONTHS ENDED JULY 31, 2004

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Additional Paid In-Capital	Accumulated Other Comprehensive Income	(
	-----	-----	-----	-----	-----	-----	-----
BALANCE, NOVEMBER 1, 2002			2,011,787	\$ 2,012	\$ 200,851	\$ (5,418)	\$
Unrealized gain on available-for-sale securities						5,537	
Issuance of common shares			50,000	50	79,950		
Net loss	--	--	--	--	--	--	(1
BALANCE, OCTOBER 31, 2003	-	-	2,061,787	2,062	280,801	119	(2
Realization of gain on available-for-sale securities						(119)	
Forward stock split effective March 22, 2004			18,556,083				
Issuance of common shares			66,000,000	6,600	1,075,196		

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Issuance of preferred shares	2,000,000	200			199,800	
Net loss	--	--	--	--	--	--
BALANCE JULY 31, 2004	2,000,000	\$ 200	86,617,870	\$ 8,662	\$ 1,555,797	- \$ (3)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
NINE MONTHS ENDED JULY 31, 2004 AND 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss  
Adjustments to reconcile net loss to net cash used in operating activities:  
Depreciation and amortization  
Related party rent expense accrued but not paid  
Gain (loss) on sale of fixed assets  
Deferred income taxes  
Issuance of Class A preferred stock in return for related party loans  
Changes in assets and liabilities:  
Restricted cash  
Accounts receivable  
Prepaid expenses and other assets  
Deferred direct costs  
Net premiums payable to insurance companies  
Accounts payable and accrued expenses  
Income taxes receivable  
Deferred rent  
Deferred income taxes  
Deferred revenues

Net cash (used in) operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Retirement of equipment  
Purchase of property and equipment  
Sale of investments

Net cash provided by investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Drawings on line of credit  
Repayments of line of credit drawings  
Proceeds (repayment) of borrowing from related party  
Issuance of common stock  
Payments on capital lease obligation

Net cash provided by (used in) financing activities

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS, END OF PERIOD

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest

Cash received from income tax refunds

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
NINE MONTHS ENDED JULY 31, 2004 AND 2003

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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. 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, 2003, expressed concern about this uncertainty. The accompanying financial statements do not include any adjustment that might arise from the outcome of this assumption. 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 nine months ended July 31, 2004 may not be indicative of the results of operations that may be expected for the year ending October 31, 2004. 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, 2003.

### 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 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. SFAS No. 128 requires that loss per common share assuming dilution is computed on the same weighted average number of shares of common stock outstanding. 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 A preferred stock and employee stock options for the same reason. The average number of outstanding shares for basic and dilutive net loss per share are 31,162,943 (post split) in

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2004 and 19,801,870 (post split) in 2003. The 10-1 forward stock split is reflected retroactively.

### 3. DEFERRED COMPENSATION

On June 17, 2004, the Company acquired 100 % of the outstanding membership interests in First Eagle Group, LLC ("First Eagle") and expects to enter into employment contracts with three of the former members of First Eagle. First Eagle was a start up venture that did not possess substantial assets. Rather, its value is derived from the continuing services of the three individuals to the Company.

The recorded value of the deferred compensation is based upon the fair market value of the common shares that were issued to the members of First Eagle in return for their membership interests. The employment contracts, in addition to providing for salary and fringe benefits, provide incentive compensation to the individuals upon the achievement of specified sales goals in the form of direct compensation and in the form of additional stock grants and options. As of July 31, 2004, none of these goals have been achieved.

### 4. OTHER COMPREHENSIVE GAIN (LOSS)

In March 2004, the Company completed the liquidation of its available-for-sale investments. Accordingly, there were no unrealized gains reported in the current period. Other comprehensive gain for the three months ended July 31, 2003 resulted from unrealized gains of \$408 on available-for-sale investments. During the nine months ended July 31, 2003, there were \$1,284 of unrealized gains on available-for-sale investments.

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### 5. INVESTMENTS

At October 31, 2003, all of the Company's investments are classified as available-for-sale and are stated at estimated fair value determined by the quoted market prices. At July 31, 2004, the Company has sold all such investments and realized all gains and losses.

### 6. INCOME TAXES

There is no current provision for income taxes in the periods ended July 31, 2004 and 2003 as the Company has recovered all available federal income taxes paid in previous years. 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. As the realization of deferred tax assets is considered doubtful, a valuation allowance has been provided to eliminate that asset in both the current period and the year ended October 31, 2003.

The Internal Revenue Service has completed an examination of the tax year 2002. Adjustments were made to the loss carryforward balances because certain expenses that were deducted in that year were not paid in accordance with the requirements of the Internal Revenue Code. These expenses will be deducted when paid in the current and future years.

