

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

M B A HOLDINGS INC  
Form 10-Q  
June 15, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2005

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 May 31, 2005: 186,536,492 shares.

MBA Holdings, Inc and Subsidiaries

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## PART I - FINANCIAL INFORMATION

### Item 1 Consolidated Financial Statements

Condensed Consolidated Balance Sheets as of April 30, 2005 (Unaudited) and October 31, 2004

Condensed Consolidated Statements of Loss and Comprehensive Loss for the three and six months ended April 30, 2005 and 2004 (Unaudited)

Condensed Consolidated Statements of Stockholders' Deficit as of April 30, 2005

Condensed Consolidated Statements of Cash Flows for the six months ended April 30, 2005 and 2004 (Unaudited)

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Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

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## PART II - OTHER INFORMATION

Item 1 Legal Proceedings

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Certifications

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

#### CONDENSED CONSOLIDATED BALANCE SHEETS APRIL 30, 2005 AND OCTOBER 31, 2004

ASSETS	April 30, 2005	October 31, 2004
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 340,584	\$ 782,848
Restricted cash	24,086	18,578
Accounts receivable	549,628	377,739
Prepaid expenses and other assets	13,520	1,706
Inventory	4,477	--
Deferred direct costs	2,862,764	3,096,094
Total current assets	3,795,059	4,276,965
PROPERTY AND EQUIPMENT:		
Computer equipment	332,523	330,605
Office equipment and furniture	153,619	140,259
Vehicles and shop equipment	119,220	15,000
Leasehold improvements	87,072	80,182

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Total property and equipment	692,434	566,046
Accumulated depreciation and amortization	(469,343)	(456,650)
Property and equipment - net	223,091	109,396
OTHER ASSETS		
Goodwill	520,853	--
Deferred direct costs	3,783,029	4,263,901
Total Other Assets	4,303,882	4,263,901
TOTAL ASSETS	\$ 8,322,032	\$ 8,650,262

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS  
APRIL 30, 2005 AND OCTOBER 31, 2004

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Net premiums payable to insurance companies  
Note payable  
Insurance deposits from members  
Accounts payable and accrued expenses  
Accounts payable to affiliated entity  
Capital lease obligation - current portion  
Deferred revenues

Total current liabilities

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

Total liabilities

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY (DEFICIT):

Preferred stock, no par value; \$.0001 stated value 100,000,000 shares authorized, 2,000,000 Class B voting preferred issued and outstanding in 2005, 2,000,000 Class A voting convertible preferred issued and outstanding in 2004  
Common stock, no par value, \$.0001 stated value, 350,000,000 shares authorized (post split) in 2005, 800,000,000 authorized (post split) in 2004, 179,277,492 shares issued (post split) in 2005 and 120,450,492 (post split)

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in 2004, 178,961,492 shares (post split) outstanding in 2005 and  
 120,134,492 (post split) in 2004  
 Additional paid-in-capital  
 Accumulated deficit  
 Less: 316,000 (post split) shares in 2005 and 2004 of  
 common stock in treasury, at cost

Total STOCKHOLDERS' equity (deficit)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

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

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)  
 THREE AND SIX MONTHS ENDED APRIL 30, 2005 AND 2004

	Three Months Ended April 30,	
	2005	2004
<b>REVENUES:</b>		
Vehicle service contract gross income	\$ 933,175	\$ 1,236,913
Net mechanical breakdown insurance income	18,392	15,663
Brokerage, association and administrative service revenue	38,681	72,964
Total net revenues	990,248	1,325,540
<b>OPERATING EXPENSES:</b>		
Direct acquisition costs of vehicle service contracts	897,126	1,155,010
Salaries and employee benefits	157,204	242,647
Mailings and postage	10,133	(1,450)
Rent and lease expense	77,134	77,488
Professional fees	307,355	42,465
Telephone	9,795	15,844
Depreciation and amortization	6,313	9,018
Merchant and bank charges	3,185	2,368
Insurance	1,494	5,262
Supplies	2,924	1,020
License and fees	2,384	3,900
Other operating expenses	76,061	15,920
Total operating expenses	1,551,107	1,569,492
Equity in net loss of Blue Sky Motorcycle Rentals, Inc.	(20,327)	--
<b>OPERATING LOSS</b>	<b>(581,186)</b>	<b>(243,952)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Finance and other fee income	1,822	19,103
Interest income	78	30
Interest expense and fees	(5,109)	(14,078)

