M B A HOLDINGS INC
Form 10-K
January 26, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2000

OR

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

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

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

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

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $.001 par value
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ].

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [ ] No [X]

The issuer's revenues for its most recent fiscal year ended October 31, 2000 were $8,323,876. The aggregate market value of the voting stock held by non-affiliates of the issuer, based on the average high and low prices of such stock on October 31, 2000, as reported on NASDAQ, was $354,849. As of October 31, 2000, there were 2,011,787 shares of the issuer's common stock issued and 1,980,187 outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, in whole or in part, are specifically incorporated by reference in the indicated part of this Annual Report on Form 10: None

PART I

ITEM 1. BUSINESS

MBA Holdings, Inc. (the "Company"), through its wholly-owned subsidiary, Mechanical Breakdown Administrators, Inc., markets and administers mechanical breakdown insurance ("MBI") policies and sells and services vehicle service contracts ("VSCs"). The MBI policies and VSCs relate to automobiles, light trucks, recreational vehicles and automotive components.

On May 9, 1989, the principals of the Company organized under the name Mechanical Breakdown Administrators, Inc. ("MBA"). During November 1995, MBA and Brixen Enterprises, Inc. ("Brixen") merged in a stock exchange with the MBA shareholders retaining control of the merged company. Brixen had been an inactive publicly-held shell corporation prior to the November 1995 transaction. Subsequent to the merger, Brixen changed its name to M.B.A. Holdings, Inc. and its legal domicile from Utah to Nevada.

MECHANICAL BREAKDOWN INSURANCE

The Company contracts with insurance companies to act as an agent to sell MBI policies issued by the insurance companies. The Company provides marketing services, arranges for sub-agents to also sell the policies and subsequently provides independent third-party administrative claims services (claims adjudication, cancellation processing, call center services and technical computer services) on MBI policies sold by the Company or its sub-agents. The MBI policies are between the insurance companies and the consumer (purchaser). The insurance company is responsible for the costs of claims submitted under the terms of the insurance policy. The Company acts only as a sales agent and a third party administrator. The Company currently has agency and servicing agreements with American Bankers Insurance Group of Florida and American Modern Home Insurance Company. In prior years, the Company also contracted with New Hampshire Insurance Company and with other American International Group, Inc. ("AIG") members.

The sales of MBI policies are primarily accomplished through sub-agents, such as financial institutions, and by the Company through direct mail solicitations, magazine advertisements and phone solicitations. The terms of the MBI policies range from twelve (12) to eighty-four (84) months and also may have mileage limitations. Actual repairs or replacements covered by the policies are performed by independent third party authorized repair facilities. The costs of such repairs remain the responsibility of the insurance company that provided the MBI policy.

For MBI policies, the policy premium has been established by the insurance companies and agreed to by the Company and insurance regulators. In general, when an MBI policy is sold, approximately 51% of the premium is retained by the insurance company, approximately 20%-36% of the premium is paid to the sub-agent (if applicable), and the remainder is paid to the Company as sales commission and for providing administrative claims services.

For the years ended October 31, 2000, 1999 and 1998, the net revenues related to sales and servicing of MBI policies represented approximately 92%, 96%, and 99%, respectively, of the Company's net revenues less direct acquisition costs of vehicle service contracts.

VEHICLE SERVICE CONTRACTS

The Company markets and administers VSC programs which enhance the profitability of the sale of automobiles, light trucks, recreational vehicles and automotive components. These products are sold principally through franchised and independent automobile dealers. The VSC is a contract between the Company and the consumer (purchaser) that offers coverages ranging from twelve (12) to eighty-four (84) months and or mileage limitations ranging from 1,000 to 100,000. The coverage is for a broad range of possible failures of mechanical components that may occur during the term of the VSC, exclusive of failures covered by a manufacturers warranty. The Company is primarily responsible for the administration of the contract and related claims during the life of the contract.

2

Before a VSC is issued, the Company has contracted with insurance companies to assume the liability in return for the payment of the agreed-upon premium. This coverage provides indemnification to the Company against loss resulting from service contract claims. The insurance protection is provided by highly rated independent insurance companies. This includes American Bankers Insurance Group, Kemper Cost Management and American Modern Home Insurance Company which are rated A - (Excellent) by A.M. Best Company.

For the years ended October 31, 2000, 1999 and 1998, the net revenues less direct acquisition costs of vehicle service contracts related to sales and servicing of VSCs represented approximately 8%, 4% and 1%, respectively, of the Company's net revenues less direct acquisition costs of vehicle service contracts.

MBIs AND VSCs

The number of financial institutions, automobile dealers, and recreational vehicle and travel trailer dealers offering the Company's MBI or VSC programs has grown from 1997 through October 31, 2000 to approximately 600.

Essential to the success of the Company is its ability to capture, maintain, track and analyze all relevant data regarding an MBI policy or VSC. To support this function, the Company operates proprietary software developed internally that consists of custom designed relational databases with interactive capabilities. This system provides ample capacity and processing speed for current requirements as well as the ability to support significant future growth in this area.

VIRTUAL PRIVATE NETWORK

The Company has developed a virtual private network ("VPN") system that enables financial institutions, dealerships, and others to sell a policy or contract directly from their computer system. The VPN is driven by the vehicle identification number ("VIN") of the vehicle being insured. The VPN will give an accurate premium to be paid by the customer. If the customer purchases the policy, the information is sent over the internet and into the Company's policy management system. In some cases, the information is directly loaded into the Company's policy management system.

The VPN system has the ability to eliminate many administrative problems between the Company and the financial institutions and dealership. Since the VPN is VIN driven, the errors made when rating a vehicle mostly have been eliminated. For example, a customer may receive a quote for a two wheel drive vehicle when in fact it is a four wheel drive vehicle. The difference in premium due from the customer can be significant. Since the VIN number identifies the vehicle as a four wheel drive or two wheel drive, the VPN system can identify the proper specifications of the vehicle and quote the customer an accurate price. Other benefits of the VPN system include a reduction in data entry time and potential data entry errors since the information is uploaded upon the sale of the policy.

SIGNIFICANT CUSTOMERS

The Company does not have any individually significant customers. The loss of any single customer would not have a material impact on operating results.

COMPETITION

M.B.A. Holdings, Inc. competes with a number of independent administrators, divisions of distributors and manufacturers, financial institutions and insurance companies. While the Company believes that it occupies a strong position among competitors in its field, it is not the largest marketer and administrator of MBIs and VSCs. Some competitors have greater operating experience, more employees and/or greater financial resources. Further, many manufacturers of motor vehicles market and administer their own VSC programs for and through their dealers.

