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M B A HOLDINGS INC
Form 10-Q
September 12, 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 July 31, 2001.

M.B.A. HOLDINGS, INC.
(Exact name of business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

9419 E. San Salvador, Suite 105
Scottsdale, AZ 85258-5510
(480)-860-2288
(Address of principal executive offices, including telephone number)

Number of Common Stock shares (.001 par value) outstanding at August 31, 2001:
1,980,187

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

MBA Holdings, Inc

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

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

ASSETS	July 31, 2001 ----- (Unaudited)	October 31, 2000 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,027,881	\$ 1,128,281
Restricted cash	343,430	487,015
Investments (Note 5)	344,288	442,278
Accounts receivable, net of allowance for doubtful accounts of \$19,025 (2001 and 2000)	104,414	404,370
Prepaid expenses and other assets	94,162	115,074
Deferred direct costs (Note 2)	2,512,225	5,048,367
Income tax receivable	382,812	155,437
Deferred income tax asset	250,678	387,787
	-----	-----
Total current assets	5,059,890	8,168,609
	-----	-----
PROPERTY AND EQUIPMENT:		
Computer equipment	253,994	226,777
Office equipment and furniture	140,043	165,919
Vehicle	16,400	16,400
Leasehold improvements	80,182	79,596
Capitalized software costs	27,749	26,959
	-----	-----
Total property and equipment	518,368	515,651
Accumulated depreciation and amortization	(268,369)	(229,020)
	-----	-----
Property and equipment - net	249,999	286,631
	-----	-----
Other assets		46,170
Deferred direct costs (Note 2)	2,406,962	7,650,100
Deferred income tax asset	287,633	496,039
	-----	-----
TOTAL	\$ 8,004,484	\$ 16,647,549
	=====	=====

See notes to condensed consolidated financial statements.

(Continued)

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	July 31, 2001	October 31, 2000
	----- (Unaudited)	-----
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	\$ 496,100	\$ 437,200
Accounts payable and accrued expenses	738,391	753,800
Capital lease obligation - current portion	10,511	9,300
Deferred revenues (Note 2)	3,008,264	5,878,600
	-----	-----
Total current liabilities	4,253,266	7,079,000
CAPITAL LEASE OBLIGATION - net of current portion	10,913	18,800
UNCLAIMED PROPERTY	959	
DEFERRED RENT	42,077	41,500
DEFERRED REVENUES (Note 2)	3,138,444	8,961,400
	-----	-----
Total liabilities	7,445,659	16,100,800
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 7)		
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	2,000
Additional paid-in-capital	200,851	200,800
Accumulated other comprehensive income (loss)	(14,175)	12,200
Retained earnings	425,637	387,000
Treasury stock (at cost), 31,600 shares	(55,500)	(55,500)
	-----	-----
Total stockholders' equity	558,825	546,600
	-----	-----
TOTAL	\$ 8,004,484	\$ 16,647,500
	=====	=====

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
 COMPREHENSIVE INCOME (UNAUDITED)

THREE AND NINE MONTHS ENDED JULY 31, 2001 AND 2000

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	Three Months Ended July 31,	
	2001	2000
	-----	-----
REVENUES (Note 2):		
Vehicle service contract gross income	\$ 10,464,155	\$ 1,563,883
Net mechanical breakdown insurance income	97,420	515,482
MBI administrative service revenue	252,192	165,929
	-----	-----
NET REVENUES	10,813,767	2,245,294
	-----	-----
OPERATING EXPENSES:		
Direct acquisition costs of vehicle service contracts (Note 2)	9,965,701	1,469,518
Salaries and employee benefits	354,909	408,034
Mailings and postage	8,382	53,108
Rent and lease expense	71,252	65,546
Professional fees	22,563	23,365
Telephone	20,458	38,395
Depreciation and amortization	20,176	17,284
Merchant and bank charges	12,239	7,596
Insurance	8,389	9,279
Supplies	10,321	8,578
License and fees	7,909	1,446
Other operating expenses	27,574	50,172
	-----	-----
Total operating expenses	10,529,873	2,152,321
	-----	-----
OPERATING INCOME	283,894	92,973
Finance fee income	5,065	10,316
Interest income	11,207	29,251
Other income	581	367
Interest expense	(1,331)	(4,375)
Realized gains (losses) on investments	(5,309)	12
	-----	-----
Total other income	10,213	35,571
	-----	-----
INCOME BEFORE INCOME TAXES	294,107	128,544
INCOME TAXES	120,671	53,100
	-----	-----
NET INCOME	\$ 173,436	\$ 75,444
	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.09	\$ 0.04
	=====	=====
DILUTED NET INCOME PER SHARE	\$ 0.08	\$ 0.04
	=====	=====
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	1,980,187	2,001,220
	=====	=====
AVERAGE NUMBER OF COMMON AND DILUTIVE SHARES OUTSTANDING	2,104,488	2,090,736
	=====	=====
Net income	\$ 173,436	\$ 75,444
Other comprehensive income (loss) net of tax:		
Net unrealized income (loss) on available for sale securities	(3,813)	6,538
	-----	-----
Comprehensive income	\$ 169,623	\$ 81,982
	=====	=====

