M GAB DEVELOPMENT CORP
Form 10-Q/A
July 22, 2005

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

First Amended
Form 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2004

[ ] 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: 000-49687

M-GAB Development Corporation
(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	**33-0961490** (I.R.S. Employer Identification No.)
22342 Avenida Empresa **Suite 220** **Rancho Santa Margarita, CA** (Address of principal executive offices)	**92688** (Zip Code)

Registrant's telephone number, including area code (949) 635-1240

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _ No X

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes _ No __

Applicable only to corporate issuers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 5, 2004, there were 6,383,845 shares of common stock, par value $0.001, issued and outstanding.

M-GAB Development Corporation

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PART I

M-GAB Development Corporation has restated its Quarterly Report on Form 10-Q. This Quarterly Report is for the quarter ended September 30, 2004, and was originally filed with the Commission on Form 10-QSB on November 15, 2004. The purpose of this amendment is to correctly file this Quarterly Report on Form 10-Q rather than as a 10-QSB, since a business development company does not qualify as a small business issuer under Reg. § 228.10 of Regulation S-B, which excludes business development companies from the definition of “small business issuers.” References throughout this Quarterly Report are accurate as of the date originally filed. The Company has not undertaken to update all of the information in this Quarterly Report, but instead has updated only those areas related to the restatements. Please read all of the Company’s filings with the Commission in conjunction with this Quarterly Report.

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading “Management's Discussion and Analysis of Financial Condition or Plan of Operation.” Forward-looking statements also include statements in which words such as “expect,”“anticipate,”“intend,”“plan,”“believe,”“estimate,”“consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 Financial Statements

M-GAB DEVELOPMENT COMPANY
(A Florida Development Stage Corporation)

Balance Sheet

		September 30, 2004 (unaudited)		December 31, 2003
ASSETS				
Current assets				
Cash	$	18,653	$	-
Total assets	$	18,653	$	-
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	5,900	$	93,105
Payable to stockholder		-		10,000
Total current liabilities		5,900		103,105
Commitments and contingencies		-		-
Stockholders' equity:				
Preferred stock, $0.001 par value; 5,000,000 shares authorized; No shares issued or outstanding		-		-
Common stock, $0.001 par value; 100,000,000 shares authorized; 6,383,845 and 6,023,000 shares issued and outstanding		6,384		6,023
Additional paid in capital		64,840		11,076
Deficit accumulated during the development stage		(58,471)		(120,204)
Total stockholders' equity		12,753		(103,105)
Total liabilities and stockholders' equity	$	18,653	$	-

The accompanying notes are an integral part of these financial statements

M-GAB DEVELOPMENT COMPANY
(A Florida Development Stage Corporation)
Statement of Operations

	Cumulative from Inception (March 27, 2001) through September 30, 2004	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Revenue	$ -	$ -	$ -	$ -	$ -
General and administrative expenses	141,826	6,618	15,433	21,622	48,279
Other income	83,355	-	-	83,355	-
Net income (loss)	$ (58,471)	$ (6,618)	$ (15,433)	$ 61,733	$ (48,279)
Basic and diluted net income (loss) per share		$ (0.00)	$ (0.00)	$ 0.01	$ (0.01)
Weighted average shares outstanding		6,383,845	6,023,000	6,302,194	6,023,000

The accompanying notes are an integral part of these financial statements

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M-GAB DEVELOPMENT COMPANY
(A Florida Development Stage Corporation)
Statement of Cash Flows

		Cumulative from Inception (March 27, 2001) to September 30,2004		Nine Months Ended September 30, 2004		Nine Months Ended September 30, 2003
Cash flows from operating activities:						
Net income (loss)	$	(58,471)	$	61,733	$	(48,279)
Adjustments to reconcile net loss to cash used in operating activities:						
Contributed capital for services rendered		14,199		-		
Increase (decrease) in accounts payable and accrued liabilities		5,900		(87,205)		43,342
Net cash used in operating activities		(38,372)		(25,472)		(4,937)
Cash flows from financing activities:						
Proceeds from the issuance of stock		57,025		54,125		-
Advance from shareholder		-		(10,000)		-
Net cash provided by financing activities		57,025		44,125		-
Net increase (decrease) in cash		18,653		18,653		(4,937)
Cash and cash equivalents, beginning of period		-		-		6,437
Cash and cash equivalents, end of period	$	18,653	$	18,653	$	1,500
Supplemental Schedule of Noncash Operating Activities:						
Forgiveness of accounts payable and payable to stockholder	$	83,355	$	83,355	$	-

