MAGIC COMMUNICATIONS INC
Form 10QSB
August 15, 2005

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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[X] 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 August 5, 2005.

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

MAGIC COMMUNICATIONS GROUP, INC.

BALANCE SHEET

June 30, 2005
(Unaudited)
ASSETS

CURRENT ASSETS:	
Cash	$ 2,756
TOTAL CURRENT ASSETS	2,756

EQUIPMENT, net	13,227
DUE FROM RELATED PARTY	1,500
	$ 17,483

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 33,531
Loan payable	50,000
Due to related parties	104,991
TOTAL CURRENT LIABILITIES	188,522
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	(295,192)
TOTAL STOCKHOLDERS' DEFICIT	(171,039)
	$ 17,483

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

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six M June
	2005	2004	2005
	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	$ 25,402	$ 13,411	$ 45,221
OPERATING EXPENSES:			

Depreciation	4,320	4,319	8,640
Salaries	6,679	7,600	14,589
Equipment lease	-	187	-
Professional fees	37,965	1,087	46,265
General and administrative	25,985	16,172	48,841
TOTAL OPERATING EXPENSES	74,949	29,365	118,335
NET LOSS	$ (49,547)	$ (15,954)	$ (73,114)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.02)	$ (0.01)	$ (0.03)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING Basic and Diluted	3,013,333	2,530,000	2,913,333

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

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MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2005	2004
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (73,114)	$ (58,910)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	8,640	8,639
Changes in assets and liabilities:		
Accounts payable	(221)	11,020
TOTAL ADJUSTMENTS	8,419	19,659
NET CASH USED IN OPERATING ACTIVITIES	(64,695)	(39,251)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash overdraft	-	22,250
Return of security deposits	-	7,700
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	29,950
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from related parties	6,600	4,500
Stock issued for cash	60,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	66,600	4,500
NET (DECREASE) INCREASE IN CASH	1,905	(4,801)
CASH, BEGINNING OF PERIOD	851	4,801
CASH, END OF PERIOD	$ 2,756	$ -
Cash paid for:		
Interest	$ -	$ -
Taxes	$ 309	$ 100

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

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MAGIC COMMUNICATIONS GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 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 six months ended June 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 resulting in a stockholders' deficit of ($171,039) and working capital deficit of ($185,766) at June 30, 2005. In addition, the Company's cash account is $2,756. 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 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.

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. As of June 30, 2004, no options have been issued.

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. 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.

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

Six Months Ended June 30, 2005 vs. Six Months Ended June 30, 2004

Net sales increased from $13,774 in the six months ended June 30, 2004 to $45,221 in the six months ended June 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. Operating expenses increased from $72,684 to $118,335. The change in operating expenses was due to the following items: (i) an increase in salaries from $13,800 in 2004 to $14,589 in 2005; (ii) a decrease in lease payments for phone equipment (leases expired in March 2002) of $592 for the six months ended June 30, 2004 to $0 for the six months ended June 30, 2005; (iii) an increase in general and administrative expenses of $6,025 from $42,816 for the six months ended June 30, 2004 to $48,841 for the six months ended June 30, 2005; and (v) an increase in professional fees of $39,428 from $6,837 in the six months ended June 30, 2004 to $46,265 in the six months ended June 30, 2005. Since sales increased and operating expenses increased, the Company's net loss increased from ($58,910) in the six months ended June 30, 2004 to ($73,114) in the six months ended June 30, 2005. The number of pay telephones in service was approximately 100 telephones during the six months ended June 30, 2004 and 80 telephones during the six months ended June 30, 2005.

Liquidity and Capital Resources

On June 30, 2005 the Company had only $2,756 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.

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 III. CONTROLS AND PROCEDURES

Our management, Stephen D. Rogers, our chief executive officer and chief accounting officer, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-14(c)). Based on his evaluation, our chief executive officer and chief accounting officer has concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that all material information required to be filed in this Quarterly Report on Form 10-QSB has been made known to them in a timely fashion.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date set forth above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings: None

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds:

a. 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. The transaction referred to herein is claimed to be exempt from registration in accordance to rule 506D and section 4(2) of the 33 act as transactions by an issuer not involving any public offering

b. All proceeds received were utilized for working capital and related corporation expenses.

c. There were no Company repurchases of equity securities during the period covered by this Form 10-QSB.

Item 3. Defaults Upon Senior Securities: None

Item 4. Submission of Matters to a Vote of Security holders: None

Item 5. Other Information: None

Item 6. Exhibits

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

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.

August 15, 2005

Magic Communications, Inc.
(Registrant)

By: /s/ Stephen D. Rogers

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