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M GAB DEVELOPMENT CORP

Form 10-Q

August 22, 2005

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

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

☐ 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 ☒ No ☐

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

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 ☐

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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 August 10, 2005, there were 6,550,512 shares of common stock, par value \$0.001, issued and outstanding.

M-GAB Development Corporation

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PART I

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	Condensed Unaudited Financial Statements
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M-GAB DEVELOPMENT CORPORATION (A Florida Development Stage Corporation) Condensed Balance Sheet (Unaudited)

	June 30, 2005 2005	December 31, 2004
	-----	-----
ASSETS		
Current assets		
Cash	\$ --	\$ 17,403
Long term assets		
Investment in stock	25,000	--
	-----	-----
Total assets	\$ 25,000	\$ 17,403
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,088	\$ 9,324
	-----	-----
Total liabilities	8,088	9,324
	=====	=====
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; 6,550,512 and 6,383,845 shares issued and outstanding	6,551	6,384
Additional paid in capital	89,673	64,840
Deficit accumulated during the development stage	(79,312)	(63,145)
	-----	-----
Total stockholders' equity	16,912	8,079
	-----	-----

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Total liabilities and stockholders' equity	\$ 25,000	\$ 17,403
	=====	=====

The accompanying condensed notes are an integral part of these unaudited condensed consolidated financial statements.

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M-GAB DEVELOPMENT CORPORATION (A Florida Development Stage Corporation) Condensed Statement of Operations (Unaudited)

	Cumulative from inception (March 27, 2001) through June 30, 2005	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005
	-----	-----	-----	-----
Revenue	\$ --	\$ --	\$ --	\$ --
General and administrative expenses	162,667	8,022	6,025	16,100
Other income (expense)	83,355	--	--	--
Net income (loss)	----- \$ (79,312) =====	----- \$ (8,022) =====	----- \$ (6,025) =====	----- \$ (16,100) =====
Basic and diluted net loss per share		\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding		6,543,105	6,383,845	6,463,400

The accompanying condensed notes are an integral part of these unaudited condensed consolidated financial statements.

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M-GAB DEVELOPMENT CORPORATION (A Florida Development Stage Corporation) Condensed Statement of Cash Flows (Unaudited)

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	Cumulative from inception (March 27, 2001) to June 30, 2005 -----	Six Months Ended June 30, 2005 -----	Six Month June 30, 20 -----
Cash flows from operating activities:			
Net income (loss)	\$ (79,312)	\$ (16,167)	\$ 68,3
Adjustments to reconcile net income (loss) to cash used in operating activities			
Forgiveness of accounts payable and payable			
to shareholder	(83,355)	--	
Contributed capital for services rendered	14,199	--	
Common stock issued to pay operating expenses	--	--	
Increase (decrease) in accounts payable	--	--	(15,5
and accrued liabilities	81,443	(1,236)	(83,3
	-----	-----	-----
Net cash used in operating activities	(67,025)	(17,403)	(30,5
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from the issuance of stock	57,025	--	54,1
Advance from shareholder	10,000	--	
	-----	-----	-----
Net cash flow from financing activities	67,025	--	54,1
	-----	-----	-----
Net increase (decrease) in cash	--	(17,403)	23,6
	-----	-----	-----
Cash and cash equivalents, beginning of period	--	17,403	
	-----	-----	-----
Cash and cash equivalents, end of period	\$ --	\$ --	\$ 23,6
	=====	=====	=====
Supplemental Cash Flow Information:			
Cash paid for interest and income taxes	\$ --	\$ --	\$
Forgiveness of accounts payable and payable to stockholder	\$ 83,355	\$ --	\$ 83,3
Exchange of shares for investment in stock	\$ 25,000	\$ 25,000	\$

The accompanying condensed notes are an integral part of these unaudited condensed Consolidated financial statements.

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Condensed Notes to Unaudited Financial Statements
June 30, 2005

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 June 30, 2005 and 2004, 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, 2004 audited financial statements. The results of operations for the periods ended June 30, 2005 and 2004 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 three and six months ended June, 2005 and 2004.