The accompanying notes are an integral part of these financial statements

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M-GAB DEVELOPMENT CORPORATION
(A Florida Development Stage Corporation)
Condensed Notes to Unaudited Financial Statements
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. The Company incorporated in Florida on March 27, 2001. The fiscal year end of the Company is December 31. Planned principal operations of the company have not yet commenced; activities to date have been limited to forming the Company, developing its business plan, and obtaining initial capitalization. On May 16, 2003, the Company filed an election to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"), which became effective on the date of filing. Subsequent to the BDC election the Company's principal business is to make venture capital investments in early-stage and/or developing enterprises that are principally engaged in the development or exploitation of inventions, technological improvements, and new or unique products or services.

Principles of Accounting. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

Financial Statements. The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2004 and 2003 and for the periods then ended have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted account principles in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2003 audited financial statements. The results of operations for the periods ended September 30, 2004 and 2003 are not necessarily indicative of the operating results for the full year.

Accounting Estimates . The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures 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 may differ from those estimates.

Shares Issued in Exchange for Services. The fair value of shares issued in exchange for services rendered to the Company is determined by the Company's officers and directors, as there is currently no market for the Company's stock. To date, we have not issued any shares for services.

Cash and Cash Equivalents. The Company includes cash on deposit and short-term investments with original maturities less than ninety days as cash and cash equivalents in the accompanying financial statements.

General and Administrative Expenses. The Company's general and administrative expenses consisted primarily of legal and accounting fees for the nine months ended September 30, 2004 and 2003.

M-GAB DEVELOPMENT CORPORATION
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Research and Development. Research and development costs are expensed as incurred as required by Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs." As of September 30, 2004, no such costs had been incurred.

Stock-Based Compensation. Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in previously issued standards. Accordingly, compensation cost for stock options issued to employees is measured as the excess, if any, of the fair market value of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation is charged to expense over the shorter of the service or vesting period. Stock options issued to non-employees are recorded at the fair value of the services received or the fair value of the options issued, whichever is more reliably measurable, and charged to expense over the service period.

Fair Value of Financial Instruments. The Company considers all liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments generally mature between three months and six months from the purchase date. All cash and short-term investments are classified as available for sale and are recorded at market using the specific identification method; unrealized gains and losses are reflected in other comprehensive income. Cost approximates market for all classifications of cash and short-term investments; realized and unrealized gains and losses were not material.

Net Loss per Common Share. Net loss per share is calculated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that options are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Recently Enacted Accounting Standards - Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123", SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", were recently issued. SFAS No. 144, 146, 147, 148, 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has no established source of revenue, and as of September 30, 2004, the Company had working capital of only $12,753. In addition, the Company has been in the development stage since its inception on March 27, 2001 and is dependent on outside financing to fund its operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

M-GAB DEVELOPMENT CORPORATION
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Condensed Notes to Unaudited Financial Statements
September 30, 2004

Management's plans in regard to these matters are to continue to raise additional capital from selling the Company's stock. However, there is no assurance that the Company will be able to obtain such financing. Management believes actions currently being taken provide the opportunity for the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - COMMON STOCK

Founders' Stock. The Company issued 6,000,000 shares of common stock on April 20, 2001 for cash totaling $600.

2001 Private Placement Memorandum. On June 1, 2001, the Company began an offering to sell up to 100,000 shares of common stock at $0.10 per share pursuant to a Private Placement Memorandum. In August 2001, the Company sold 13,000 shares of its common stock at $0.10 under this private placement. All proceeds from this offering were used for pre-incorporation expenditures, consulting fees and working capital.

Registered Stock Offering. During the quarter ended December 31, 2002, the Company sold 10,000 shares of its common stock at $0.10 per share for total proceeds of $1,000. The stock offering was pursuant to the Company's effective Form SB-2/A registration statement dated November 15, 2001. The Company used the proceeds to repay advances and general and administrative expenses. The Company's registered offering expired on October 30, 2002.