SALES AND MARKETING

The Company maintains its own sales and marketing personnel. Sales training and motivational programs are a primary form of specialized assistance provided by the Company to retailers/dealers and financial institutions, to assist them in increasing the effectiveness and profitability of their MBI and VSC program

3

sales efforts. The Company develops materials and conducts educational seminars. These seminars are conducted either at the client's place of business or an offsite facility.

The Company also direct markets to the consumer through direct mail campaigns. The direct marketing campaigns generate sales by obtaining a list of recent car sales through various list services. This list is uploaded into the Company's state-of-the-art direct mailing computer system. This system generates different policy and premium options for the car purchased. The potential customer can send in the premium via the U.S. mail or call the MBA sales support staff on a toll free number and pay by a major credit card.

The MBI program is an insurance product between the insurance company and the customer. The Company acts as an independent sales agent and administrator of the MBI policies. From inception of the policy, the obligation to perform under the policy is the obligation of the insurance company.

In accordance with the insurance arrangements with these insurers, a fixed amount is remitted for each MBI or VSC sold. The amount is set by the insurance companies and is based upon actuarial analysis of data collected and maintained for each type of coverage and contract term. The insurer is obligated to pay all the claims which fall under the policy even if the claims exceed the premium. Some contracts between the Company and the insurer contain agreements that allow the Company to share in the profits earned by the programs. The Company did not accrue or receive any profit sharing amounts for the years ended October 31, 2000, 1999 and 1998.

The number of policies and contracts sold for the periods indicated are noted below:

TIME PERIOD	NUMBER OF POLICIES AND CONTRACTS
For the twelve months ended October 31, 2000	33,209
For the twelve months ended October 31, 1999	34,858
For the twelve months ended October 31, 1998	36,477

The Company will continue to look for ways to increase sales. Currently, the

Company is in the process of exploring strategic relations with other highly rated insurance companies regarding different motorized machinery; such as boats and motorcycles.

FEDERAL AND STATE REGULATION

The MBI and VSC programs developed and marketed by the Company, are regulated by federal law and the statutes of a significant number of states. VSCs are contracts sold from car dealerships and the like and are considered to be part of the car buying process instead of an insurance product. MBIs are insurance policies sold by independent agents through non-auto dealer entities, such as credit unions or by direct mail through the Company. The Company continually reviews all existing and proposed statutes and regulations to ascertain their applicability to its existing operations, as well as new programs that are developed by the Company. Generally, these statutes concern the scope of the MBI and VSC coverage and content of the MBI or VSC document. In such instances, the state statute will require that specific wording be included in the MBI or VSC expressly stating the consumer's rights in the event of a claim, and how the service contract may be canceled. Also, on the MBI policy is the name of the insurance company that issues the policy and on a VSC is the name of the insurance company that underwrites the policy. This identification on the policy and contract identifies the insurance company that indemnifies the customer, dealers, financial institution, or the Company against loss for performance under the terms of the contract.

Insurance departments in some states have sought to interpret the VSC or certain items covered under the contract as a form of insurance, requiring that the issuer be a duly licensed and chartered insurance company. These efforts to interpret VSCs as a form of insurance have not been successful in any state at this time. Currently, all MBI products are considered insurance and either the Company or its principals are duly licensed in all states in which the Company operates.

4

The Company or its principals are licensed in the following states: Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, and Wyoming.

Since all the MBI policies and VSCs are issued or assumed, respectively, by highly rated insurance companies according to A.M. Best, the Company does not believe that they are insurers and have no intention of filing the documents and meeting the capital and surplus requirements that are necessary to obtain such a license. There are instances where the applicability of statutes and regulations to programs marketed and administered by the Company and compliance therewith, involve issues of interpretation. The Company uses its best efforts to comply with applicable statutes and regulations but it cannot assure that its interpretations, if challenged, would be upheld by a court or regulatory body. In any situation in which the Company has been specifically notified by any regulatory bodies that its methods of doing business were not in compliance with state regulation, the Company has taken the steps necessary to comply. If the Company's right to operate in any state is challenged successfully, the Company may be required to cease operations in the state and the state might also impose financial sanctions against the Company. These actions, should they occur, could have materially adverse consequences and could affect the Company's ability to continue operating. However, within the framework of currently known statutes, the Company does not believe that this is a present concern.

EMPLOYEES

The Company and its subsidiary employ approximately forty and fifty individuals at October 31, 2000 and October 31, 1999, respectively. The total number of external sales force equals three. These people train the insurance agent or representative at the financial institution, dealership, or other sales venue. Internally, there are approximately eight people who handle product inquiries that may result in sales. The rest of the staff is located in the following departments: claims adjudication, customer service, data entry, information systems, finance, and administration. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

The Company's executive offices are located in leased premises at 9419 E. San Salvador, Suite 105, Scottsdale, Arizona. The Company signed a new lease with total square footage equal to 19,750, which commenced on January 1, 1999 and expires on December 31, 2003, and provides for annual base rent payments ranging from $212,000 to $276,000.

The premises are owned by Cactus Partnership, an affiliated entity. The partners in Cactus Partnership are Gaylen Brotherson, the CEO of the Company, and Judy Brotherson, the Vice-President of the Company. All lease negotiations are made at fair market value between Cactus Partnership and the Company based on leases with other occupants of the building (See Item 13 Certain Relationships and Related Transactions).

ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been reported in NASDAQ, and currently is reported on NASDAQ's OTC: BB under the trading symbol "MBAI". As of October 31, 2000, there were 2,011,787 common shares issued and 1,980,187 outstanding. On that date, the closing bid price for the Company's common stock, as reported by NASDAQ was $1.75. The following is a summary of the price range of the Company's common stock during its 2000 and 1999 fiscal years:

	BID	
COMMON STOCK	HIGH	LOW
Quarter of Fiscal 2000		
First	$ 5.00	$ 2.75

Second	5.00	2.00
Third	3.01	1.75
Fourth	1.75	1.50
Quarter of Fiscal 1999		
First	2.00	1.88
Second	2.75	1.75
Third	2.50	2.00
Fourth	3.50	2.50

The Company has never paid cash dividends on any shares of its common stock, and the Company's Board of Directors intends to continue this policy for the foreseeable future. Earnings, if any, will be used to finance the development and expansion of the Company's business. Future dividend policy will depend upon the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors.

During the fiscal year ended 2000, the Company did not issue any unregistered securities.

