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MAGIC COMMUNICATIONS INC  
Form 10QSB  
November 20, 2006

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, 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[ ]

Indicate by checkmark whether the registrant is a shell company (as defined in  
Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: 3,414,000 shares of Common Stock as  
of November 18, 2006.

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

MAGIC COMMUNICATIONS GROUP, INC.

BALANCE SHEET

September 30, 2006  
(Unaudited)  
ASSETS

CURRENT ASSETS: \$ 5,134  
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Cash	5,134
TOTAL CURRENT ASSETS	
DUE FROM RELATED PARTY	3,500
	-----
	\$ 8,634
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	29,345
Loan payable	50,000
Due to related parties	117,645
	-----
TOTAL CURRENT LIABILITIES	196,990
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 3,414,000 shares	341
Additional paid-in capital	173,812
Accumulated deficit	(362,510)
	-----
TOTAL STOCKHOLDERS' DEFICIT	(188,357)
	-----
	\$ 8,634
	=====

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

MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine
	2006	2005	2006
	(Unaudited)	(Unaudited)	(Unaudi
REVENUES	\$ 10,255	\$ 37,473	\$ 4
	-----	-----	-----
OPERATING EXPENSES:			
Depreciation	-	4,320	
Salaries	6,910	33,121	

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Professional fees	39,478	950	5
General and administrative	6,550	7,150	3
	-----	-----	-----
TOTAL OPERATING EXPENSES	52,938	45,541	9
	-----	-----	-----
NET LOSS	\$ (42,683)	\$ (8,068)	\$ (5
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.01)	\$ (0.00)	\$
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic and Diluted	3,191,333	3,080,000	3,11
	=====	=====	=====

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

MAGIC COMMUNICATIONS GROUP, INC.

STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 3	
	2006	2005
	-----	-----
	(Unaudited)	(Unaudite
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (55,644)	\$ (8
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,587	1
Changes in assets and liabilities:		
Accounts payable	(824)	(
	-----	-----
TOTAL ADJUSTMENTS	3,763	1
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(51,881)	(6
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft	(6,486)	
Proceeds from related parties	13,500	
Stock issued for cash	50,000	6
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	57,014	6
	-----	-----
NET INCREASE (DECREASE) IN CASH	5,134	
	-----	-----

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CASH, BEGINNING OF PERIOD		-	
	-----		-----
CASH, END OF PERIOD	\$	5,134	\$
	=====		=====
Cash paid for:			
Interest	\$	-	\$
	=====		=====
Taxes	\$	100	\$
	=====		=====

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

MAGIC COMMUNICATIONS GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 nine months ended September 30, 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. However, the Company has incurred recurring losses resulting in a stockholders' deficit of (\$188,357) and working capital deficit of (\$191,856) at September 30, 2006. In addition, the Company's cash account is \$5,134. 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

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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, 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 - 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

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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.

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 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.

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### 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.

### FASB 157 - Fair Value Measurements

In September 2006, the FASB issued FASB Statement No. 157. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007. Earlier application is permitted provided that the reporting entity has not yet issued 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.

In August 2006, the Company sold 334,000 of its common shares

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for \$50,000.

### 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

Nine Months Ended September 30, 2006 vs. Nine Months Ended September 30, 2005

Net sales decreased from \$82,694 in the nine months ended September 30, 2005 to \$42,838 in the nine months ended September 30, 2006. This decrease is attributable to a decrease in the use of the internet kiosks as well as a decrease in use of the telephones for this quarter. Operating expenses decreased from \$163,876 to \$98,482. The change in operating expenses was due to the following items: (i) a decrease in salaries from \$47,710 in 2005 to \$8,410 in 2006 as an employee from 2005 is no longer with the Company; (ii) a decrease in general and administrative expenses of \$23,634 from \$55,991 for the nine months ended September 30, 2005 to \$32,357 for the nine months ended September 30, 2006; and (iii) a increase in professional fees of \$5,913 from \$47,215 in the nine months ended September 30, 2005 to \$53,128 in the nine months ended September 30, 2006. Since sales decreased and operating expenses decreased, the Company's net loss increased from (\$81,182) in the nine months ended September 30, 2005 to (\$55,644) in the nine months ended September 30, 2006. The number of pay telephones in service was approximately 100 telephones during the nine months ended September 30, 2005 and 80 telephones during the nine months ended September 30, 2006.

### Liquidity and Capital Resources

On Sept 30, 2006 the Company had \$5,134 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

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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:

a. 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 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.

November 20, 2006

Magic Communications, Inc.  
(Registrant)

By: /s/ Stephen D. Rogers  
-----  
Stephen D. Rogers,  
Chief Executive Officer and  
Chief Accounting Officer