2004 Private Placement Memorandum. On March 2, 2004, the Company issued 360,845 shares of its common stock, and warrants to purchase a total of 333,334 shares of its common stock at $0.15 per share. The Company's net proceeds of $54,125 from this stock sale will be used to fund Company operations.

Amended and Restated 2001 Stock Option Plan. The Company's Board and shareholders approved a Stock Option Plan, effective June 1, 2001. The plan was amended by the Board and shareholders to the Company's Amended and Restated 2001 Omnibus Securities Plan, effective May 27, 2004 ("2001 Plan"). The 2001 Plan limits the aggregate number of shares available to 600,000. Each award under the 2001 Plan will be evidenced by a Stock Purchase Agreement; each agreement will establish the vesting requirements and the maximum term of the options granted. On November 4, 2003, the Company agreed to issue 600,000 stock options to two directors under the 2001 Plan. In accordance with the Company's status as a business development company, the stock options will not be issued until the Securities and Exchange Commission ("SEC") approves the issuances, which the Company believes will occur during the next quarter. If approved by the SEC, the exercise price of the stock options will be at or above the fair market value of the Company s common stock on the issuance date.

2004 Omnibus Securities Plan. The Company's Board and shareholders approved the Company's 2004 Omnibus Securities Plan, effective May 27, 2004 ("2004 Plan"). The 2004 Plan limits the aggregate number of shares that can issue under the plan to 650,000 shares. Each award under the 2004 Plan will be evidenced by a Stock Purchase Agreement; each agreement will establish the vesting requirements and the maximum term of the options granted. The Company has not issued, or agreed to issue, any stock or options under the 2004 Plan. In accordance with the Company's status as a business development company, no stock or options will be issued under the Plan until the SEC approves the 2004 Plan. If approved by the SEC, any stock or option issuances under the 2004 Plan will be at or above the fair market value of the Company's common stock on the date of issuance.

M-GAB DEVELOPMENT CORPORATION
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Condensed Notes to Unaudited Financial Statements
September 30, 2004

NOTE 4 - FORGIVENESS OF DEBT

On March 26, 2004, the Company’s director and officer agreed to forgive $9,400 of the Company’s debt owed to him. As of September 30, 2004, there were no amounts due Mr. Berg. The forgiveness of debt was recorded as other income in the accompanying financial statements for the nine months ended September 30, 2004.

Also on March 26, 2004, the Company’s attorney of record, The Lebrecht Group, APLC, agreed to forgive $73,955 of the Company’s debt to them. The forgiveness of these amounts was recorded as other income in the accompanying financial statements for the nine months ended September 30, 2004. The Company did not have amounts due The Lebrecht Group, APLC as of September 30, 2004.

NOTE 5 - INCOME TAXES

The Company has not made a provision for income taxes because of its financial statement and tax losses since its inception on March 27, 2001. A valuation allowance has been used to offset the recognition of any deferred tax assets related to net operating loss carryforwards due to the uncertainty of future realization. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" which requires the liability approach for the effect of income taxes.

At September 30, 2004 and December 31, 2003, the Company had unused operating loss carryforwards of approximately $58,000 and $63,000, respectively, which may be applied against future taxable income in various years through 2024. If certain substantial changes in the Company's ownership should occur, there could be an annual limitation on the amount of net operating loss carryforwards which can be utilized. The amount of and ultimate realization of the benefits from the operating loss carryforwards for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance equal to the tax effect of the loss carryforwards, therefore, no deferred tax asset has been recognized for the loss carryforwards. The net deferred federal and state tax assets were approximately $20,000 and $22,000 at September 30, 2004 and December 31, 2003, respectively, with an offsetting valuation allowance of the same amount resulting in a change in the valuation allowance of approximately $2,000 during the nine months ended September 30, 2004.

M-GAB DEVELOPMENT CORPORATION
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Condensed Notes to Unaudited Financial Statements
September 30, 2004

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Income (loss) from continuing operations available to common shareholders	$ (6,618)	$ (15,433)	$ 61,733	$ (48,279)
Weighted average number of common shares used in loss per share during the period	6,383,845	6,023,000	6,302,194	6,023,000

ITEM 2 Managements Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission.

