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MAGIC COMMUNICATIONS INC
Form 10QSB
November 29, 2005

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

FORM 10-QSB

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2005
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from _____ to _____

Commission file number: 0-50090

MAGIC COMMUNICATIONS, INC.
(Exact name of small business issuer as specified in its charter)

Delaware

13-3926203

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

5 West Main Street, Elmsford, New York 10523

(Address of principal executive offices)

(914) 345-0800

(Issuer's telephone number)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,080,000 shares of Common Stock as of November 22, 2005.

Transitional Small Business Disclosure Format (Check one): Yes No

MAGIC COMMUNICATIONS GROUP, INC.

BALANCE SHEET

September 30, 2005
(Unaudited)
ASSETS

CURRENT ASSETS:
Cash

\$ -

TOTAL CURRENT ASSETS

-

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EQUIPMENT, net	8,907
DUE FROM RELATED PARTY	1,500

	\$ 10,407
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 34,523
Loan payable	50,000
Due to related parties	104,991

TOTAL CURRENT LIABILITIES	189,514
STOCKHOLDERS' DEFICIT:	
Common stock, \$.0001 par value; authorized 50,000,000 shares; issued and outstanding 3,080,000 shares	308
Preferred stock, \$.0001 par value; authorized 1,000,000 shares; issued and outstanding -0- shares	-
Additional paid-in capital	123,845
Accumulated deficit	(303,260)

TOTAL STOCKHOLDERS' DEFICIT	(179,107)

	\$ 10,407
	=====

The accompanying notes are an integral part of the financial statements.

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For, the Nine M Septemb
	2005	2004	2005
	(unaudited)	(unaudited)	(unaudited)
REVENUES	\$ 37,473	\$ 13,835	\$ 82,694
	-----	-----	-----
OPERATING EXPENSES:			
Depreciation	4,320	4,320	12,960

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Salaries	33,121	5,371	47,710
Equipment lease	-	138	-
Professional fees	950	13,160	47,215
General and administrative	7,150	13,638	55,991
	-----	-----	-----
TOTAL OPERATING EXPENSES	45,541	36,627	163,876
	-----	-----	-----
NET LOSS	\$ (8,068)	\$ (22,792)	\$ (81,182)
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.00)	\$ (0.01)	\$ (0.03)
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic and Diluted	3,080,000	2,530,000	2,968,889
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2005	2004
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (81,182)	\$ (81,703)
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	12,960	12,960
Changes in assets and liabilities:		
Cash Overdraft	2,486	8,991
Accounts payable	(1,715)	23,209
	-----	-----
TOTAL ADJUSTMENTS	13,731	45,160
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(67,451)	(36,543)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Return of security deposits	-	11,550
	-----	-----

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NET CASH PROVIDED BY INVESTING ACTIVITIES	-		11,550
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from related parties	6,600		20,192
Stock issued for cash	60,000		-
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	66,600		20,192
NET (DECREASE) INCREASE IN CASH	(851)		(4,801)
CASH, BEGINNING OF PERIOD	851		4,801
	-----	-----	-----
CASH, END OF PERIOD	\$ -	\$ -	-
	=====	=====	=====
Cash paid for:			
Interest	\$ -	\$ -	-
	=====	=====	=====
Taxes	\$ 309	\$ 100	100
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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MAGIC COMMUNICATIONS GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of results that may be expected for the year ending December 31, 2005. For further information, refer to the audited financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2004.

NOTE 2. GOING CONCERN

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which contemplates continuation of the Company as a going concern. However, the Company has incurred recurring losses

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resulting in a stockholders' deficit of (\$179,107) and working capital deficit of (\$189,514) at September 30, 2005. In addition, the Company's cash account is \$0. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

In view of these matters, the continued existence of the Company is dependent upon its ability to meet its financing requirements and, ultimately, the success of its planned future operations. There can be no assurance that the Company will obtain the necessary financing nor that the planned future operations will be successful.

Note 3 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- B. Cash and cash equivalents - The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents.
- C. Revenue recognition - The Company realizes net revenues through the difference between what is in the coin box when it is emptied and what it must pay to the property owner, Verizon and long distance and local service providers as well as payments from others for toll free calls.
- D. Equipment - Equipment is recorded at cost. Expenditures for major additions and betterment's are capitalized. Maintenance and repairs are charged to operations as incurred. Depreciation of equipment is computed by the straight-line method over the assets estimated useful lives of ten years. Upon sale or retirement of equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.
- E. Fair value of financial instruments - The carrying amounts reported in the balance sheet for accounts payable and accrued expenses, and due to related parties approximate fair value based on the short-term maturity of these instruments.
- F. Income taxes - Income taxes are accounted for in accordance with the provisions of SFAS No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The

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effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized, but no less than quarterly.