ITEM 6. SELECTED FINANCIAL DATA

	FISCAL YEAR ENDED OCTOBE			
	2000	1999	1998	
Net revenues	$ 8,323,876	$ 5,597,524	$ 3,289,477	$
Net income	177,149	148,016	13,771	
Net income per common share	.09	.07	0.01	
Total assets	16,647,549	14,735,278	6,717,801	
Long-term obligation and redeemable preferred stock	--	--	--	
Cash dividends declared per common share	--	--	--	

ITEM 7. 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.

RESULTS OF OPERATIONS

COMPARISON OF FISCAL YEAR 2000 AND FISCAL YEAR 1999

Net revenues for the year ended October 31, 2000 totaled $8,324,000, an increase of $2,726,000 from net revenues of $5,598,000 for the year ended October 31, 1999. The number of contracts sold of 33,209 for the year ended October 31, 2000 decreased from the number of contracts sold of 34,858 for the year ended October 31, 1999. The Company did not start selling VSCs until fiscal 1998. Therefore, at October 31, 2000, there were three years of previously deferred VSC revenue amortized to revenue compared to only two years of previously deferred VSC revenue being amortized to revenue in 1999.

Operating income decreased by $10,000 to $82,000 for the year ended October 31, 2000, from $92,000 for the year ended October 31, 1999. The decrease is due to the increase in salaries and expenses and officers' bonuses in fiscal 2000. This is offset by the decrease in mailings and postage. The direct mail operations have decreased because the Supreme Court ruled that it is illegal for state governments to sell the information needed for direct mail; such as, addresses and names.

Total operating expenses were $8,242,000 for the year ended October 31, 2000 compared to $5,506,000 for the year ended October 31, 1999. As a percentage of net revenues, operating expenses were 99.0 percent for the year ended October 31, 2000, compared to 98.4 percent for the year ended October 31, 1999. The increase in expenses is due to an increase in the direct costs associated with the increase in VSC sales and salaries, as noted above.

Net income for the year ended October 31, 2000 was $177,000, compared to net income for the year ended October 31, 1999 of $148,000, which is a result of the foregoing factors, the increase in interest income from better utilization of cash available for investments and a reduction in income taxes as a percentage of pre-tax income.

COMPARISON OF FISCAL YEAR 1999 AND FISCAL YEAR 1998

Net revenues for the year ended October 31, 1999 totaled $5,598,000, an increase of $2,309,000 from net revenues of $3,289,000 for the year ended October 31, 1998. The number of contracts sold of 34,858 for the year ended October 31, 1999 decreased from the number of contracts sold of 36,477 for the year ended October 31, 1998. The increase in net revenues is due to an increase of approximately 30% in premiums charged by the insurance companies that occurred in April 1998.

Operating income increased by $98,000 to $92,000 for the year ended October 31, 1999, from a loss of $6,000 for the year ended October 31, 1998. The Company did not start selling VSCs until fiscal 1998. Therefore, at October 31, 1999 there were two years of previously deferred direct costs amortized to expense compared to only one year of previously deferred direct costs being amortized to expense in 1998. This increase is offset by additional mailings and postage associated with the direct mail program performed by the Company. These costs totaled $441,000, or 7.9 percent of net revenues, for the year ended October 31, 1999. This is an increase from $282,000, or 8.6 percent of net revenues, for the comparable period ended October 31, 1998. The Company purchased additional printers which increased its capacity to produce direct mailing materials. The new printers were not available for all of the year ended October 31, 1998 while they were being used for the entire year ended October 31, 1999. In addition, the increase in mailings and the increase in policies sold over the last couple of years have increased telephone usage as policy holders and potential customers use the Company's toll free line for inquiries.

Total operating expenses including mailings and postage were $5,506,000 for the year ended October 31, 1999, compared to $3,296,000 for the year ended October 31, 1998. As a percentage of net revenues, operating expenses were 98 percent for the year ended October 31, 1999, compared to 100.2 percent for the year ended October 31, 1998. The increase in expenses is due to an increase in the direct costs associated with the increase in VSC sales and additional direct mailing materials, as noted above. Also, the increase in policies sold over the last three years has increased the number of phone calls received by the Company. Telephone expense increased from $81,000 in 1998 to $149,000 in 1999.

Net income for the year ended October 31, 1999 was $148,000, compared to net income for the year ended October 31, 1998 of $14,000, which is a result of the foregoing factors.

7

LIQUIDITY AND CAPITAL RESOURCES

COMPARISON OF OCTOBER 31, 2000 AND OCTOBER 31, 1999

Working capital at October 31, 2000 consisted of current assets of $8,169,000 and current liabilities of $7,079,000, or a current ratio of 1.15:1. At October 31, 1999, the current ratio was 1.11:1 with current assets of $8,314,000 and current liabilities of $7,458,000.

As of October 31, 2000, the Company's cash position decreased to $1,615,000 from $4,350,000 at October 31, 1999. Of the $1,615,000, $487,000 is classified as restricted cash; there was $925,000 of restricted cash at October 31, 1999. The largest component of the restricted cash represented claims payment advances provided by insurance companies. This enables the Company to make claims payments on behalf of the insurance companies. The decrease in restricted cash is due to the timing of when the Company receives cash from the insurance companies for claims payments. In addition, $442,000 of cash at October 31, 2000 was invested in marketable debt and equity securities

Deferred direct costs, including both the current and non-current portions, increased by $3,868,000 to $12,698,000 at October 31, 2000 from $8,830,000 at October 31, 1999. 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 started selling VSCs in 1998. Therefore, the increase in the costs is due to an increase in VSC sales over the last two years.

The Company collects funds throughout the year and remits a portion of the funds to the insurance companies. As of October 31, 2000, the amount owed to the insurance companies decreased by $2,457,000 to $437,000 from $2,894,000 at October 31, 1999, which is due to the timing of payments remitted to the insurance companies.

Deferred revenues, including both the current and non-current portions, increased by $4,135,000 to $14,840,000 at October 31, 2000 from $10,705,000 at October 31, 1999. Deferred revenue consists of VSC gross sales and estimated administrative service fees relating to the sales of MBI policies. The increase is primarily due to the Company beginning to sell VSCs in 1998. Therefore, the increase in the deferred revenue is due to an increase in VSC sales over the last two years. Additionally, MBI sales have increased over the last five years.

The Company is operating with a working capital line of credit from Merrill Lynch. This is the only debt instrument 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 cash flows from operations will be sufficient to meet cash requirements for the foreseeable future.