Although the forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

Overview

M-GAB Development Corporation, a Florida corporation (the "Company") was incorporated in March 2001. On May 16, 2003, M-GAB filed an election to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"), which became effective on the date of filing.

Subsequent to the BDC election our principal business is to make venture capital investments in early-stage and/or developing enterprises that are principally engaged in the development or exploitation of inventions, technological improvements, and new or unique products and services. Our principal objective is long-term capital appreciation. We may invest in debt securities of these companies, or may acquire an equity interest in the form of common or preferred stock, warrants or options to acquire stock or the right to convert the debt securities into stock. We may invest alone, or as part of a larger investment group. Consistent with our status as a BDC and the purposes of the regulatory framework for BDC's under the 1940 Act, we will provide managerial assistance, potentially in the form of a consulting agreement or in the form of a board of director's seat, to the developing companies in which we invest.

In addition, we may acquire either a minority or controlling interest in mature companies in a roll-up strategy. It is anticipated that any acquisitions will be primarily in exchange for our common stock, or a combination of cash and stock. The principal objective of acquisitions pursuant to a roll-up strategy would be to consolidate an industry and either sell the acquired entities as a larger unit, or take the unit public through an initial public offering, spin-off to our shareholders, or reverse merger into a publicly traded shell corporation.

We operate as an internally managed investment company whereby our officers and employees conduct our operations under the general supervision of our Board of Directors. We have not elected to qualify to be taxed as a regulated investment company as defined under Subchapter M of the Internal Revenue Code.

During the quarter ended June 30, 2004, a market maker filed an application to list our securities on the OTC Bulletin Board. Our application is currently pending before the National Association of Securities Dealers. We anticipate being listed for trading on the OTC Bulletin Board during the next quarter.

Management does not anticipate that we will engage in any material product research and development, nor do we anticipate that we will purchase a plant or significant equipment.

Our financial statements have been prepared assuming we will continue as a going concern. Because we have not generated any revenues to date and have minimal capital resources, our Certified Public Accountants included an explanatory paragraph in their report raising substantial doubt about our ability to continue as a going concern.

Regulation as a BDC

Although the 1940 Act exempts a BDC from registration under that Act, it contains significant limitations on the operations of BDC’s. Among other things, the 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates, principal underwriters and affiliates of its affiliates or underwriters, and it requires that a majority of the BDC’s directors be persons other than “interested persons,” as defined under the 1940 Act. The 1940 Act also prohibits a BDC from changing the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless so authorized by the vote of the holders of a majority of its outstanding voting securities. BDC’s are not required to maintain fundamental investment policies relating to diversification and concentration of investments within a single industry.

Generally, a BDC must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such portfolio companies are termed “eligible portfolio companies.” More specifically, in order to qualify as a BDC, a company must (1) be a domestic company; (2) have registered a class of its equity securities or have filed a registration statement with the Securities and Exchange Commission pursuant to Section 12 of the Securities Exchange Act of 1934; (3) operate for the purpose of investing in the securities of certain types of portfolio companies, namely immature or emerging companies and businesses suffering or just recovering from financial distress; (4) extend significant managerial assistance to such portfolio companies; and (5) have a majority of “disinterested” directors (as defined in the 1940 Act).

An eligible portfolio company is, generally, a U.S. company that is not an investment company and that (1) does not have a class of securities registered on an exchange or included in the Federal Reserve Board’s over-the-counter margin list; or (2) is actively controlled by a BDC and has an affiliate of a BDC on its board of directors; or (3) meets such other criteria as may be established by the Securities and Exchange Commission. Control under the 1940 Act is generally presumed to exist where a BDC owns 25% of the outstanding voting securities of the company.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the 1940 Act limits the type of assets that BDC's may acquire to "qualifying assets" and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of acquisition, less than 70% of the value of the BDC's assets consist of qualifying assets. Qualifying assets include: (1) securities of companies that were eligible portfolio companies at the time the BDC acquired their securities; (2) securities of bankrupt or insolvent companies that were eligible at the time of the BDC's initial acquisition of their securities but are no longer eligible, provided that the BDC has maintained a substantial portion of its initial investment in those companies; (3) securities received in exchange for or distributed in or with respect to any of the foregoing; and (4) cash items, government securities and high-quality short-term debt. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets. These restrictions include limiting purchases to transactions not involving a public offering and acquiring securities from either the portfolio company or its officers, directors, or affiliates.