Research and Development. Research and development costs are expensed as incurred as required by Statement of Financial Accounting Standards No. 2,

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"Accounting for Research and Development Costs." As of June 30, 2005, no such costs had been incurred.

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Advertising. Advertising costs are charged to operations when incurred. The Company has not incurred any advertising costs.

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.

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 carry-forwards due to the uncertainty of future realization. The use of any tax loss carry-forward benefits may also be limited as a result of changes in Company ownership.

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

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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.

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M-GAB DEVELOPMENT CORPORATION
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June 30, 2005

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 June 30, 2005, the Company had negative working capital of \$8,088. 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.

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 - STOCKHOLDERS' EQUITY

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.

Stock Exchange Agreement. On April 1, 2005, the Company entered into a Stock

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Exchange Agreement with NuQuest, Inc. ("NuQuest"). Pursuant to the agreement, the Company agreed to issue a total of 166,667 shares of its common stock to NuQuest in exchange for a total of 20,000 shares of restricted NuQuest common stock. The value of the stock to be exchanged by both parties was agreed to be \$25,000. NuQuest further agreed to declare a dividend and distribute the shares of the Company's exchanged common stock pro-rata to all of their shareholders except for three, who agreed to forego the dividend. The Company has recorded its investment in NuQuest shares as a long term asset on the enclosed balance sheet as of June 30, 2005. As of June 30, 2005, the Company has not established a valuation allowance relative to the NuQuest shares.

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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 be issued 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.

NOTE 4 - INCOME TAXES

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.

The Company has available at June 30, 2005 and December 31, 2004, unused operating loss carryforwards of approximately \$79,000 and \$63,000, respectively, which may be applied against future taxable income and which expire in various years through 2025. 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

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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 tax assets were approximately \$26,000 and \$21,000 at June 30, 2005 and December 31, 2004, respectively, with an offsetting valuation allowance of the same amount resulting in a change in the valuation allowance of approximately \$5,000 during the six months ended June 30, 2005.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company had engaged one of its shareholders, Mr. Lebrecht, as its corporate counsel. For the years ended December 31, 2004 and 2003, the Company incurred total legal services and out of pocket costs to Mr. Lebrecht's firm of \$324 and \$37,730, respectively. As of December 31, 2004 and 2003, the Company had amounts due to Mr. Lebrecht of \$24 and \$32,889, respectively, which are recorded in

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accounts payable and accrued liabilities in the accompanying financial statements. In addition, the Company received an advance of \$10,000 from Mr. Lebrecht for organizational costs. The Company recorded this advance as a payable to stockholder as of December 31, 2003. On March 26, 2004, the Lebrecht Group, APLC, agreed to forgive amounts owed to them of \$73,955, including the \$10,000 advance. The forgiveness of these amounts was recorded as other income in the accompanying financial statements for the year ended December 31, 2004. As of June 30, 2005 the Company had amounts due to Mr. Lebrecht of approximately \$6,417.

The Company's President, Mr. Berg, has elected to forego a salary during its early development stages. Mr. Berg has also provided office space to the Company. In prior years, the Company estimated the value of these services to be \$6,000 for the year ended December 31, 2004. As of December 31, 2003, the Company had amounts due to Mr. Berg of \$9,400, which were recorded in accounts payable and accrued liabilities in the accompanying financial statements. 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 June 30, 2005, there were no amounts due Mr. Berg. The forgiveness of debt was recorded as other income in the accompanying financial statements for the year ended December 31, 2004.

In addition, one of the Company's directors, Mr. Gadawski, provided consulting services to the Company in 2005 and 2004. As of June 30, 2005 and December 31, 2004, the Company had \$1,250 and \$2,500, respectively, due to Mr. Gadawski for services rendered during the six months ended June 30, 2005 and the year ended December 31, 2004, respectively.