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Other income (expense)	(31,778)	--
Other income (expense) - net	(34,987)	5,055
LOSS BEFORE INCOME TAXES	(616,173)	(238,897)
INCOME TAXES	--	--
NET LOSS	\$ (616,173)	\$ (238,897)
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING -- BASIC AND DILUTED (Post Split)	139,872,778	21,193,537
Net loss	\$ (616,173)	\$ (238,897)
Other comprehensive gain net of tax: Net unrealized gain on available-for-sale securities	--	--
Comprehensive loss	\$ (616,173)	\$ (238,897)

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
YEAR ENDED OCTOBER 31, 2004 AND SIX MONTHS ENDED APRIL 30, 2005

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
BALANCE NOVEMBER 1, 2003	--	\$ --	21,825,492	\$
Realization of gain on available-for-sale securities	--	--	--	
Issuance of common shares	--	--	98,625,000	
Issuance of preferred shares	2,000,000	200	--	
Net loss	--	--	--	
BALANCE OCTOBER 31, 2004	2,000,000	200	120,450,492	1
Issuance of common shares:				
Stock options to employees	--	--	8,400,000	
Consultants	--	--	4,102,000	
Other shares issued	--	--	325,000	

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Conversion and retirement of Class A preferred shares	(2,000,000)	(200)	46,000,000	
Issuance of Class B preferred shares	2,000,000	200	--	
Net loss	--	--	--	
BALANCE APRIL 30, 2005	<u>2,000,000</u>	<u>\$ 200</u>	<u>179,277,492</u>	<u>\$ 1</u>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
YEAR ENDED OCTOBER 31, 2004 AND SIX MONTHS ENDED APRIL 30, 2005

	Retained Earnings (Deficit)	Treasury Stock	Total STOCKHOLDERS' Equity (Deficit)
	-----	-----	-----
BALANCE NOVEMBER 1, 2003	\$ (2,458,729)	\$ (55,500)	\$ (2,231,247)
Realization of gain on available-for-sale securities	--	--	(119)
Issuance of common shares	--	--	1,962,668
Issuance of preferred shares	--	--	200,000
Net loss	(1,209,455)	--	(1,209,455)
BALANCE OCTOBER 31, 2004	<u>(3,668,184)</u>	<u>(55,500)</u>	<u>(1,278,153)</u>
Issuance of common shares:			
Stock options to employees	--	--	1,099,085
Consultants	--	--	319,439
Other shares issued	--	--	33
Conversion and retirement of Class A preferred shares	--	--	316,982
Issuance of Class B preferred shares	--	--	200
Net loss	(996,366)	--	(996,366)
BALANCE APRIL 30, 2005	<u>\$ (4,664,550)</u>	<u>\$ (55,500)</u>	<u>\$ (538,780)</u>

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SIX MONTHS ENDED APRIL 30, 2005 AND 2004

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CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss  
Adjustments to reconcile net loss to net cash  
used in operating activities:  
    Depreciation and amortization  
    Issuance of preferred stock in exchange for related party debt  
    Equity in net loss of Blue Sky Motorcycle Rentals, Inc.  
    Advances to Blue Sky Motorcycle Rentals, Inc.  
Changes in assets and liabilities:  
    Restricted cash  
    Accounts receivable  
    Inventory  
    Prepaid expenses and other assets  
    Deferred direct costs  
    Net premiums payable to insurance companies  
    Insurance deposits from members  
    Accounts payable and accrued expenses  
    Deferred rent  
    Deferred income taxes  
    Deferred revenues

Net cash (used in) operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in Blue Sky Motorcycle Rentals, Inc.  
Purchase of property and equipment  
Purchase of investments

Net cash provided by (used in) investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Note payable - Blue Sky Motorcycle Rentals, Inc. acquisition  
Proceeds (repayment) of borrowing from affiliated entity  
Proceeds of borrowing from related party  
Issuance of common stock  
Payments on capital lease obligation

Net cash provided by (used in) financing activities

NET (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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SIX MONTHS ENDED April 30, 2005 AND 2004

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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, 2004, 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) that 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 six months ended April 30, 2005 may not be indicative of the results of operations that may be expected for the year ending October 31, 2005. 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, 2004.

### 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 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 and the 1 for 100 stock dividend are reflected retroactively for all periods presented. As of April 30, 2005 there were 7,800,010 options outstanding.