ITEM 7A. QUALITATIVE INFORMATION ABOUT MARKET RISK

Since the Company does not underwrite its own policies, a change in the current rates of inflation or hyperinflation is not expected to have a material effect on the Company. However, the precise effect of inflation on operations can not be determined.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENTS

8

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
M.B.A. Holdings, Inc.
Scottsdale, Arizona

We have audited the accompanying consolidated balance sheets of M.B.A. Holdings, Inc. and subsidiary (the "Company") as of October 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 15, 2001

9

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

CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,128,281	$ 3,424,934
Restricted cash	487,015	924,698
Investments (Note 3 and 7)	442,278	
Accounts receivable, net of allowance for		

doubtful accounts of $19,025 (2000 and 1999)	404,370	386,805
Prepaid expenses and other assets	115,074	109,888
Deferred direct costs	5,048,367	3,182,789
Income tax receivable (Note 4)	155,437	
Deferred income tax asset (Note 4)	387,787	284,412
Total current assets	8,168,609	8,313,526
PROPERTY AND EQUIPMENT:		
Computer equipment	226,777	174,381
Office equipment and furniture	165,919	149,309
Vehicle	16,400	16,400
Leasehold improvements	79,596	69,053
Capitalized software costs	26,959	17,500
Total property and equipment	515,651	426,643
Accumulated depreciation and amortization	(229,020)	(154,267)
Property and equipment - net	286,631	272,376
OTHER ASSETS	46,170	
DEFERRED DIRECT COSTS	7,650,100	5,647,160
DEFERRED INCOME TAX ASSET (Note 4)	496,039	502,216
TOTAL ASSETS	$ 16,647,549	$ 14,735,278

See notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2000 AND 1999

LIABILITIES AND STOCKHOLDERS' EQUITY	2000	1999
CURRENT LIABILITIES:		
Net premiums payable to insurance companies	$ 437,214	$ 2,893,591
Accounts payable and accrued expenses	753,802	597,444
Capital lease obligation - current portion (Note 6)	9,333	
Deferred revenues	5,878,696	3,872,479
Income taxes payable (Note 4)		94,159
Total current liabilities	7,079,045	7,457,673
CAPITAL LEASE OBLIGATION - net of current portion (Note 6)	18,840	
DEFERRED RENT	41,539	32,104
DEFERRED REVENUES	8,961,473	6,832,713
Total liabilities	16,100,897	14,322,490
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
STOCKHOLDERS' EQUITY (Note 5):		
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 (2000 and 1999) shares issued; 1,980,187 (2000) and 2,011,787 (1999) outstanding	2,012	2,012
Additional paid-in-capital	200,851	200,851
Accumulated other comprehensive income	12,215	
Retained earnings	387,074	209,925
Less: 31,600 shares of common stock in treasury, at cost	(55,500)	
Total stockholders' equity	546,652	412,788
TOTAL	$ 16,647,549	$ 14,735,278

See notes to consolidated financial statements.

11

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED OCTOBER 31, 2000, 1999, AND 1998

	2000	1999	1998
NET REVENUES:			
Vehicle service contract gross income	$ 5,453,390	$ 2,729,999	$ 707,62
Net mechanical breakdown insurance income	2,221,320	2,322,217	2,196,56
MBI administrative service revenue	649,166	545,308	385,28
Total net revenues	8,323,876	5,597,524	3,289,47
OPERATING EXPENSES:			
Direct acquisition costs of vehicle service contracts	5,189,065	2,604,436	669,81
Salaries and employee benefits	1,825,772	1,544,793	1,552,34
Mailings and postage	261,602	441,332	282,01
Rent and lease expense	326,327	286,785	248,41
Professional fees	158,844	159,105	193,25
Telephone	142,709	149,282	80,90
Depreciation and amortization	74,753	57,873	52,77
Merchant and bank charges	24,831	18,111	22,99
Insurance	37,052	29,029	42,71
Supplies	41,023	46,353	30,67
License and fees	13,618	12,756	9,18
Other operating expenses	146,676	156,082	110,67
Total operating expenses	8,242,272	5,505,937	3,295,77
OPERATING INCOME (LOSS)	81,604	91,587	(6,29
OTHER INCOME (EXPENSE):			
Finance fee income	51,820	50,567	14,21
Interest income	146,559	122,829	62,88

Interest expense	(12,993)	(5,996)	(8,10
Other expense	(763)	(531)	(39,48
Realized losses on investments	(3,362)		
Other income - net	181,261	166,869	29,50
INCOME BEFORE INCOME TAXES	262,865	258,456	23,21
INCOME TAXES (Note 4)	85,716	110,440	9,44
NET INCOME	$ 177,149	$ 148,016	$ 13,77
BASIC NET INCOME PER SHARE	$ 0.09	$ 0.07	$ 0.0
DILUTED NET INCOME PER SHARE	$ 0.08	$ 0.07	$ 0.0
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	2,002,064	2,005,158	2,005,12
AVERAGE NUMBER OF COMMON AND DILUTIVE SHARES OUTSTANDING	2,111,426	2,086,505	2,046,81
Net income	$ 177,149	$ 148,016	$ 13,77
Other comprehensive income net of tax:			
Net unrealized gain on available-for-sale securities	12,215		
Comprehensive income	$ 189,364	$ 148,016	$ 13,77

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2000, 1999, AND 1998

	COMMON STOCK		ADDITIONAL PAID IN-CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINE EARNING
	SHARES	AMOUNT			
BALANCE, NOVEMBER 1, 1997	2,005,121	$ 2,005	$ 130,357	$	$ 48,1
Stock compensation expense			50,500		
Net income					13,7
BALANCE, OCTOBER 31, 1998	2,005,121	2,005	180,857	0	61,9
Stock compensation expense	6,666	7	19,994		
Net income					148,0
BALANCE, OCTOBER 31, 1999	2,011,787	2,012	200,851	0	209,9
Unrealized gain on available-for-sale securities				12,215	
Treasury stock	(31,600)				

Net income					177,1
BALANCE, OCTOBER 31, 2000	1,980,187	$ 2,012	$ 200,851	$ 12,215	$ 387,0

See notes to consolidated financial statements.