In November 2003, the Company agreed to issue to each of Mr. Gadawski and Mr. Stewart opinions to acquire 300,000 share of our common stock for services as directors of the Corporation. As of December 31, 2004, the Company has not issued these options, as this issuance of options is subject to approval of the SEC pursuant to provisions of the Investment Company Act of 1940.

NOTE 6 - LOSS PER SHARE

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The following data show the amounts used in computing loss per share for the periods presented:

	Three Months Ended		
	June 30, 2005	June 30, 2004	June 30, 2003
	-----	-----	-----
Net income (loss) from continuing operations available to common shareholders (numerator)	\$ (8,022)	\$ (6,025)	\$ (6,025)
Weighted average number of common shares used in loss per share during the period (denominator)	6,543,105	6,383,845	6,383,845

Dilutive loss per share was not presented, as the Company had no common equivalent shares for all periods presented that would effect the computation of diluted loss per share.

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M-GAB DEVELOPMENT CORPORATION (A Florida Development Stage Corporation) Condensed Notes to Unaudited Financial Statements June 30, 2005

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.

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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.

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During the quarter ended March 31, 2005, a market maker filed an application to list our securities on the OTC Bulletin Board. We are currently responding to comments from the National Association of Securities Dealers and hope to be listed for trading on the OTC Bulletin Board by the end of 2005.

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

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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

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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.

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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.

In June 2005, we were contacted by the Securities and Exchange Commission regarding the filing of our Annual and Quarterly Reports on Forms 10-KSB and 10-QSB, respectively, since only "small business issuers," as defined in Reg. ss.228.10(a) of Regulation S-B, may use those forms. As a business development company we do not qualify as a "small business issuer" and must use Forms 10-K and 10-Q for our Annual and Quarterly Reports. We elected to become a business development company in May 2003. Therefore, in response to the Commission's comments, on July 22, 2005, we filed amended Quarterly and Annual Reports on Forms 10-K and 10-Q, respectively, for all periods ending June 30, 2003 through March 31, 2005.

Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004

Results of Operations

Introduction

We did not have any revenues for the quarter ended June 30, 2005. 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 increased slightly when compared to the same quarter during the previous year due, primarily, to the fact we incurred increased costs related to accounting and transfer agent services. We had no other income during the quarter ended June 30, 2005, 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.

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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 June 30, 2005. Our total operating losses for the quarter ended June 30, 2005, were \$8,022, compared to \$6,025 for the quarter ended June 30, 2004. Our expenses for the quarter were made up entirely of general and administrative expenses. General and administrative expenses consist of accounting, insurance, and other professional fees for the quarters ended June 30, 2005 and 2004.

Net Income (Loss)

We had net loss for the quarter ended June 30, 2005 of (\$8,022), compared to a net loss of (\$6,025) for the same quarter a year ago. We believe these net income (loss) amounts for these two quarters are fairly indicative of

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what our net income (loss) will be for each three month period until we begin making investments in eligible portfolio companies. Once we have investments in eligible portfolio companies, we anticipate that our net income (loss) could differ significantly from quarter to quarter.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Results of Operations

Introduction

We did not have any revenues for the six-month period ended June 30, 2005. 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 increased slightly when compared to the same six-month period of the previous year. Our other income during the six months ended June 30, 2005, was \$0 compared to \$83,355 for the same six-month period one year ago. The other income for the six months ended June 30, 2004 was due to two parties agreeing to forgive debts owed to them. Mr. Carl Berg, a director and our sole officer, forgave \$9,400 in accrued amounts owed to him, and The Lebrecht Group, APLC, our attorneys, forgave \$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 six months ended June 30, 2005. This is the same as the one year ago. Our total operating losses for the six months ended June 30, 2005, were \$16,167, compared to \$15,004 for the six months ended June 30, 2004. Our expenses for the six months were made up entirely of general and administrative expenses. General and administrative expenses consist of accounting, insurance, and other professional fees for the six-month periods ended June 30, 2005 and 2004.