### 3. ACQUISITIONS & NOTE PAYABLE

In December 2004, the Company acquired a 50% interest in Blue Sky Motorcycle Rentals, Inc. (Blue Sky), a company that operates a motorcycle rental business in Colorado and has sold its business model to similar operations in Arizona, California, New Mexico, Nevada and Florida. Its business plan envisions significant expansion into other vacation markets as well as motorcycle exchange programs among the participants to maximize the usage of the rental motorcycles. The owner has agreed to consult with the Company in order to continue the business expansion of Blue Sky. In April 2005, the Company acquired the remaining 50% interest in Blue Sky and is integrating it into the National Motorcycle Dealers Association operations that were begun in the Fall of 2004. In connection with the acquisition, the Company issued its note to the former owner in the amount of \$200,000. Then docs not bear interest and is payable in 12 equal monthl installments.

### 4. INCOME TAXES

There is no current provision for income taxes in the periods ended April 30, 2005 and 2004 as the Company has recovered all available federal income taxes paid in previous years. Similar provisions for recoverable state income taxes



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were not provided, as Arizona law does not allow for loss carry back.

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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 now considered doubtful, a valuation allowance has been provided to eliminate that asset in both the current period and the year ended October 31, 2004. A deferred tax provision was made for the six months ended April 30, 2004.

### 5. 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 Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was \$70,376 and \$73,204 for the three months ended April 30, 2005 and 2004 and \$142,753 and \$147,220 for the six months ended April 30, 2005 and 2004. 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.

### 6. 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 Class A 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 5 above), in exchange for \$200,000 of rent and other debt due to that entity.

At the same time, 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.

On November 12, 2004, the Company declared a stock dividend equal to one share of common stock for each one hundred shares owned by shareholders on November 26, 2004. The Company issued 1,207,622 new shares in payment of that stock dividend.

On March 31, 2005, the Company honored the request of Cactus Family Investments, LLC to convert 460,000 shares of the Company's Class A Preferred Stock into 46,000,000 shares of its common stock and to donate the remaining preferred shares to the Company as a contribution to its capital. In addition, the Company created a Class B Preferred Stock consisting of 3,000,000 shares that are assigned the voting power of one hundred (100) voting shares for each Preferred Stock share. The Class B Preferred shares are not convertible into common shares. The Company subsequently issued the 2,000,000 shares of Class B Preferred Stock to Cactus Family Investments, LLC, an affiliated company (See Note 5 above), in exchange for \$317,382 of rent and other debt due to that

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entity.

On April 18, 2005, the Company decreased its authorized common shares to 350,000,000 no par value shares with a stated value of \$.0001 per share.

As of April 30, 2005, 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 continues to explore additional uses of the stock.

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### 7. 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 April 30, 2005, the Company has granted options for a total of 104,527,000 shares to selected employees. Compensation expense of \$8,710 and \$82,427 was recorded in connection with these transactions in the three and six months ended April 30, 2005, respectively. In the three and six months ended April 30, 2004, \$50,984 was recorded as compensation expense relating to this stock option plan. As of April 30, 2005, there were 2,650,000 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 April 30, 2005, the Company has granted options for a total of 11,552,000 shares to selected directors/consultants. Compensation expense of \$207,109 and \$413,652 was recorded in connection with these transactions in the three and six months ended April 30, 2005, respectively. In the three and six months ended April 30, 2004, \$49,500 was recorded as compensation expense relating to this stock option plan. As of April 30, 2005 there were 3,300,000 options outstanding under this plan.

### 8. SIGNIFICANT CUSTOMERS

In 2004 a major manufacturer accounted for \$1,750,893 of VSC revenues or 33% of the 2004 Net Commission Income. The contract with the manufacturer was not renewed at its expiration on December 31, 2004. The Company is seeking ways to replace this business through acquisitions and other avenues.

### 9. 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

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connection with the sale of insurance and personnel matters and of disputes over outstanding accounts. The Company is currently involved in a dispute with one of its associated insurance companies over alleged wrongdoing, an alleged breach of its Administrative Agreement and over reimbursement for claims and cancellation expenditures. The Company maintains a \$40,000 reserve for claims arising in the ordinary course of business and believes that this reserve is sufficient to cover the costs of such claims. On the basis of information presently available, management does not believe the settlement of any such claims or lawsuits will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

The Company has been notified by Heritage Warranty Insurance RRG, Inc. that its Administration Agreement and Profit Sharing Agreement dated September 1, 2000 as well as a Claims Reserve Account and a Second Amendment to Inboard Service Agreement dated October 31, 2002 will be cancelled, subject to certain conditions, effective May 1, 2005. The Company has entered into an agreement with Capitol Assurance Risk Retention Group, Inc. to provide replacement coverage. The Company is attempting to achieve a seamless transition of its business to the new insurance company. The Company's agreements with Old Republic Insurance Company, Warranty America, LLC, First Assured Insurance Company and AON Warranty Company remain in effect.