13

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2000, 1999, AND 1998

	OCTOBER 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 177,149	$ 148,016
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	74,753	57,873
Gain on sale of equipment		(4,342)
Deferred income taxes	(97,198)	(281,673)
Stock-based compensation		20,001
Changes in assets and liabilities:		
Restricted cash	437,683	(473,710)
Accounts receivable	(17,565)	(90,632)
Receivable from affiliated entities	29,770	(3,876)
Prepaid expenses and other assets	(51,356)	26,864
Deferred direct costs	(3,868,518)	(5,706,526)
Net premiums payable to insurance companies	(2,456,377)	1,385,054
Accounts payable and accrued expenses	156,358	150,665
Accounts payable to affiliated entities		(33,287)
Income taxes payable	(249,596)	18,630
Deferred rent	9,435	32,104
Deferred revenues	4,134,977	6,296,294
Net cash (used in) provided by operating activities	(1,750,255)	1,575,101
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(58,008)	(71,168)
Proceeds from sale of equipment		7,000
Net purchase of short-term investments	(430,063)	
Net decrease in certificates of deposit		
Net cash used in investing activities	(488,071)	(64,168)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(55,500)	
Payments on capital lease obligation	(2,827)	
Payments on notes payable to affiliated entity		
Payments on payables to Company stockholder		
Payment of note receivable from stockholder		

Net cash used in financing activities	(58,327)	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,296,653)	1,510,933
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,424,934	1,914,001
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,128,281	$ 3,424,934
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 13,820	$ 1,911
Cash paid for income taxes	$ 334,157	$ 373,483
Supplemental schedule of noncash investing activity		
Purchase of equipment through capital lease obligation	$ 31,000	$

See notes to consolidated financial statements.

14

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 2000, 1999, AND 1998

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS - M.B.A. Holdings, Inc. and subsidiary (the "Company") are located in Scottsdale, Arizona and are principally engaged in selling mechanical breakdown insurance policies ("MBIs") (as an agent for insurance companies), selling vehicle service contracts ("VSCs") for new automobiles, trucks, recreational vehicles, and travel trailers, and providing claims administrative services for the mechanical breakdown insurance policies and VSCs sold. The consolidated financial statements include the accounts of M.B.A. Holdings, Inc. and its wholly-owned subsidiary, Mechanical Breakdown Administrators, Inc. All significant intercompany balances and transactions have been eliminated.

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are as follows:

a. CASH AND CASH EQUIVALENTS - The Company considers all cash and highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

b. RESTRICTED CASH represents claims payment advances provided by the insurance companies, to enable the Company to make claims payments on behalf of the insurance companies.

c. INVESTMENTS, which are primarily marketable debt and equity securities, are classified as available-for-sale and are stated at estimated fair value as of October 31, 2000. Fair value is estimated based on quoted market prices.

d. PROPERTY AND EQUIPMENT - The historical cost of computer equipment, office equipment and furniture is depreciated by accelerated and straight-line methods over their estimated useful lives which range from three to seven years. The accelerated depreciation method used for computer equipment and office equipment is a double declining balance method. The double declining balance method depreciates the assets more quickly during the earlier years of their useful lives whereas the straight-line method depreciates the assets evenly over their lives. Leasehold improvements are amortized over the shorter of the life of the asset or the related lease term.

The Company reviews its long-lived assets for possible impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121 whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable, and has concluded that no impairment charge is necessary during 2000, 1999 or 1998. If the Company found an instance where impairment existed, the Company would record the asset at its fair value based on estimated discounted cash flows.

Under guidelines established by the American Institute of Certified Public Accountants in Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE ("SOP 98-1"), the Company has capitalized $26,959 of such costs in the accompanying consolidated balance sheet at October 31, 2000.

e. BENEFIT PLAN - The Company has a profit-sharing plan covering substantially all employees who have attained the age of 21 and have completed one year of service. Participation commences on the earliest plan entry date after an employee meets eligibility requirements. The only contributions made to the plan are discretionary employer contributions. No discretionary contributions were made during the years ended October 31, 2000, 1999 and 1998.

15

f. NET PREMIUMS PAYABLE TO INSURANCE COMPANIES represent premiums collected from the policyholders on behalf of the insurance companies. Amounts collected are periodically remitted to the appropriate insurance company.

g. REVENUE RECOGNITION - Net revenues includes the commissions earned on sales of MBIs, fees for providing administrative claims services related to the MBIs sold and revenues related to the sales and servicing of VSCs.

The Company receives one fee (commission) related to the sale of MBIs which covers both the revenue earned for selling the policy and the fee for providing administrative claims services. The Company apportions the revenue consistent with the values associated with each service provided. The revenues for commissions earned on policy sales are recorded when the policy information is received and approved by the Company. The revenues for the fee related to providing administrative claims services are deferred and recognized in income on a straight-line basis over the actual life of the related policy. Costs directly related to the acquisition of the contract or policy that would not have been incurred but for the acquisition of the contract or policy (incremental direct acquisition costs) are deferred and charged to expense in proportion to the revenue recognized.

Customers generally have the right to cancel their policy or vehicle service contract at any time. When a customer cancels the policy or contract, the unused portion of the policy or contract is returned to the customer less a cancellation fee as described in the contract and permitted by state law. The Company, insurance companies, and sub-agents (if applicable) repay the remaining balance on the policy in the same proportion as received at the time of the initial sale. The cancellation fee is retained entirely by the Company. When a policy is cancelled, the Company records the Company's portion of the cancellation repayment (net of any cancellation fee received and net of any related deferred revenue) as a reduction or increase (as applicable) in total revenues. The amount of cancellation repayments, net of cancellation fees received, historically has not been significant.

All of the MBIs sold represent insurance policies between the insurance companies and the purchaser. The insurance company retains responsibility for the cost of any claims made in accordance with the policies. The Company only acts as a sales agent and claims administrator and does not assume the role of obligor at any time during the life of the policies.

VSCs represents contracts between the Company and the purchaser for which the Company obtains an insurance policy which guarantees the Company's 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 associated with the sales and servicing of these contracts are deferred and recognized in income on a straight-line basis over the actual life of the contracts.

h. INCOME TAXES - 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.

i. NET INCOME PER SHARE - Net income per share is calculated in accordance with SFAS No. 128, EARNINGS PER SHARE which requires dual presentation of BASIC and DILUTED EPS on the face of the statements of income and requires a reconciliation of the numerator and denominator of basic and diluted EPS calculations. Basic income 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.

NUMBER OF SHARES USED IN COMPUTING INCOME PER SHARE

	YEAR ENDED OCTOBER 31,		
	2000	1999	1998
Average number of common shares outstanding - Basic	2,002,064	2,005,158	2,005,121
Dilutive shares from common stock options calculated using the treasury stock method	109,362	81,347	41,692
Average number of common and dilutive shares outstanding	2,111,426	2,086,505	2,046,813

j. STOCK-BASED COMPENSATION -The Company adopted SFAS No. 123 during 1997 which requires expanded disclosures of stock-based compensation arrangements with employees and encourages, but does not require, compensation costs to be measured based on the fair value of the equity instrument awarded. The Company has elected to measure its stock-based compensation awards to employees based on the provisions of APB Opinion No. 25. APB No. 25 allows recognition of compensation cost based on the intrinsic value of the equity instrument awarded rather than fair value.

k. COMPREHENSIVE INCOME consists of net income and other gains and losses affecting stockholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such items consist primarily of unrealized gains and losses on marketable equity investments.

l. USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying value of the Company's financial instruments approximate fair value as the rates in effect approximate current rates obtainable in an open market.

n. NEW ACCOUNTING PRONOUNCEMENT - In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 requires that an enterprise recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company adopted SFAS No. 133 effective November 1, 2000, and the adoption did not have a material impact on the Company.