- G. Stock based compensation - Financial Accounting Statement 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 continue to account for stock-based compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company has adopted the "disclosure only" alternative described in SFAS 123 and SFAS 148, which require pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied.

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- H. Basic and diluted loss per share - Basic and diluted loss per share is based on the weighted average number of common shares and common share equivalents outstanding.
- I. New Accounting Pronouncements - Management does not believe that recently issued, but not yet effective accounting pronouncements if currently adopted would have a material effect on the accompanying financial statements.

NOTE 4 - CONSULTING AGREEMENT

Apple Industries has hired the Company as a consultant to research locations that could be profitable to Apple using a pay for internet kiosk using time as the criteria. If implemented, the Company would arrange for the DSL connection. The Company recorded \$12,500 in revenues for the quarter ended September 30, 2005. Although the contract does not have an end date, the Company believes that this project will be completed soon.

NOTE 5. STOCKHOLDERS' DEFICIT

From March 24, 2005 through June 3, 2005, the Company sold 300,000 shares of its common stock (100,000 shares on March 24, 2005 for \$20,000 and 200,000 shares on June 3, 2005 for \$40,000). There were no underwriters. All securities were sold for cash for aggregate gross proceeds of \$60,000.

Forward-Looking Statements

When used in this form 10-QSB, or in any document incorporated by reference herein, the words or phrases "will likely result", "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area and competition, that could cause actual results to differ materially from historical earnings, if any, and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such Forward- looking statements, which speak only as to the date made. The Company wishes to advise readers that the factors listed above, or in its 10-SB Registration Statement Risk Factor Section, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 2. Management's Discussion And Analysis Or Plan Of Operation

ITEM II. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004

Net sales increased from \$27,609 in the nine months ended September 30, 2004 to \$82,694 in the nine months ended September 30, 2005. This increase is attributable to a switch in telephone carriers in which a favorable flat rate pricing structure was obtained as well as a rate increase from 25 cents to 35 cents on all phones. The company also earned \$12,500 in consulting fees in the last quarter. Operating expenses increased from \$109,312 to \$163,876. The change in operating expenses was due to the following items: (i) an increase in salaries from \$19,171 in 2004 to \$47,710 in 2005; (ii) a decrease in lease

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payments for phone equipment (leases expired in March 2002) of \$730 from \$730 for the nine months ended September 30, 2004 to \$0 for the nine months ended September 30, 2005; (iii) a decrease in general and administrative expenses of \$464 from \$56,455 for the nine months ended September 30, 2004 to \$55,991 for the nine months ended September 30, 2005; and (v) an increase in professional fees of \$27,218 from \$19,997 in the nine months ended September 30, 2004 to \$47,215 in the nine months ended September 30, 2005. Since sales increased and operating expenses increased, the Company's net loss decreased from (\$81,703) in the nine months ended September 30, 2004 to (\$81,182) in the nine months ended September 30, 2005. The number of pay telephones in service was approximately 100 telephones during the nine months ended September 30, 2004 and 80 telephones during the nine months ended September 30, 2005.

Liquidity and Capital Resources

On September 30, 2005 the Company had \$0 cash on hand. Current funds having been expended and with managements' assumption that the Company may not generate sufficient revenues from operations, the Company will (a) be dependent upon management to fund operations and/or (b) be dependent upon some form of debt or equity financing, if available, and if available, under terms deemed reasonable to management. The management of the Company has orally committed to fund the Company on an "as needed" basis. The Company's auditors have included a "going concern" opinion in their report on the Company's financial statements contained in the Company's 10-KSB for the year ended December 31, 2004.

Need for Additional Financing

The Company believes that its existing capital will be insufficient to meet the Company's cash needs, including costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934, as amended. The Company may rely upon issuance of its securities to pay for services necessary to meet reporting requirements.

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PART II. OTHER INFORMATION

- Item 1. Legal Proceedings: None
- Item 2. Unregistered Sale of Equity Securities and Use of Proceeds:
None
- Item 3. Defaults Upon Senior Securities: None
- Item 4. Submission of Matters to Vote of Security holders: None
- Item 5. Other Information: None
- Item 6. Exhibits and Reports on Form 8-K: None

Exhibit Number	Description
31.1	Section 302 Certification of Chief Executive Officer and Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted

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Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 23, 2005

Magic Communications, Inc.

(Registrant)

By: /s/ Stephen D. Rogers

Stephen D. Rogers, Chief Executive
Officer and Chief Accounting Officer