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### 10. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB published FASB Statement No. 123R, Share-Based Payment, ("FAS 123R") 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 123R at October 31, 2005.

In December 2004, the FASB issued Statement No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions ("FAS 153"). The amendments made by FAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The Company has adopted FAS 153 at October 31, 2004.

On June 1, 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. The Company will adopt FAS 154 at November 1, 2005 and does not anticipate any material change to its operating results.

### 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:

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

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

### CRITICAL ACCOUNTING POLICIES

The Company has prepared the accompanying unaudited condensed financial statements in conformity with accounting principles generally accepted in the United States for interim financial information. The preparation of the financial statements requires the use of judgement and estimates that affect the reported amounts of revenues, expenses, assets and liabilities. The Company has adopted accounting policies and practices that are generally accepted in the industry in which it operates. The Company believes the following are its most 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.

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### 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, in some cases, 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.

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### SIGNIFICANT EVENTS

The Company has been a significant force in forming the National Motorcycle Dealers Association, LLC (NMDA) and has been appointed to provide management and administration of the Association. NMDA will provide products and services for the Association members including Extended Motorcycle Warranties for New and Used Motorcycles, ATV's and Trailers, New Motorcycle Manufacture's Factory Warranties, Motorcycle leasing and financing, Gap Coverage, Credit Life/Accident Health Insurance, Family Hospitalization Insurance for Dealerships and their Families, Rental Insurance for Dealer Motorcycle Rental Programs and Software, Garage keepers Insurance Program, Liability and Collision Insurance for Motorcycle and Autos for the dealer and their customers, an Association Credit Card, Dealership Credit Card Processing, 401(k) Retirement Programs, Roadside Assistance Programs, Tire and Wheel Protection, Business Forms, Communication Services and a Prepaid Legal Program. Membership will be required to participate in these programs and the Company will be compensated through management fees and product sales commissions. The NMDA's aggregation of many programs represents a rare opportunity for the Company and its partners to achieve business synergies and a market edge not previously available to them. NMDA has terminated its relationship with Wildside Motorcycles, Inc. and is pursuing the motorcycle rental software business with internally developed products.

In December 2004, the Company acquired a 50% interest in Blue Sky Motorcycle Rentals, Inc. (Blue Sky) that operates a motorcycle rental business in Colorado and has sold its business model to similar operations in Arizona, California, New Mexico, Nevada and Florida. Its business plan envisions significant expansion into other vacation markets as well as motorcycle exchange programs among the participants to maximize the usage of the rental motorcycles. The owner has agreed to consult with the Company in order to continue the business expansion of Blue Sky. In April 2005, the Company acquired the remaining 50% interest in Blue Sky and is integrating it into the National Motorcycle Dealers Association operations that are discussed in the preceding paragraph.

As discussed in Note 9, the Company has been notified by Heritage Warranty Insurance RRG, Inc. that its Administration Agreement and Profit Sharing Agreement dated September 1, 2000 as well as a Claims Reserve Account and a Second Amendment to Inboard Service Agreement dated October 31, 2002 will be cancelled, subject to certain conditions, effective May 1, 2005. The Company has entered into an agreement with Capitol Assurance Risk Retention Group, Inc. to provide replacement coverage. The Company has achieved a seamless transition of its business to the new insurance company. The Company's agreements with Old Republic Insurance Company, Warranty America, LLC, First Assured Insurance Company and AON Warranty Company remain in effect.

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### Income Taxes

There is no current provision for income taxes in the periods ended April 30, 2005 and 2004 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, 2004. A deferred tax provision was made for the three months ended January 31, 2004.

The Internal Revenue Service has completed an examination of the tax year 2002.

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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 APRIL 30, 2005 AND 2004

##### NET REVENUES

Net revenues for the fiscal quarter ended April 30, 2005 totaled \$990,000, down \$40,000 from the \$1,030,000 recognized in the quarter ended January 31, 2005. The decrease is the result of the Company's loss of its major manufacturing customer's VSC sales. The loss was offset this quarter by the recording of the final sales from the manufacturer and from revenues derived from NMDA and Blue Sky operations (approximately \$56,000).