Net Income (Loss)

We had net loss for the six months ended June 30, 2005 of (\$16,167), compared to net income of \$68,351 for the same quarter a year ago. This discrepancy is due to the above-mentioned debt forgiveness by Mr. Berg and The Lebrecht Group, APLC. We believe the net income (loss) amount for the six months ended June 30, 2005 is fairly indicative of what our net income (loss) will be

for each six month period until we begin making investments in eligible portfolio companies. Once we have investments in eligible portfolio companies, we anticipate that our net income (loss) could differ significantly from one six-month period to the next six-month period.

Liquidity and Capital Resources

Introduction

As of June 30, 2005, we had no cash and our only asset was an investment in NuQuest, Inc. common stock valued at \$25,000. Our total current liabilities as of June 30, 2005 were \$8,088 consisting entirely of accrued liabilities. Although our assets were three times the amount of our liabilities on June 30, 2005, given our lack of investments in eligible portfolio companies,

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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, investment in stocks, accounts payable and accrued liabilities, and total current liabilities for this three-month period as compared to the end of our last fiscal year were:

	As of June 30, 2005	As of December 31, 2004	Change
	-----	-----	-----
Cash	\$ --	\$ 17,403	\$ (17,403)
Investment in stock	25,000	--	25,000
Accounts payable and accrued liabilities	8,088	9,324	(1,236)
Total current liabilities	8,088	9,324	(1,236)

Cash Requirements

Currently, our cash requirements are minimal, related only to the cost of maintaining the Company in good standing. Last year we raised a small amount of capital through an offering under Regulation E, which covered our expenses for approximately next twelve (12) months. If necessary, we anticipate raising additional funds through another offering under Regulation E to fund our operations until we begin making investments into eligible portfolio companies or for the next twelve (12) months. Additionally, 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 six-month period ended June 30, 2005 our net cash used in operating activities was (\$17,403). Due to our lack of substantial operations to date we do not believe this is necessarily indicative of our cash flow needs for future three-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 six-month period ended June 30, 2005. As noted above, we used \$17,403 in cash for operating activities during this six-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 of our cash generation and cash used for operations in a six-month period.

Financing

During the six-month period ended June 30, 2005 we paid our operating

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expenses primarily with the money raised from the sale of our stock during the quarter ended March 31, 2004. 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, 2005, 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

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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 Unregistered Sales of Equity Securities and Use of Proceeds

On April 1, 2005, we entered into a Stock Exchange Agreement with NuQuest, Inc. Pursuant to the agreement, we agreed to issue to NuQuest a total of 166,667 shares of our common stock, and in exchange they agreed to issue to us a total of 20,000 shares of their common stock. The value of the stock to be exchanged by both parties was agreed to be \$25,000. Our common stock was issued to NuQuest without restrictive legend pursuant to an exemption from registration provided by Regulation E promulgated under the Securities Act of 1933.

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

In June 2005, we were contacted by the Securities and Exchange Commission regarding the filing of our Annual and Quarterly Reports on Forms 10-KSB and 10-QSB, respectively, since only "small business issuers," as defined in Reg. ss.228.10(a) of Regulation S-B, may use those forms. As a business development company we do not qualify as a "small business issuer" and must use Forms 10-K and 10-Q for our Annual and Quarterly Reports. We elected to become a business development company in May 2003. Therefore, in response to the Commission's comments, on July 22, 2005, we filed amended Quarterly and Annual Reports on Forms 10-K and 10-Q, respectively, for all periods ending June 30, 2003 through March 31, 2005.

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

10.1 (2) Stock Exchange Agreement with NuQuest, Inc., dated April 1, 2005

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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,

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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.

(2) Incorporated by reference from our Current Report on Form 8-K dated April 1, 2005 and filed with the Commission on April 4, 2005.

(b) Reports on Form 8-K

None.

On April 4, 2005, we filed an Item 1.01 and 3.02 Current Report on Form 8-K regarding our share exchange transaction with NuQuest, Inc.

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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: August 12, 2005

/s/ Carl M. Berg

By: Carl M. Berg
President, Director,
Chief Executive Officer,
Chief Financial Officer

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