2. RELATED PARTY TRANSACTIONS

PREPAID EXPENSES AND OTHER ASSETS:

Included in Prepaid expenses and other assets at October 31, 2000 is $25,472 prepaid rent for office space paid to an entity owned by the Company's majority stockholder (See Note 6).

NOTE RECEIVABLE FROM STOCKHOLDER

In 1997, the Company advanced $115,586 to the Company's majority stockholder. The note had an interest rate of 8% and was repaid in fiscal 1998.

NOTE PAYABLE TO AFFILIATED ENTITY

The Company had a note payable to an affiliated entity at October 31, 1997 consisting of $73,189 of borrowings at a variable interest rate (6% as of October 31, 1997). The interest rate was determined annually based on the Internal Revenue Service imputed interest rate. The balance was repaid in full during 1998.

17

3. MARKETABLE SECURITIES

The following table summarizes the Company's marketable securities as of October 31,2000:

	AMORTIZED COSTS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Marketable Securities:				
Corporate bonds	$ 195,065	$ 15,566		$ 210,631
Other securities	127,783		$ (3,351)	124,432
Money market	107,215			107,215
Total Marketable Securities at October 31, 2000	$ 430,063	$ 15,566	$ (3,351)	$ 442,278

The corporate bonds have maturities in excess of ten years.

There were no marketable securities in 1999. Proceeds from sales and maturities of marketable securities were $128,374 in 2000. Net realized losses are included in other income.

4. INCOME TAXES

Income taxes were as follows for the years ended October 31:

	2000	1999	1998
Current	$ 182,914	$ 392,114	$ 254,887
Deferred	(97,198)	(281,674)	(245,447)
Total income tax expense	$ 85,716	$ 110,440	$ 9,440

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets at October 31 were as follows:

	2000	1999
Deferred revenue	$ 878,098	$ 710,678
Allowance for doubtful accounts	7,800	(10,000)
Accrued compensation	39,552	120,258
Depreciation	(46,632)	(48,619)
Other	5,008	14,311
Net deferred income tax assets	$ 883,826	$ 786,628

18

The effective income tax rate differs from the federal statutory income tax rate in effect each year as a result of the following items:

	2000	1999	1998
Federal statutory income tax rate	34%	34%	34%
State taxes	6	6	6
Other	(7)	3	1
Effective income tax rate	33%	43%	41%

5. STOCK OPTIONS AND STOCK AWARDS

During the year ended October 31, 1998, the Company issued stock options to certain employees. The Company applies APB Opinion No. 25 and related interpretations in measuring compensation expense for its stock options. During the years ended October 31, 2000, 1999 and 1998, compensation expense of $0, $0 and $50,500, respectively, was recognized for the difference between the option exercise price and the estimated fair value of the common stock at the date of grant. Had compensation cost for the Company's stock options been determined based on the fair value of the options at the date of grant consistent with SFAS No. 123, the Company's net income and net income per share would have been adjusted as presented below. Using the Black-Scholes model for common stock option valuation, the Company estimated volatility of 84.7%, risk free interest rate at 6%, and a dividend yield of 0%. All stock options are vested and exercisable when granted.

A summary of the Company's outstanding options as of October 31, 2000 is presented below along with pro-forma income statement information consistent with SFAS No. 123.

OPTIONS	EXERCISE PRICE	EXPIRATION DATE
33,334	$ 2.25	February 15, 2006
25,000	1.20	September 30, 2008
1,667	1.20	October 31, 2008
100,000	0.94	June 1, 2008
20,000	1.05	September 30, 2008
5,000	1.05	October 31, 2008
185,001		

		2000	1999	1998
Net income (loss)	As reported	$177,149	$148,016	$ 13,771
	Pro forma	$177,149	$148,016	$(184,824)
Basic net income per share	As reported	$ 0.09	$ 0.07	$ 0.01
Diluted net income per share		$ 0.08	$ 0.07	$ 0.01
Basic net income (loss) per share	Pro forma	$ 0.09	$ 0.07	$ (0.09)
Diluted net income (loss) per share		$ 0.08	$ 0.07	$ (0.09)

A summary of the activity regarding the Company's outstanding options for the years ended October 31 is presented below:

	2000		1999		
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHAR

Options outstanding at beginning of year	185,001	$ 1.23	185,001	$ 1.23	39,
Options granted	--	--	--	--	160,
Options exercised	--	--	--	--	
Options cancelled	--	--	--	--	(15,
Options outstanding at end of year	185,001	$ 1.23	185,001	$ 1.23	185,
Fair value of options granted during the year					

During 1999, the Company accrued for the issuance of 6,666 shares of common stock to an employee. In connection therewith, the Company recorded $20,001 of compensation expense.

In addition to the options and shares issued during the year ended October 31, 1998, discussed above, the Company also has reserved, for issuance, various options and shares to employees which are based on the occurrence of future events including the Company reaching certain sales levels. Under an arrangement approved by the Board of Directors, the CEO and Vice-President each will be granted options if sales growth goals are met. For every $5 million in sales growth, the CEO will receive options to purchase 1,667 shares at an exercise price of 80 percent of market price at the date sales goals are met. The President will receive options to purchase 5,000 shares at an exercise price of 70 percent of the market price at the date sales goals are met, for every $5 million in sales growth.

6. OPERATING AND CAPITAL LEASES

The Company has operating leases for office space and equipment and a capital lease for equipment which expire on various dates through the year ending October 31, 2004. The equipment under capital lease is included in property and equipment at October 31, 2000 with a value of $34,519, net of accumulated amortization of $986. Total rental expense was approximately $326,000, $293,000 and $248,000 for the years ended October 31, 2000, 1999 and 1998, respectively. Future minimum lease payments under noncancelable lease agreements at October 31, 2000 are as follows:

	OPERATING LEASES	CAPITAL LEASE
2001	$285,982	$ 12,776
2002	272,284	12,776
2003	274,378	8,517
2004	45,930	
Total	$878,574	$ 34,069
Less portion representing interest		5,896
Total		28,173
Less current portion		9,333
Long-term portion - net		$ 18,840

The Company leases its office space from an affiliate of the Company's majority stockholder. Rent expense for this office space was $237,290, $206,500 and $187,067 for the years ended October 31, 2000, 1999 and 1998, respectively. A new lease was signed with the affiliate on January 1, 1999 which expires on December 31, 2003.