##### OPERATING EXPENSES

Operating costs decreased to \$1,551,000 in the quarter ended April 30, 2005 down \$18,000 from the \$1,569,000 expended in the quarter ended April 30, 2004. The decrease is the result of added expenses incurred in the continuing development of NMDA and of the added expenses incurred in connection with the acquisition of the second half of the equity position in Blue Sky Motorcycle Rentals, Inc. offset by lower direct acquisition costs of policies.

The winter off-season has contributed to the net loss incurred by both Blue Sky and NMDA. The existence of both Blue Sky and NMDA has been met with enthusiastic acceptance by motorcycle dealers throughout the country. Both entities are looking forward to the summer riding season as the first true testing of their business plans.

##### OTHER INCOME (EXPENSE)

Total other income (expense) declined in the quarter ended April 30, 2005 and in the six month period when compared to the same periods of 2004. The 2004 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 2005 period included lesser amounts of fee income and included higher interest expense charges.

##### INCOME TAXES

There was no provision for income taxes in the quarter and six months ended April 30, 2005 because the Company has already recovered all federal income taxes paid in prior years to the extent available. In the quarter ended January 31, 2004, a provision was made for the tax consequences arising from 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

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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 two quarters of 2005 and expects such losses to continue further into 2005. The Company is pursuing the development of NMDA, Blue Sky and other warranty products in its ongoing efforts to stem the losses.

### COMPARISON OF April 30, 2005 AND OCTOBER 31, 2004

Working capital at April 30, 2005 consisted of current assets of \$3,795,000 and current liabilities of \$4,456,000, or a current ratio of 0.85: 1. At October 31, 2004 the working capital ratio was 0.85: 1 with current assets of \$4,277,000 and current liabilities of \$5,017,000. The ratio moved only slightly during this quarter despite a continuing demand for funds to support the growth efforts of NMDA and Blue Sky. Loans from the Company's principal shareholder and funds derived from the exercise of stock options have funded this growth and continuing operations.

Deferred Revenues decreased \$770,000 while Deferred Direct Costs decreased \$714,000 from balances at October 31, 2004. 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 have been experienced over the last several quarters and from 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 April 30, 2005, the amount owed to insurance companies decreased \$65,000 from the balance at October 31, 2004. 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 ended April 30, 2005, 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 lost the services of our assistant controller at the end of the fiscal year ended October 31, 2004 and have recently hired a replacement. As a result, the significant weakness in our internal controls that was noted in the prior quarter is being corrected. We do not expect to be late in preparing the normal schedules and reconciliations associated with the preparation of our quarterly financial statements in this

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and future quarters.

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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 ordinary course of business and believes that this reserve is sufficient to cover the costs of such claims. On the basis of information presently available, management does not believe the settlement of any such claims or lawsuits will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

#### Item 2 Changes in Securities and Use of Proceeds

None

#### Item 3 Defaults upon Senior Securities

None

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

None

#### Item 5 Other Information

None

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

##### (a) Exhibit Index

Exhibit 99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 99.3 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.4 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



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(b) Reports on Form 8-K

Form 8K Current Report was filed April 15, 2005. This Current Report stated that the Company had acquired the remaining 50% of Blue Sky Motorcycle Rentals, Inc. and that a Class B Preferred Stock of 3,000,000 shares was created and approved by the State of Nevada April 15, 2005. The Class B Preferred Stock has been assigned the voting power of one hundred (100) voting shares for each Preferred Stock share. The Company issued 2,000,000 of such shares to Cactus Family

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Investments, LLC ("Cactus"), a Limited Liability Company owned and controlled by Gaylen M. Brotherson, the Company's CEO, in return for \$317,382.50 of past due rents that were due to Cactus.

In a related transaction, Cactus converted 460,000 shares of Class A Preferred Stock into 46,000,000 shares of common stock and returned the remaining 1,540,000 Class A Convertible Preferred Stock to the Company as a contribution to capital. The Board of Directors directed that the shares so received be cancelled.

SIGNATURES

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

MBA Holdings, Inc.

Dated June 14, 2005  
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By: /s/ Gaylen Brotherson  
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Gaylen Brotherson  
Chairman of the Board and  
Chief Executive Officer

Dated: June 14, 2005  
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By: /s/ Dennis M. O'Connor  
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Dennis M. O'Connor  
Chief Financial Officer

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