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)
NINE MONTHS ENDED JULY 31, 2001 AND 2000

	JULY 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 38,563	\$ 23,388
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	59,002	5,000
Gain on sale of equipment	(5,510)	(1,000)
Deferred income taxes	345,515	(13,000)
Changes in assets and liabilities:		
Restricted cash	143,585	44,000
Accounts receivable	299,956	3,000
Prepaid expenses and other assets	67,082	1,000
Deferred direct costs	7,779,280	(3,388)
Net premiums payable to insurance companies	58,886	(1,438)
Accounts payable and accrued expenses	(15,411)	1,000
Income tax receivable	(227,375)	(3,000)
Deferred rent	538	(1,000)
Unclaimed property	959	(1,000)
Deferred revenues	(8,693,461)	3,650
Net cash used in operating activities	(148,391)	(53,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(40,860)	(4,000)
Proceeds from sale of equipment	24,000	(1,000)
Sale (purchase) of marketable securities, net	71,600	(45,000)
Net cash provided by (used in) investing activities	54,740	(50,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(6,749)	(5,000)
Payments on capital lease obligation	(6,749)	(5,000)
Net cash used in financing activities	(6,749)	(5,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(100,400)	(1,090)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,128,281	3,420
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,027,881	\$ 2,330
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 9,745	\$ 1,000
Cash paid for income taxes	(1,000)	(1,000)

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NINE MONTHS ENDED JULY 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 and nine months ended July 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 10K for the year ended October 31, 2000.

2. SIGNIFICANT EVENTS

Two of the Company's underwriters transferred the administration of the contracts and policies sold and administered by MBA to a third party. If the Company had retained administrative authority over those policies and contracts, the deferred amounts would be recognized into income over the next six years. Since MBA is no longer the administrator of the contracts and policies, all of the revenue and direct acquisition costs associated with them was recognized except for the revenue and direct acquisition costs relating to future cancellations, as discussed below. An additional \$8,488,000 of deferred VSC revenue, \$8,089,000 of deferred direct acquisition costs and \$345,000 of deferred administrative service fee revenue related to these contracts and policies was recognized as income and operating expenses in the third quarter of 2001.

The Company continues to perform certain administrative duties relating to the calculation and administration of policy and contract cancellation. The remaining balance in deferred revenue and deferred direct acquisition costs relating to these underwriters to offset against future cancellation administration equals \$1,537,000 of deferred revenue and \$1,455,000 of deferred direct acquisition cost. The Company will recognize this revenue and expense over the remaining life of the policy or contract. If the policy or contract is cancelled, then the company will recognize the remaining portion of the unearned revenue and direct acquisition cost in the month the policy or contract is cancelled.

The Company also wrote off a receivable from the underwriters for deferred administrative costs. When a policy or contract is sold, the Company would remit a portion of their commission to the underwriter for administrative services. As the policies and contracts expire, the underwriters would return the commission submitted. Per the administrative release agreements, the Company agreed to forfeit all of the deferred administrative costs remitted to the underwriters. The total amount written off equals \$254,000. The net effect of the above adjustments was to increase net operating income by \$490,000.

3. NET INCOME PER SHARE

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Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, EARNINGS PER SHARE which requires dual presentation of BASIC and DILUTED EPS on the face of the statements of income (loss) and requires a reconciliation of the numerator and denominator of basic and diluted EPS calculations. Basic income (loss) per common share is computed on the weighted average number of shares of common stock outstanding during each period. Income per common share assuming dilution is computed on the weighted average number of shares of common stock outstanding plus additional shares representing the exercise of outstanding common stock options using the treasury stock method. Below is the reconciliation required by SFAS No. 128. All common stock options are anti-dilutive for the three and nine months ended July 31, 2001.