### 7. RELATED PARTY TRANSACTIONS

The Company leases its office space from Cactus Family Investments, LLC on a month-to-month basis. The managing member of Cactus Family Investments, LLC is



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Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was \$71,895 and \$81,640 for the three months ended July 31, 2004 and 2003 and \$219,115 and \$234,083 for the nine months ended July 31, 2004 and 2003, respectively. The current lease expired on December 31, 2003 and is renewed monthly by agreement between the parties.

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.

### 8. RECAPITALIZATION

In March 2004, the Company increased its authorized but unissued preferred stock from 20,000,000 shares to 100,000,000 shares, changed the preferred stock from \$.001 par value to no par value, \$.0001 stated value and created a Class A Preferred Stock consisting of 2,000,000 shares that are assigned the voting power of one hundred (100) voting shares for each Preferred Stock share. Further, each Preferred Stock share is convertible into one hundred (100) Common Stock shares at the option of the holder thereof. The Company subsequently issued the 2,000,000 shares of Class A Preferred Stock to Cactus Family Investments, LLC, an affiliated company (See Note 7 above), in exchange for \$200,000 of rent and other debt due to that entity.

In addition, the Company increased the number of its authorized common shares to 800,000,000, changed the par value of those shares to no par value with a stated value of \$.0001 and increased its issued Common Stock shares to 20,617,870 shares by means of a 10 - 1 forward stock split.

As of April 30, 2004, the Company holds 316,000 (post split) 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.

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### 9. 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, 2004, the Company has granted options for 63,000,000 shares to selected employees. Compensation expense of \$253,582 was recorded in connection with these transactions. As of July 31, 2004, there were 10,000,000 options outstanding. All of these options were exercised in August 2004.

On that same dates, 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

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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, 2004, the Company has granted options for 4,000,000 shares to selected directors/consultants. Compensation expense of \$121,541 was recorded in connection with these transactions. As of July 31, 2004 there were no options outstanding under this plan. All options were exercised at that date.

### 10. 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 had available a \$200,000 working capital line of credit which was renewed on April 30, 2003 and expired in February, 2004. 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 were secured by the Company's investments. The line of credit was secured by a pledge of the Company's investments in marketable securities. The line of credit was repaid and cancelled upon its maturity.

### 11. NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued Interpretation No. 46 (R), "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.

### 12. RECLASSIFICATIONS

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

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

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

### FORWARD-LOOKING STATEMENTS:

This report on Form 10-Q contains forward-looking statements. Additional written

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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 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 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

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There is no current provision for income taxes in the periods ended July 31, 2004 and 2003 as the Company has recovered all available federal income taxes paid in previous years. 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. As the realization of deferred tax assets is considered doubtful, a valuation allowance has been provided to eliminate that asset in both the current period and the year ended October 31, 2003.

The Internal Revenue Service has completed an examination of the tax year 2002. Adjustments were made to the loss carryforward balances because certain expenses that were deducted in that year were not paid in accordance with the requirements of the Internal Revenue Code. These expenses will be deducted when paid in the current and future years.

### RESULTS OF OPERATIONS

#### COMPARISON OF THREE MONTHS ENDED JULY 31, 2004 AND 2003

##### NET REVENUES

Net revenues for the fiscal quarter ended July 31, 2004 totaled \$1,219,000, down \$82,000 from the \$1,301,000 recognized in the quarter ended July 31, 2003. The 6.3% 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.

##### OPERATING EXPENSES

Operating costs decreased to \$1,614,000 in the quarter ended July 31, 2004 down \$111,000 from the \$1,725,000 expended in the quarter ended July 31, 2003. The decrease is the result of a continuation of the Company's actions to curtail expenses wherever possible and of a 3% decrease in the cost of the mix of products sold. The overall decline in costs was offset, in part, by increased compensation expense from the new employees and the stock option plans.

The deferred compensation associated with the First Eagle Group, LLC acquisition is included in the quarterly results as the individuals are integrated into the Company's staff. Progress has been made in establishing new projects and redirecting existing projects but the returns are not expected to be significant in this fiscal year.

##### OTHER INCOME (EXPENSE)

Total other income declined in the quarter ended July 31, 2004 by approximately \$17,000 below the comparable 2003 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 2004 Quarter included lesser amounts of fee income and included significant interest expense that was incurred as a result of borrowings from the line of credit and related parties.

##### INCOME TAXES

There was no provision for income taxes in the quarter ended July 31, 2004 because the Company has already recovered all federal income taxes paid in prior years to the extent available. In the quarter ended July 31, 2003, provision was

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made for the tax consequences arising from changes in the temporary differences created by the fluctuation in the deferred revenue and deferred cost balances.

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### COMPARISON OF THE NINE MONTHS ENDED JULY 31, 2004 AND 2003

#### NET REVENUES

The downward trend in revenues that has been noted in prior periods continued in the nine months ended July 31, 2004 with net revenues down \$300,000 from the comparable nine months in 2003. The number of contracts and policies sold continues to decline as a result of increased competitive pressure from the vehicle manufacturers and others.

