MAGIC COMMUNICATIONS INC
Form 10QSB
June 09, 2006

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 March 31, 2006

[ ] 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 June 8, 2006.

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

MAGIC COMMUNICATIONS GROUP, INC.

BALANCE SHEET

March 31, 2006
(Unaudited)
ASSETS

CURRENT ASSETS:

Cash

TOTAL CURRENT ASSETS

EQUIPMENT, net

DUE FROM RELATED PARTY

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:
Cash overdraft
Accounts payable and accrued expenses
Loan payable
Due to related parties

TOTAL CURRENT LIABILITIES

STOCKHOLDERS' DEFICIT:
Preferred stock, $.0001 par value; authorized 1,000,000 shares; issued and outstanding -0- shares
Common stock, $.0001 par value; authorized 50,000,000 shares; issued and outstanding 3,080,000 shares
Additional paid-in capital
Accumulated deficit

TOTAL STOCKHOLDERS' DEFICIT

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

MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

	For the Three Mont
	2006
	(Unaudited)
REVENUES	$ 26,724
OPERATING EXPENSES:	
Depreciation	4,320
Salaries	1,500
Professional fees	6,800
General and administrative	10,276

TOTAL OPERATING EXPENSES		22,896
NET INCOME (LOSS)	$	3,828
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	$	0.00
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING Basic and Diluted		3,080,000

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

MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF CASH FLOWS

		For the Three
		2006
		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$	3,82
Adjustments to reconcile net inome (loss) to net cash used in operating activities:		
Depreciation		4,32
Changes in assets and liabilities:		
Accounts payable		(8,21
TOTAL ADJUSTMENTS		(3,89
NET CASH USED IN OPERATING ACTIVITIES		(6
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft		6
Stock issued for cash		
NET CASH PROVIDED BY FINANCING ACTIVITIES		6
NET INCREASE IN CASH		
CASH, BEGINNING OF PERIOD		
CASH, END OF PERIOD	$	

Cash paid for:		
Interest	$	
Taxes	$	10

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

MAGIC COMMUNICATIONS GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(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 three months ended March 31, 2006 are not necessarily indicative of results that may be expected for the year ending December 31, 2006. 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, 2005.

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. The Company has incurred recurring losses resulting in a stockholders' deficit of ($178,885) and working capital deficit of ($182,652) as of March 31, 2006. 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 betterments 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, 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 - In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS No. 123R"). This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions).

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 -

FASB 154 - Accounting Changes and Error Corrections

In May 2005, the FASB issued FASB Statement No. 154, which replaces APB Opinion No.20 and FASB No. 3. This Statement provides guidance on the reporting of accounting changes and error corrections. It established, unless impracticable retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements to a newly adopted accounting principle. The Statement also provides guidance when the retrospective application for reporting of a change in accounting principle is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. This Statement is effective for financial statements for fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date of this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 155 - Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued FASB Statement No. 155, which is an amendment of FASB Statements No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of Statement 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 156 - Accounting for Servicing of Financial Assets

In March 2006, the FASB issued FASB Statement No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

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.

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

Three Months Ended March 31, 2006 vs. Three Months Ended March 31, 2005

Net sales increased from $19,819 in the three months ended March 31, 2005 to $26,724 in the three months ended March 31, 2006. This increase is attributable to an increase in the use of the internet kiosks as well as savings in telephone expense from the 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 decreased from $43,386 to 22,896. The change in operating expenses was due to the following items: (i) a decrease in salaries from $7,910 in 2005 to $1,500 in 2006 as the employee from 2005 is no longer with the Company; (ii) a decrease in general and administrative expenses of $12,580 from $22,856 for the three months ended March 31, 2005 to $10,276 for the three months ended March 31, 2006; and (iii) a decrease in professional fees of $1,500 from $8,300 in the three months ended March 31, 2005 to $6,800 in the three months ended March 31, 2006. Since sales increased and operating expenses decreased, the Company's net loss decreased from ($23,567) in the three months ended March 31, 2005 to a profit of $3,828 in the three months ended March 31, 2006. The number of pay telephones in service was approximately 100 telephones during the three months ended March 31, 2005 and 80 telephones during the three months ended March 31, 2006.

Liquidity and Capital Resources

On March 31, 2006 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, 2005.

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.

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 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.

June 9, 2006

Magic Communications, Inc.

(Registrant)

By:/s/ Stephen D. Rogers

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