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

	THREE MONTHS ENDED JULY 31,	
	----- 2001	2000 -----
Average number of common shares outstanding - Basic	1,980,187	2,001,220
Dilutive shares from common stock options calculated using the treasury stock method	124,401	89,516
Average number of common and dilutive shares outstanding	2,104,488 =====	2,090,736 =====
	NINE MONTHS ENDED JULY 31,	
	----- 2001	2000 -----
Average number of common shares outstanding - Basic	1,980,187	2,008,617
Dilutive shares from common stock options calculated using the treasury stock method	94,821	123,610
Average number of common and dilutive shares outstanding	2,074,908 =====	2,132,227 =====

4. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) for the nine months ended July 31, 2001 resulted from unrealized losses of \$26,390 on available-for-sale investments. There was no additional other comprehensive income (loss) during the nine months ended July 31, 2001.

5. 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.

6. TREASURY STOCK

As of July 31, 2001, the Company has purchased 31,600 shares of the Company's common stock. These shares were purchased for the purpose of bonuses to employees or outside agents. Management will explore any additional uses of the stock.

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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. 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 July 31, 2001.

8. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, requires that an enterprise recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair

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value. The Company adopted SFAS No. 133 effective November 1, 2000, and the adoption did not have a material impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and the use of the pooling-of-interests method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company anticipates the adoption of these pronouncements will not have a material effect on its financial position or results of operations.

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

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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

In the third quarter of 2001, the Company recognized an additional \$8,488,000 of deferred VSC revenue, \$8,089,000 of deferred direct acquisition costs and \$345,000 of deferred administrative service fee revenue into income and operating expenses. Two of the Company's underwriters transferred the administration of the contracts and policies sold and administered by MBA to a third party. If the Company had retained administrative authority over those policies and contracts, then the above amounts would have been recognized into income over the next six years. Since MBA is no longer the administrator of the contracts and policies, all of the revenue and direct acquisition costs associated with them have been recognized except for the revenue and direct acquisition costs relating to future cancellations, as discussed below.

The Company still has administrative duties relating to the calculation and administration of policy and contract cancellation. The remaining balance in deferred revenue and deferred direct acquisition costs relating to these underwriters to offset against future cancellation administration equals \$1,537,000 of deferred revenue and \$1,455,000 of deferred direct acquisition cost. The Company will recognize this revenue and expense over the life of the policy or contract. If the policy or contract is cancelled, then the company will recognize the remaining portion of the unearned revenue and direct acquisition cost in the month the policy or contract is cancelled.

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The Company also expensed a receivable from the underwriters for deferred administrative costs. When a policy or contract is sold, the Company would remit a portion of their commission to the underwriter for administrative services. As the policies and contracts expire, the underwriters would return the commission submitted. Per the administrative release agreements, the Company agreed to forfeit all of the deferred administrative costs remitted to the underwriters. The total amount expensed equals \$254,000. The net amount the company has realized as revenue equals \$490,000.

COMPARISON OF THE THREE MONTHS ENDED JULY 31, 2001 AND 2000

Net revenues for the quarter ended July 31, 2001 totaled approximately \$10,814,000, an increase of \$8,569,000 from net revenues of \$2,245,000 for the quarter ended July 31, 2000. The increase in revenues is primarily due to the recognition of previously deferred vehicle service contracts ("VSC") revenue and mechanical breakdown insurance ("MBI") income, as described above.

Operating income increased by \$191,000 to a gain of \$284,000 for the quarter ended July 31, 2001, from operating income of \$93,000 for the quarter ended July 31, 2000. The increase is due to the recognition of previously deferred revenue and direct acquisition costs, as described above. In addition, operating expenses not including direct acquisition costs decreased by \$120,000 due to a decrease in salary and employee benefits due to a decrease in the number of

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employees and a decrease in the mailings and postage expense due to the phase out of the direct mail operations. The decrease in employees is due to process improvement and technology upgrades.

Total operating expenses including direct vehicle service contract costs were \$10,530,000 for the quarter ended July 31, 2001, compared to \$2,152,000 for the quarter ended July 31, 2000. The increase in direct vehicle service contract costs was due to the recognition of previously deferred direct acquisition costs, as described above, and the decreases in salaries, employee benefits and mailings and postage.

Total other income decreased by \$26,000 from \$36,000 for the quarter ended July 31, 2000 to \$10,000 for the quarter ended July 31, 2001. The decrease was primarily due to a decrease in cash and cash equivalents which, in turn, decreased the interest income earned. In addition, there was a decrease in finance fee income due to the reduction in the amount of policies financed from the direct mail operations and a loss was recognized on securities sold during the quarter.

Net income for the quarter ended July 31, 2001 was \$173,000 compared to net income for the quarter ended July 31, 2000 of \$75,000, which is a result of the foregoing factors.