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 expires on February 28, 2001. Borrowing 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 October 31, 2000.

8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	FOR THE YEAR ENDED 10/31/00			
	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Net sales	$ 1,911,844	$ 2,015,081	$ 2,245,294	$ 2,151,657
Gross profit	796,532	829,746	775,776	732,757
Net income (loss)	111,631	51,937	75,444	(61,863)
Net income (loss) per share	0.06	0.03	0.04	(0.04)

	FOR THE YEAR ENDED 10/31/99			
	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Net sales	$ 1,113,536	$ 1,196,789	$ 1,516,891	$ 1,770,308
Gross profit	565,190	724,219	760,930	942,749
Net income (loss)	(22,003)	51,208	20,363	98,448
Net income (loss) per share	(0.01)	0.03	0.01	0.04

21

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS OR ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company has not had disagreements with its accountants on any matter regarding accounting principles or financial statement disclosures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's Board of Directors consists of five people. All Directors hold offices until the next annual meeting at which time there is an election for their successors.

NAME	AGE	POSITION WITH COMPANY
Gaylen M. Brotherson	61	President, CEO, Chairman of the Board, Director
Judy K. Brotherson	54	Vice-President, Director
Edward E. Wilczewski	60	Director
Keith A. Cannon	60	Director
Michael Brady	59	Director

Gaylen and Judy Brotherson are husband and wife. No other family relationship exists between the Directors or the executive officers.

THE BUSINESS EXPERIENCE OF EACH OF THE COMPANY'S DIRECTORS IS AS FOLLOWS:

Gaylen Brotherson, 61, became President, CEO, Chairman of the Board, and Director of the Company in November 1995. He was the founder of Mechanical Breakdown Administrators, Inc. Mr. Brotherson served in the United States Navy. In 1960, he received his life, health and accident licenses as well as his property and casualty license. Presently, he is licensed as an insurance agent in 27 states. He has been in the vehicle service contract business since 1974. Since 1984 he has been actively involved in marketing and administering mechanical breakdown insurance policies and VSCs under Mechanical Breakdown Administrators, Inc. Also, Mr. Brotherson serves on the Board of Directors of Bank USA, in Phoenix, AZ.

Judy Brotherson, 54, has been Vice-President and Director of the Company since November 1995. Mrs. Brotherson is a graduate of Creighton University. Since 1975, she has worked primarily in family owned businesses. She holds insurance licenses in approximately 32 states. She was one of the chief designers of the MBA software management system. She has been working at MBA since 1989 primarily involved in overseeing the finance and data-entry departments.

Edward Wilczewski, 60, has been a Director of the Company since June 1998. Mr. Wilczewski served in the Navy for six years. Mr. Wilczewski is a graduate of the University of Omaha. Primarily for the past thirty years including the present time, he has owned and operated The Charter Group of Arizona, a real estate development company. His company has developed various real estate projects ranging from single family homes to apartment complexes.

Keith Cannon, 60, has been a Director of the Company since December 2000. Mr. Cannon is a graduate of the University of Utah. Primarily for the past thirty years including the present time, he has worked in the securities industries. Currently, he is the Branch Manager at Wilson-Davis & Co. where he supervises the trading with a variety of domestic and international clients. In addition, Mr. Cannon is a Director of two other public companies which are unrelated to M.B.A. Holdings, Inc. or its subsidiaries. They are the Montgomery Realty Group, Inc. and On-Point Technology Systems, Inc.

Michael Brady, 59, has been a Director of the Company since December 2000. Mr. Brady is a graduate of Creighton University. For the last 35 years, he has been a lawyer and business person operating domestically and internationally. Specifically, for the last several years, he has been the Chairman of the European Trade Link Company, which is an international distribution company. Also, he is the President of Vandermaal/Brady International Inc., which is a US

based international consulting company. From July 1998 to December 1999, he served as the Chairman of American Bantrust Mortgage Services Corp. which is a

US based mortgage banking company. From 1997 to August 1999, he served on the Board of Directors of Modis Training Technologies Inc. which was a US based semiconductor training company. From 1990 to 1996, he started as the Chief Legal Counsel and became the Chief Executive Officer of Metrol Security Services Inc. which was a US based multi-state full service burglar, fire alarm installation and monitoring company.

OTHER EXECUTIVE OFFICERS AND KEY EMPLOYEES

Michael Zimmerman, 30, is the Chief Financial Officer. He joined the Company in September of 1999. Prior to joining the Company, Mr. Zimmerman worked at PacifiCare, Inc. from November of 1997 to September of 1999 as the accounting supervisor in charge of the day to day accounting for the Nevada HMO and the Nevada and Arizona life insurance products. Prior to joining PacifiCare, Inc., Mr. Zimmerman was an employee from September 1993 to November 1997 at the international accounting and consulting firm KPMG Peat Marwick LLP.

Shelly Beesley, 35, is the Corporate Secretary and Assistant to the President. She has been employed by the Company since January 1993. She originally served as the Executive Assistant for the President and Vice President. At the beginning of 1996, Mrs. Beesley became the corporate secretary. Also, in 1996 Mrs. Beesley served as a Director to the company. Prior to joining the Company, Mrs. Beesley worked in the automotive industry as a Systems Administrator, Customer Service Manager and Assistant Sales Manager.

Michael Gannon, 44, is the Information Systems Manager. He is a graduate of Devry Technical Institute. Mr. Gannon has been employed by the Company since January 1995. He has helped develop MBA's integrated computer system to serve all customer service, claims, data entry, and sales functions for all the different products MBA offers.

ITEM 11. EXECUTIVE COMPENSATION

The following table provides the annual and other compensation of the Chief Executive Officer and any other employee who qualifies under Regulation S-K section 229.402 for the years ended October 31, 1998, 1999 and 2000.

			ANNUAL COMPENSATION			LONG-
NAME OF PRINCIPAL	POSITION	YEAR	SALARY	BONUS	OTHER(1)	RESTRI STOC (SHAR AWAR
Gaylen M. Brotherson	Chairman of Board and Chief Executive Officer	1998	$165,497	$150,000	$20,522	
		1999	150,797		24,672	
		2000	50,000	100,000	22,115	
Judy K. Brotherson	Vice-President	1998	50,000		10,910	
		1999	50,000			
		2000	50,000	100,000	6,551	
Richard John, Jr. (2)	Vice President - Sales	1998	303,732			
		1999	272,836			18
		2000	Terminated			

----

(1) Included in Other Annual Compensation are an auto lease paid for Gaylen

Brotherson in fiscal 1998, 1999 and 2000, an auto lease paid for Judy Brotherson in fiscal 1998, auto insurance for Gaylen Brotherson in fiscal

1998, 1999 and 2000, auto insurance for Judy Brotherson in fiscal 1998, 1999 and 2000, and life insurance premiums for Gaylen Brotherson and Judy Brotherson in years 1998, 1999 and 2000.