A BDC is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the BDC's total asset value at the time of the investment.

A BDC must make significant managerial assistance available to the issuers of eligible portfolio securities in which it invests. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. The portfolio company does not have to accept the BDC's offer of managerial assistance, and if they do accept may be required to pay prevailing market rates for the services.

The Company does not currently have any investments in eligible portfolio companies. However, we are actively seeking quality eligible portfolio companies in which to make an investment and provide managerial assistance.

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Results of Operations

<u>Introduction</u>

We did not have any revenues for the quarter ended September 30, 2004. We do not anticipate having revenue until we begin making investments in eligible portfolio companies and subsequently liquidate those investments. Because we are actively seeking eligible portfolio companies we anticipate that our revenues from quarter-to-quarter may differ significantly depending on when we realize a return on those investments. Our operating expenses decreased when compared to the same quarter during the previous year due, primarily, to the fact we incurred less costs related to legal services. We had no other income during the quarter ended September 30, 2004, which is the same as the previous year. A breakdown of our operating expenses and other expenses, as well as management's explanation of each, is outlined below.

Revenues and Loss from Operations

As stated above, because we do not have any investments in eligible portfolio companies, we did not have any revenues for the quarter ended September 30, 2004. Our total operating losses for the quarter ended September 30, 2004, were $6,618, compared to $15,433 for the quarter ended September 30, 2003. Our expenses for the quarter were made up entirely of general and administrative expenses. Our general and administrative expenses for this quarter consisted of $5,850 in accounting and other professional fees, $468 insurance expense, and $300 in miscellaneous expenses, such as postage, facsimiles, and copies.

Net Income

We had net loss for the quarter ended September 30, 2004 of $6,618, compared to a net loss of $15,433 for the same quarter a year ago. The significant decrease in our net loss between these two periods is because we incurred less costs related to legal services. Because we do not have any investments in eligible portfolio companies, we anticipate that our net income (loss) could differ significantly from quarter to quarter.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Results of Operations

Introduction

We did not have any revenues for the nine-month period ended September 30, 2004. As explained above, we do not anticipate having revenue until we begin making investments in eligible portfolio companies and subsequently liquidate those investments. Our operating expenses decreased when compared to the same nine-month period of the previous year due, primarily, to the fact we incurred less costs related to legal services. Our other income during the nine months ended September 30, 2004, was $83,355, which was primarily due to two parties agreeing to forgive debts owed to them. Mr. Carl Berg, a director and our sole officer, agreed to forgive $9,400 in accrued amounts owed to him, and The Lebrecht Group, APLC, our attorneys, agreed to forgive $63,955 in accrued receivables and $10,000 in funds they advanced to us. A breakdown of our operating expenses and other expenses, as well as management's explanation of each, is outlined below.

Revenues and Loss from Operations

As stated above, because we do not have any investments in eligible portfolio companies, we did not have any revenues for the nine-month period ended September 30, 2004. Our total operating losses for the nine months ended September 30, 2004, were $21,622, compared to $48,279 for the nine months ended September 30, 2003. This decrease in our operating expenses from the same period a year ago is due to the fact we incurred less costs related to legal services. Our general and administrative expenses for this nine-month period consisted of $19,129 in accounting and other professional fees, $1,375 in transfer agent fees, $600 in miscellaneous expenses, $468 in insurance expense, and a $50 bank fee.

Net Income

We had net income for the nine months ended September 30, 2004 of $61,733, compared to a net loss of $48,279 for the same period a year ago. The significant increase between these two periods is because of the forgiveness of $83,355 in total debt (accounts payable and shareholder advances).

Liquidity and Capital Resources

Introduction

As of September 30, 2004, we had cash of $18,653, which was a result of financing activities during the quarter ended March 31, 2004. This cash is our only asset. Our total current liabilities as of September 30, 2004 were $5,900 consisting entirely of accrued liabilities. Although our assets exceed our liabilities, given the lack of investments in eligible portfolio companies, our financial results at the end of future quarters could differ significantly. Until we begin to realize a return from our investment in eligible portfolio companies, we will have to fund operations from the sale of our stock and from loans. We have been successful in obtaining the necessary funding in the past, and anticipate that we will be able to continue to do so in the future.