#### OPERATING EXPENSES

Operating costs decreased to \$4,693,000 in the nine months ended July 31, 2004 down \$479,000 from the \$5,172,000 expended in the nine months ended July 31, 2003. 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) declined in the nine months ended July 31, 2004 by approximately \$53,000 over the comparable 2003 period. As explained above, the nine 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 2004 period contained this lesser amounts of the fee income and also included an additional \$30,000 of interest expense incurred as a result of line of credit borrowings and amounts due to affiliates.

#### INCOME TAXES

Provision for income taxes in the nine months ended July 31, 2004 and 2003 were recorded in recognition of changes in the temporary differences created by the fluctuation in the deferred revenue and deferred cost balances.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company incurred significant losses during the past fiscal year and has experienced additional losses in prior years. A related party has advanced funds on demand notes and through the deferral of rent payments in order to overcome working capital deficiencies during the year. In January 2004, the Company 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 lack of continuing working capital infusions could affect future operations. Accordingly, the accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred a loss in the first three quarters of 2004 and expects such losses to continue further into 2005. The Company continues to pursue cost cutting measures, to relieve it of obligations to provide uncompensated services and to seek additional business to reduce working capital needs.

### COMPARISON OF JULY 31, 2004 AND OCTOBER 31, 2003

Working capital at July 31, 2004 consisted of current assets of \$3,933,000 and current liabilities of \$5,266,000, or a current ratio of 0.75 : 1. At October

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31, 2003 the working capital ratio was also 0.75 : 1 with current assets of \$4,825,000 and current liabilities of \$6,412,000. The negative trend continues as the Company has absorbed additional operating losses. Loans from the Company's principal shareholder and funds derived from the exercise of stock options have funded continuing operations.

Deferred Revenues decreased \$237,000 and Deferred Direct Costs decreased \$286,000 from balances at October 31, 2003. 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.

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The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of July 31, 2004, the amount owed to insurance companies decreased \$260,000 below the balance at October 31, 2003. 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 Old Republic Insurance Company and Heritage Warranty Mutual Insurance 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 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 nine months ended July 31, 2004, we did not make any significant changes in, nor take any corrective actions regarding our internal controls or other factors that could significantly affect these controls. We periodically review our internal controls for effectiveness and we have performed an evaluation of disclosure controls and procedures during this quarter. We will conduct a similar evaluation each quarter.

## PART II - OTHER INFORMATION

### Item 1 Legal Proceedings

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance and personnel matters and of disputes over outstanding accounts. The Company is currently involved in a dispute with one of its associated insurance companies over alleged wrongdoing, an alleged breach of its Administrative Agreement and over reimbursement for claims and cancellation expenditures. The Company maintains a \$40,000 reserve for claims arising in the

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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

- a) Securities sold -- On June 17, 2004, the Company acquired 100% of the outstanding membership interests in First Eagle Group, LLC ("First Eagle") and expects to enter into employment contracts with three of the former members of First Eagle. First Eagle was a start up venture that did not possess substantial assets. Rather, its value is derived from the continuing services of three individuals under contract to the Company.
- b) Underwriters and other purchasers -- The 3,000,000 common shares were exchanged with the members of First Eagle Group, LLC for its assets. Three of those members expect to enter into employment contracts with Mechanical Breakdown Administrators, Inc.
- c) Consideration -- The shares were issued as restricted shares at the market price of \$.02 per share, which was determined to be the market price on the date of issuance. There was no underwriting discount or commission paid.
- d) Exemption from registration claimed -- The Securities Act of 1933 Section 4 (2).
- e) Terms of conversion or exercise -- None
- f) Use of proceeds -- The Company recorded the issued shares as deferred compensation at July 31, 2004 and will amortize the cost over the next 12 months.

### Item 3 Defaults upon Senior Securities

None

### Item 4 Submissions of Matters to a Vote of Security Holders

On June 10, 2004 and July 12, 2004, pursuant to Nevada statute section 78.315, the holders of a majority of the outstanding common stock shares of M.B.A. Holdings, Inc., a Nevada corporation (the "Corporation"), waived the required notice of a shareholder meeting and consented to the adoption of the M.B.A. Holdings, Inc. Employee Stock Incentive Plan for the Year 2004, the M.B.A.

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Holdings, Inc. Employee Stock Incentive Plan for the Year 2004 -B, 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.

### Item 5 Other Information

None

### Item 6 Exhibits and Reports on form 8-K

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(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

Form 8-K was filed June 23, 2004 announcing the acquisition of First Eagle Group, LLC. The acquisition was determined to consist of a start up company with few assets and employment contracts with three individuals.

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 September 14, 2004  
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By: /s/ Gaylen Brotherson  
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Gaylen Brotherson  
Chairman of the Board and  
Chief Executive Officer

Dated: September 14, 2004  
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By: /s/ Dennis M. O'Connor  
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Dennis M. O'Connor  
Chief Financial Officer