(2) Richard John's employment at the Company ended October of 1999.

OPTION GRANTS IN LAST FISCAL YEAR

None

OTHER INCENTIVES AND COMPENSATION

The Company does not have a formal stock option plan. Currently, stock options are granted by the Board of Directors. At October 31, 2000, there were only two employees, Gaylen Brotherson and Judy Brotherson, who had stock options. All options are exercisable. Below is a summary of existing options.

NAME	NUMBER OF SHARES	STRIKE PRICE	EXPIRATION DATE
Gaylen Brotherson	33,334	$2.25	2/15/06
	25,000	$1.20	10/31/08
	1,667	$1.20	10/31/08
Judy Brotherson	100,000	$0.94	6/1/08
	20,000	$1.05	9/30/08
	5,000	$1.05	10/31/08

In addition per the Board of Directors' resolution dated February 15, 1996, Gaylen Brotherson receives an option to purchase 1,667 shares at 80% of the stock's fair market value for each $5,000,000 increase in sales after $25,000,000 on the date the sales goals are reached. Per the Board of Directors' resolution dated June 1, 1998, Judy Brotherson receives an option to purchase 5,000 shares at 70% of the stock's fair market value for each $5,000,000 increase in sales after $25,000,000 on the date the sales goals are reached. These options will expire ten years from the grant date.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information as of October 31, 2000 concerning shares of Common Stock with $.001 par value, the Company's only voting securities. This table includes all beneficial owners who own more than 5% of the outstanding voting securities, each of the Company's directors by each person who is known by the Company to own beneficially more than 5% of the outstanding voting securities of the Company, and by the Company's executive officers and directors as a group.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNER	PERCENT OF CLASS
Common Stock	Gaylen Brotherson 9419 E. San Salvador Suite 105 Scottsdale, AZ 85258	878,615 shares (1)	44.4%
Common Stock	Judy Brotherson 9419 E. San Salvador Suite 105	801,301 shares (1)	40.5%

	Scottsdale, AZ 85258		
Common Stock	Keith Cannon 2300 Shawn Court Carlsbad, CA 92008	94,500 shares (1)	4.8%
Common Stock	CEDE & Co Box 220 Bowling Green Station New York, NY 10274	107,910 shares	5.4%
Common Stock	All Directors and Executive Officers as a Group (five people)	1,777,416 shares	89.8%

24

----

(1) This amount represents shares owned and excludes the 60,001 options to purchase common stock for Gaylen Brotherson and the 125,000 options to purchase common stock for Judy Brotherson. If these options were exercised by Gaylen Brotherson and Judy Brotherson, then their percentage of ownership would change to 43.4% and 42.8%, respectively (see Item 6. Executive Compensation).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company had a note payable with Gaylen Brotherson, the Chief Executive Officer. As of October 31, 1997 the unpaid balance equaled $73,189. The note was unsecured and paid per annum with a variable interest rate. The variable interest rate was equal to the imputed IRS rate for non-interest bearing loans. During 1998, the Company repaid the note in full. At the time of repayment the interest rate was 6%.

The Company leases its office space from Cactus Partnership. The managing partner of Cactus Partnership is Gaylen Brotherson, the Chief Executive Officer. Rent expense for this office space was $237,290, $206,500 and $187,067 for the years ended October 31, 2000, 1999 and 1998, respectively. The Company signed a new lease with the affiliated entity on January 1, 1999. This new lease expires on December 31, 2003.

During August 2000, the Company loaned 1st Defense Industries $78,252. The owner of 1st Defense Industries is Gaylen Brotherson, the Chief Executive Officer. The loan is for five years and has an interest rate of 5% with interest only payments for the first five years.. During fiscal 2000, 1st Defense paid the Company $647.31 which was recorded in interest income. In October 2000, Cactus Partnership purchased the loan from the Company in lieu of rent. At October 31, 2000 the loan due from 1st Defense Industries equaled $0.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

The following documents are filed as part of this report under Part II Item 8:

Reference is made to the Index to Financial Statements and Financial Statement Schedules included in Item 8 of Part II hereof, where such documents are listed.

Exhibits as required by Item 601 of Regulation S-K:

3(i) - Articles of Incorporation (incorporated by reference to Exhibit 3(i) to the Registrant's Registration Statement on Form 10 (file number

000-28221) filed with the Commission on November 19, 1999).

3(ii) - Bylaws of the Company (incorporated by reference to Exhibit 3(ii) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

10(a) - General Agency Agreement between American International Group, Inc. under its subsidiaries, National Union Fire Insurance Company and New Hampshire Insurance Company, and Mechanical Breakdown Administrators, Inc. (incorporated by reference to Exhibit 10(a) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(b) - Agency Agreement between American Bankers Insurance Company of Florida and Mechanical Breakdown Administrators, Inc. (incorporated by reference to Exhibit 10(b) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(c) - Claims Service Agreement between American Bankers Insurance Company of Florida and Mechanical Breakdown Administrators, Inc. (incorporated by reference to Exhibit 10(c) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(d) - Contractual Liability Insurance Policy for Extended Service Contract and Administration/Agency Agreement between American Modern Home Insurance Company and Mechanical Breakdown Administrators, Inc. (incorporated by reference to Exhibit 10(d) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(e) - Board of Directors resolution dated February 15, 1996 regarding Gaylen M. Brotherson's stock options (incorporated by reference to Exhibit 10(e) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(f) - Board of Directors resolution dated June 1, 1998 regarding Judy K. Brotherson's stock options (incorporated by reference to Exhibit 10(f) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(g) - Office Lease (incorporated by reference to Exhibit 10(g) to the Registrant's Registration Statement on Form 10 (file number 000-28221) filed with the Commission on November 19, 1999).

(h) - Audit committee charter

11 - Statement re computation of per share earnings

21 - Subsidiary of the Company

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: January 26, 2001 By: /s/ Gaylen Brotherson

Gaylen Brotherson
Chairman of the Board and Chief
Executive Officer

Dated: January 26, 2001 By: /s/ Michael J. Zimmerman

Michael J. Zimmerman,
Chief Financial Officer