Our cash, accounts payable and accrued liabilities, and total current liabilities for this nine-month period as compared to the end of our last fiscal year were:

	As of September 30, 2004	As of December 31, 2003	Change
Cash	$ 18,653	$ -	$ 18,653
Accounts payable and accrued liabilities	5,900	93,105	(87,205)
Total current liabilities	5,900	103,105	(97,205)

Cash Requirements

Currently, our cash requirements are minimal, related only to the cost of maintaining the Company in good standing. We recently raised a small amount of capital through an offering under Regulation E, which we anticipate will cover our expenses for at least the next twelve (12) months. Our two primary shareholders, Mr. Berg and Mr. Lebrecht, have verbally agreed to advance funds to us to fund our minimal cash requirements that cannot otherwise be covered by the proceeds from the offering. For the nine-month period ended September 30, 2004 our net cash used in operating activities was ($25,472). Due to our lack of substantial operations to date we do not believe this is necessarily indicative of our cash flow needs for future nine-month periods when we may be actively providing managerial assistance to eligible portfolio companies. We anticipate that our cash flow needs will increase when we have active investments in eligible portfolio companies.

Sources and Uses of Cash

Operations

We did not receive any cash from operations for the nine-month period ended September 30, 2004. As noted above, we used $25,472 in cash for operating activities during this nine-month period. We anticipate that both our cash generated from operations and used for operations will increase as soon as we have investments in eligible portfolio companies. Until that time we believe this figure will be fairly indicative our cash generation and cash used for operations in a nine-month period.

Financing

During the nine-month period ended September 30, 2004 we paid our operating expenses primarily with the $54,125 raised from the sale of our stock. We anticipate that we will have to continue to pay our operating expenses out of the proceeds from financing activities until we begin to realize a return from our investments in eligible portfolio companies.

Debt Instruments, Guarantees, and Related Covenants

Currently, we do not have any debt instruments, guarantees or related covenants.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Due to the relative inactivity of the Company to date, we have not identified any critical accounting policies.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

Since we have very few assets and do not have any investments in eligible portfolio companies there is no quantitative information, as of the end of June 30, 2003, about market risk that has any impact on our present business. Once we begin making investments in eligible portfolio companies we anticipate there will be market risk sensitive instruments and we will disclose the applicable market risk information at that time.

Our primary financial instruments are cash in banks and money market instruments. We do not believe that these instruments are subject to material potential near-term losses in future earnings from reasonably possible near-term changes in market rates or prices. We do not have derivative financial instruments for speculative or trading purposes. We are not currently exposed to any material currency exchange risk.

ITEM 4 Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of the filing of this quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

PART II

ITEM 1 Legal Proceedings

In the ordinary course of business, we may be from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. However, in the opinion of our management, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

ITEM 2 Changes in Securities and Use of Proceeds

There have been no events that are required to be reported under this Item.

ITEM 3 Defaults Upon Senior Securities

There have been no events that are required to be reported under this Item.

ITEM 4 Submission of Matters to a Vote of Security Holders

There have been no events that are required to be reported under this Item.

ITEM 5 Other Information

Under the Investment Company Act of 1940, all business development companies are required to obtain and maintain an indemnity bond that is reasonable in form and amount, as determined by a majority of the uninterested Directors of the company. In September 2004, we obtained an indemnity bond, deemed sufficient by a majority of our uninterested Directors to comply with the requirements of the Investment Company Act of 1940. The bond covers the company for acts of fraud or dishonesty by company employees dating back to July 1, 2003.

ITEM 6 Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 (1)	Articles of Incorporation of M-GAB Development Corporation
3.2 (1)	Bylaws of M-GAB Development Corporation
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from our Pre-Effective Registration Statement on Form SB-2 dated and filed with the Commission on August 31, 2001.

(b) Reports on Form 8-K

None.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

M-GAB Development Corporation

Dated: July 22, 2005		/s/ Carl M. Berg
	By:	Carl M. Berg
		President, Director,
		Chief Executive Officer,
		Chief Financial Officer