COMPARISON OF THE NINE MONTHS ENDED JULY 31, 2001 AND 2000

Net revenues for the nine months ended July 31, 2001 totaled approximately \$15,295,000, an increase of \$9,123,000 from net revenues of \$6,172,000 for the nine months ended July 31, 2000. The increase in revenues is primarily due to the recognition of previously deferred VSC revenue and MBI administrative service revenue, as described above. This is offset by a decrease in net MBI income of \$1,179,000 from \$1,688,000 for the nine months ended July 31, 2000 to \$509,000 for the nine months ended July 31, 2001 due to increased competition.

Operating income decreased by \$242,000 to \$14,000 for the nine months ended July 31, 2001, from \$256,000 for the nine months ended July 31, 2000. The decrease is primarily due to a decrease in MBI sales during the nine months ended July 31, 2001 compared to the nine months ended July 31, 2000. This is offset by the recognition of previously deferred revenue related to the transfer of the administration of policies and contracts for two underwriters, as described above. Also offsetting the decrease in MBI sales is the decrease in salary and employee benefits due to a decrease in the number of employees and a decrease in

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the mailings and postage expense due to the phase out of the direct mail operations. The decrease in employees is due to process improvement and technology upgrades.

Total operating expenses including direct vehicle service contract costs were \$15,281,000 for the nine months ended July 31, 2001, compared to \$5,916,000 for the nine months ended July 31, 2000. The increase is due to the Company recognizing an additional \$8,089,000 of direct acquisition costs that had been previously deferred, as described above.

Total other income decreased by \$84,000 from \$146,000 for the nine months ended July 31, 2000 to \$62,000 for the nine months ended July 31, 2001. The decrease is primarily due to a decrease in interest income due to less cash, cash equivalents and restricted cash available for investment during the period. In addition, there was a decrease in finance fee income due to the reduction in the amount of policies financed from the direct mail operations. This is offset by a gain recognized on securities sold.

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Net income for the nine months ended July 31, 2001 was \$39,000 compared to net income of \$239,000 for the nine months ended July 31, 2000, which is a result of the foregoing factors.

LIQUIDITY AND CAPITAL RESOURCES

COMPARISON OF JULY 31, 2001 AND OCTOBER 31, 2000

Working capital at July 31, 2001 consisted of current assets of \$5,060,000 and current liabilities of \$4,253,000, or a current ratio of 1.19:1. 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 July 31, 2001, the Company's cash position decreased to \$1,371,000 from \$1,615,000 at October 31, 2000. Of the \$1,371,000, \$343,000 is classified as restricted cash; there was \$487,000 of restricted cash at October 31, 2000. The largest component of the restricted cash represented claims payment advances provided by insurance companies which enables the Company to make claims payments on behalf of the insurance companies. The decrease in cash is due to the timing of when the Company receives cash from the insurance companies for claims payments. Plus, a decrease in cash needed to fund current operations.

Deferred direct costs, including both the current and non-current portions, decreased by \$7,779,000 to \$4,919,000 at July 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 Company recognized an additional \$8,089,000 of direct acquisition costs that had been previously deferred, as described above.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of July 31, 2001, the amount owed to the insurance companies increased by \$59,000 to \$496,000 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 \$8,693,000 to \$6,147,000 at July 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 Company recognized an additional \$8,488,000 of deferred VSC revenue and \$345,000 of deferred administrative service fee revenue, that had been previously deferred, as described above.

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

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be determined.

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

The Company has operating income of \$13,000 for the nine months ended July 31, 2001. As previously discussed in Note 2 in the notes to the financial statements, two of the Company's underwriters transferred the responsibility to administer their contracts and policies to a third party. The Company recognized a net credit to income of \$490,000 due to the recognition of previously deferred revenue and deferred administrative service revenue offset by the recognition of deferred direct acquisition costs and expensing the administrative service receivable. The Company would have recognized this income and expense over the next six years, the remaining life of the contracts and policies. Without this revenue, the Company would have a net operating loss of \$477,000. This operating loss is due to the Company having a substantial loss in MBI market share from increased competition. The future effect of this increased competition may have an adverse effect on future earnings.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the sale of insurance and personnel matters. On the basis of information presently available, management does not believe the settlement of any such claims or lawsuits will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized. MBA Holdings, Inc.

By: /s/ Gaylen Brotherson

Dated: September 7, 2001

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Gaylen Brotherson
Chairman of the Board and Chief Executive Officer

By: /s/ Michael J. Zimmerman

Dated: September 7, 2001

Michael J. Zimmerman,
Chief Financial Officer